

CONSTELLATION BRANDS, INC.

Form 10-Q

October 09, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-08495

CONSTELLATION BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware

16-0716709

(State or other jurisdiction of  
incorporation or organization)

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

207 High Point Drive, Building 100, Victor, New York  
(Address of principal executive offices)

14564  
(Zip Code)

(585) 678-7100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes  No

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The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of September 30, 2014, is set forth below:

| Class   | Number of Shares Outstanding |
|---|------------------------------|
| Class A Common Stock, par value \$.01 per share | 169,484,895                  |
| Class B Common Stock, par value \$.01 per share | 23,387,613                   |
| Class 1 Common Stock, par value \$.01 per share | None                         |

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This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company’s control, that could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. For further information regarding such forward-looking statements, risks and uncertainties, please see “Information Regarding Forward-Looking Statements” under Part I – Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Unless the context otherwise requires, the terms “Company,” “we,” “our,” or “us” refer to Constellation Brands, Inc. and its subsidiaries. Unless otherwise defined herein, refer to the Notes to the Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q for the definition of capitalized terms used herein.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CONSTELLATION BRANDS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share data)

(unaudited)

|  | August 31,<br>2014 | February 28,<br>2014 |
|--|--------------------|----------------------|
| <b>ASSETS</b>  |                    |                      |
| <b>CURRENT ASSETS:</b>   |                    |                      |
| Cash and cash investments  | \$104.3            | \$63.9               |
| Accounts receivable, net   | 656.9              | 626.2                |
| Inventories  | 1,778.9            | 1,743.8              |
| Prepaid expenses and other   | 298.0              | 313.3                |
| Total current assets   | 2,838.1            | 2,747.2              |
| PROPERTY, PLANT AND EQUIPMENT, net   | 2,299.9            | 2,014.3              |
| GOODWILL   | 6,149.3            | 6,146.8              |
| INTANGIBLE ASSETS, net   | 3,213.5            | 3,231.1              |
| OTHER ASSETS, net  | 156.6              | 162.7                |
| Total assets   | \$14,657.4         | \$14,302.1           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                    |                      |
| <b>CURRENT LIABILITIES:</b>  |                    |                      |
| Notes payable to banks   | \$253.0            | \$57.2               |
| Current maturities of long-term debt   | 615.7              | 590.0                |
| Accounts payable   | 441.9              | 295.2                |
| Accrued excise taxes   | 29.5               | 27.7                 |
| Other accrued expenses and liabilities   | 536.2              | 1,055.6              |
| Total current liabilities  | 1,876.3            | 2,025.7              |
| LONG-TERM DEBT, less current maturities  | 6,323.2            | 6,373.3              |
| DEFERRED INCOME TAXES  | 815.0              | 762.6                |
| OTHER LIABILITIES  | 155.5              | 159.2                |
| <b>COMMITMENTS AND CONTINGENCIES (NOTE 12)</b>   |                    |                      |
| <b>STOCKHOLDERS' EQUITY:</b>   |                    |                      |
| Class A Common Stock, \$.01 par value- Authorized, 322,000,000 shares; Issued, 249,196,712 shares at August 31, 2014, and 248,264,944 shares at February 28, 2014          | 2.5                | 2.5                  |
| Class B Convertible Common Stock, \$.01 par value- Authorized, 30,000,000 shares; Issued, 28,395,261 shares at August 31, 2014, and 28,436,565 shares at February 28, 2014 | 0.3                | 0.3                  |
| Additional paid-in capital   | 2,189.1            | 2,116.6              |
| Retained earnings  | 4,840.7            | 4,438.2              |
| Accumulated other comprehensive income   | 104.8              | 86.0                 |
|  | 7,137.4            | 6,643.6              |
| Less: Treasury stock –   |                    |                      |
| Class A Common Stock, 79,738,820 shares at August 31, 2014, and 80,225,575 shares at February 28, 2014, at cost  | (1,647.8           | ) (1,660.1           |
| Class B Convertible Common Stock, 5,005,800 shares at August 31, 2014, and February 28, 2014, at cost  | (2.2               | ) (2.2               |
|  | (1,650.0           | ) (1,662.3           |
| Total stockholders' equity   | 5,487.4            | 4,981.3              |

|  |            |            |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$14,657.4 | \$14,302.1 |
|--|------------|------------|

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions, except per share data)

(unaudited)

|  | For the Six Months<br>Ended August 31, |           | For the Three Months<br>Ended August 31, |           |
|--|--|-----------|--|-----------|
|  | 2014                                   | 2013      | 2014                                     | 2013      |
| SALES  | \$3,457.1                              | \$2,379.5 | \$1,770.0                                | \$1,613.3 |
| Less – excise taxes  | (327.0)                                | (246.3)   | (165.9)                                  | (153.5)   |
| Net sales  | 3,130.1                                | 2,133.2   | 1,604.1                                  | 1,459.8   |
| COST OF PRODUCT SOLD   | (1,788.0)                              | (1,300.1) | (932.1)                                  | (882.8)   |
| Gross profit   | 1,342.1                                | 833.1     | 672.0                                    | 577.0     |
| SELLING, GENERAL AND ADMINISTRATIVE<br>EXPENSES                    | (571.2)                                | (429.7)   | (293.3)                                  | (244.1)   |
| IMPAIRMENT OF GOODWILL AND<br>INTANGIBLE ASSETS                    | —                                      | (300.9)   | —  | (300.9)   |
| GAIN ON REMEASUREMENT TO FAIR VALUE<br>OF EQUITY METHOD INVESTMENT | —                                      | 1,642.0   | —  | 1,642.0   |
| Operating income   | 770.9                                  | 1,744.5   | 378.7                                    | 1,674.0   |
| EQUITY IN (LOSSES) EARNINGS OF EQUITY<br>METHOD INVESTEES          | (0.1)                                  | 70.3      | (0.6)                                    | 3.7       |
| INTEREST EXPENSE, net  | (171.4)                                | (145.1)   | (85.0)                                   | (90.3)    |
| LOSS ON WRITE-OFF OF FINANCING COSTS                               | (4.4)                                  | —         | (4.4)                                    | —         |
| Income before income taxes   | 595.0                                  | 1,669.7   | 288.7                                    | 1,587.4   |
| PROVISION FOR INCOME TAXES   | (192.5)                                | (94.8)    | (92.9)                                   | (65.4)    |
| NET INCOME   | \$402.5                                | \$1,574.9 | \$195.8                                  | \$1,522.0 |
| COMPREHENSIVE INCOME   | \$421.3                                | \$1,507.4 | \$167.2                                  | \$1,478.0 |
| SHARE DATA:  |  |           |  |           |
| Earnings per common share:   |  |           |  |           |
| Basic – Class A Common Stock                                       | \$2.12                                 | \$8.53    | \$1.03                                   | \$8.18    |
| Basic – Class B Convertible Common Stock                           | \$1.93                                 | \$7.75    | \$0.93                                   | \$7.43    |
| Diluted – Class A Common Stock                                     | \$2.01                                 | \$8.03    | \$0.98                                   | \$7.74    |
| Diluted – Class B Convertible Common Stock                         | \$1.84                                 | \$7.38    | \$0.90                                   | \$7.11    |
| Weighted average common shares outstanding:                        |  |           |  |           |
| Basic – Class A Common Stock                                       | 168.663                                | 163.277   | 169.158                                  | 164.825   |
| Basic – Class B Convertible Common Stock                           | 23.408                                 | 23.485    | 23.401                                   | 23.472    |
| Diluted – Class A Common Stock                                     | 200.579                                | 196.056   | 200.800                                  | 196.767   |
| Diluted – Class B Convertible Common Stock                         | 23.408                                 | 23.485    | 23.401                                   | 23.472    |

The accompanying notes are an integral part of these statements.

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CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in millions)  
(unaudited)

|   | For the Six Months<br>Ended August 31, |            |
|---|--|------------|
|   | 2014                                   | 2013       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |  |            |
| Net income  | \$402.5                                | \$1,574.9  |
| Adjustments to reconcile net income to net cash provided by operating activities:     |  |            |
| Depreciation of property, plant and equipment   | 78.3                                   | 64.1       |
| Deferred tax provision  | 67.6                                   | 9.6        |
| Stock-based compensation expense  | 27.9                                   | 25.6       |
| Amortization of intangible assets   | 24.7                                   | 7.1        |
| Amortization of deferred financing costs  | 5.8                                    | 5.0        |
| Noncash portion of loss on write-off of financing costs                               | 3.3                                    | —          |
| Equity in earnings of equity method investees, net of distributed earnings            | 1.3                                    | (39.1 )    |
| Gain on remeasurement to fair value of equity method investment                       | —                                      | (1,642.0 ) |
| Impairment of goodwill and intangible assets  | —                                      | 300.9      |
| Change in operating assets and liabilities, net of effects from purchase of business: |  |            |
| Accounts receivable, net  | (31.3 )                                | 8.4        |
| Inventories   | (34.3 )                                | 67.4       |
| Prepaid expenses and other current assets   | (30.7 )                                | 17.6       |
| Accounts payable  | 107.1                                  | 10.4       |
| Accrued excise taxes  | 1.8                                    | (5.6 )     |
| Other accrued expenses and liabilities  | 59.8                                   | 59.8       |
| Other, net  | (15.7 )                                | 24.9       |
| Total adjustments   | 265.6                                  | (1,085.9 ) |
| Net cash provided by operating activities   | 668.1                                  | 489.0      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |  |            |
| Purchases of property, plant and equipment  | (308.2 )                               | (49.2 )    |
| Purchase of business, net of cash acquired  | —                                      | (4,672.9 ) |
| Other investing activities  | 2.0                                    | 2.7        |
| Net cash used in investing activities   | (306.2 )                               | (4,719.4 ) |



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CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in millions)  
(unaudited)

|  | For the Six Months<br>Ended August 31, |                 |
|--|--|-----------------|
|  | 2014                                   | 2013            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                   |  |                 |
| Payment of delayed purchase price arrangement                                  | (543.3                                 | ) —             |
| Principal payments of long-term debt   | (34.4                                  | ) (9.9 )        |
| Payments of minimum tax withholdings on stock-based payment awards             | (28.4                                  | ) (18.0 )       |
| Payments of financing costs of long-term debt                                  | (2.0                                   | ) (82.2 )       |
| Net proceeds from notes payable  | 197.0                                  | 272.1           |
| Excess tax benefits from stock-based payment awards                            | 64.0                                   | 53.8            |
| Proceeds from exercises of employee stock options                              | 18.3                                   | 77.5            |
| Proceeds from employee stock purchases   | 3.8                                    | 2.5             |
| Proceeds from issuance of long-term debt                                       | —                                      | 3,725.0         |
| Net cash (used in) provided by financing activities                            | (325.0                                 | ) 4,020.8       |
| Effect of exchange rate changes on cash and cash investments                   | 3.5                                    | (5.1 )          |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH INVESTMENTS</b>                    | <b>40.4</b>                            | <b>(214.7 )</b> |
| CASH AND CASH INVESTMENTS, beginning of period                                 | 63.9                                   | 331.5           |
| CASH AND CASH INVESTMENTS, end of period                                       | \$104.3                                | \$116.8         |
| <b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b> |  |                 |
| Property, plant and equipment acquired under financing arrangements            | \$9.2                                  | \$6.7           |
| Purchase of business   |  |                 |
| Fair value of assets acquired, including cash acquired                         | \$—                                    | \$7,465.7       |
| Liabilities assumed  | —                                      | (287.5 )        |
| Net assets acquired  | —                                      | 7,178.2         |
| Less – fair value of preexisting equity interest                               | —                                      | (1,845.0 )      |
| Less – purchase price and working capital adjustments not yet paid             | —                                      | (553.5 )        |
| Less – cash acquired   | —                                      | (106.8 )        |
| Net cash paid for purchase of business   | \$—                                    | \$4,672.9       |

The accompanying notes are an integral part of these statements.

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CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2014  
(unaudited)

1. BASIS OF PRESENTATION:

The consolidated financial statements included herein have been prepared by Constellation Brands, Inc. and its subsidiaries (the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission applicable to quarterly reporting on Form 10-Q and reflect, in the opinion of the Company, all adjustments necessary to present fairly the financial information for the Company. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted as permitted by such rules and regulations. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended February 28, 2014 (the “2014 Annual Report”). Results of operations for interim periods are not necessarily indicative of annual results.

2. RECENTLY ADOPTED ACCOUNTING GUIDANCE:

Liabilities –

Effective March 1, 2014, the Company adopted the Financial Accounting Standards Board (“FASB”) guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The adoption of this guidance on March 1, 2014, did not have a material impact on the Company’s consolidated financial statements.

Foreign currency translation –

Effective March 1, 2014, the Company adopted the FASB amended guidance to clarify the applicable guidance for the release of foreign currency cumulative translation adjustments under generally accepted accounting principles in the U.S. The amended guidance clarifies when cumulative translation adjustments should be released into net income in connection with (i) the loss of a controlling financial interest in a subsidiary or group of assets within a foreign entity or (ii) the partial sale of an equity method investment that is a foreign entity. The amended guidance also clarifies the types of events that result in the sale of an investment in a foreign entity. The adoption of this amended guidance on March 1, 2014, did not have a material impact on the Company’s consolidated financial statements.

Income taxes –

Effective March 1, 2014, the Company adopted the FASB amended guidance to clarify the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists as of the reporting date. The adoption of this amended guidance on March 1, 2014, did not have a material impact on the Company’s consolidated financial statements.

3. ACQUISITION:

Prior to June 7, 2013, Constellation Beers Ltd., an indirect wholly-owned subsidiary of the Company, and Diblo, S.A. de C.V., an entity majority-owned by Grupo Modelo, S.A.B. de C.V. (“Modelo”), each had, directly or indirectly, equal interests in a joint venture, Crown Imports LLC (“Crown Imports”). Crown Imports had the exclusive right to import, market and sell primarily Modelo’s Mexican beer portfolio sold in the U.S. and Guam (the “Mexican Beer Brands”).

On June 7, 2013, the Company acquired (i) the remaining 50% equity interest in Crown Imports (the “Crown Acquisition”) and (ii)(a) all of the issued and outstanding equity interests of Compañía Cervecería de Coahuila, S. de R.L. de C.V. (the “Brewery Company”), which owns and operates a brewery located in Nava, Coahuila, Mexico (the “Brewery”), (ii)(b) all of the issued and outstanding equity interests of Servicios Modelo de Coahuila, S. de R.L. de C.V., which provides personnel and services for the operation and maintenance of the

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Brewery (the “Service Company”), and (ii)(c) an irrevocable, fully-paid license to produce in Mexico (or worldwide under certain circumstances) and exclusively import, market and sell the Mexican Beer Brands as of the date of acquisition, and certain extensions (all collectively referred to as the “Brewery Purchase”). The business of the Brewery Company and Service Company acquired by the Company is referred to as the “Brewery Business.” The Crown Acquisition and the Brewery Purchase are collectively referred to as the “Beer Business Acquisition.” In connection with the Beer Business Acquisition, the Company is required to build out and expand the Brewery from 10 million hectoliters to a nominal capacity of at least 20 million hectoliters of packaged beer annually by December 31, 2016. In addition, an interim supply agreement and a transition services agreement were entered into in association with the Beer Business Acquisition. The interim supply agreement obligates the supplier to provide Crown Imports with a supply of product not produced by the Brewery and the transition services agreement provides for certain specified services and production materials, both for a specified period of time. The associated agreements provide, among other things, that the United States will have approval rights, in its sole discretion, for amendments or modifications to the associated agreements and the United States will have a right of approval, in its sole discretion, of any extension of the term of the interim supply agreement beyond three years. The aggregate purchase price of \$5,226.4 million consists of cash paid at closing of \$4,745.0 million, net of cash acquired of \$106.8 million, plus the fair value of an additional purchase price for the finalization of the Final EBITDA Amount (as defined in the stock purchase agreement) of \$543.3 million, as well as additional estimated cash payments for certain working capital adjustments. The fair value of the additional purchase price related to the Final EBITDA Amount was estimated by discounting future cash flows. During the third quarter of fiscal 2014, the calculation of the Final EBITDA Amount was finalized requiring the Company to make a payment of \$558.0 million no later than June 7, 2014, consisting of the additional purchase price of \$543.3 million plus imputed interest of \$14.7 million.

The aggregate cash paid at closing was financed with:

- The proceeds from the issuance of \$1,550.0 million aggregate principal amount of May 2013 Senior Notes (as defined in Note 10);
- \$1,500.0 million in term loans consisting of a \$500.0 million European Term A Facility (as defined in Note 10) and a \$1,000.0 million then existing European Term B loan facility under the 2013 Credit Agreement (as defined in Note 10);
- \$675.0 million in term loans under the U.S. Term A-2 Facility (as defined in Note 10) under the 2013 Credit Agreement;
- \$208.0 million in proceeds of borrowings under the Company’s then existing accounts receivable securitization facility;
- \$580.0 million in borrowings under the Company’s revolving credit facility under the 2013 Credit Agreement; and
- Approximately \$232.0 million of cash on hand (inclusive of \$13.0 million of borrowings under a subsidiary working capital facility).

On June 6, 2014, the Company paid the Final EBITDA Amount of \$558.0 million with \$150.0 million in borrowings under the Revolving Credit Facility (as defined in Note 10) under the May 2014 Credit Agreement (as defined in Note 10), \$100.0 million in proceeds of borrowings under the Company’s accounts receivable securitization facilities and \$308.0 million of cash on hand.

Prior to the Beer Business Acquisition, the Company accounted for its investment in Crown Imports under the equity method of accounting. In connection with the acquisition method of accounting, the Company’s preexisting 50% equity interest was remeasured to its estimated fair value of \$1,845.0 million, and the Company recognized a gain of \$1,642.0 million on its Consolidated Statements of Comprehensive Income for the second quarter of fiscal 2014. The estimated fair value of the Company’s preexisting 50% equity interest was based upon the estimated fair value of the acquired 50% equity interest in Crown Imports.



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The aggregate purchase price of the Beer Business Acquisition and the estimated fair value of the Company's preexisting 50% equity interest in Crown Imports have been allocated to the assets acquired and the liabilities assumed based upon the estimated fair values of each as of the acquisition date. The following table summarizes the allocation of the estimated fair value of the Beer Business Acquisition to the separately identifiable assets acquired and liabilities assumed as of June 7, 2013:

(in millions)

|   |            |
|---|------------|
| Cash  | \$ 106.8   |
| Accounts receivable   | 193.7      |
| Inventories   | 243.1      |
| Prepaid expenses and other  | 103.9      |
| Property, plant and equipment   | 698.9      |
| Goodwill  | 3,715.8    |
| Intangible assets   | 2,403.2    |
| Other assets  | 0.3        |
| Total assets acquired   | 7,465.7    |
| Accounts payable  | 123.2      |
| Accrued excise taxes  | 14.4       |
| Other accrued expenses and liabilities  | 72.9       |
| Deferred income taxes   | 66.4       |
| Other liabilities   | 10.6       |
| Total liabilities assumed   | 287.5      |
| Total estimated fair value  | 7,178.2    |
| Less – fair value of the Company's preexisting 50% equity interest in Crown Imports | (1,845.0 ) |
| Less – cash acquired  | (106.8 )   |
| Aggregate purchase price  | \$5,226.4  |

The acquired accounts receivable consist primarily of trade receivables, all of which have been collected. The acquired inventory was all sold during the second quarter of fiscal 2014. The intangible assets consist of definite lived customer relationships with an estimated fair value of \$22.5 million which are being amortized over a life of 25 years; definite lived copyrights with an estimated fair value of \$6.5 million which are being amortized over a life of 2 years; a definite lived distribution agreement with an estimated fair value of \$0.4 million which is being amortized over a life of 1.6 years; a definite lived favorable interim supply agreement with an estimated fair value of \$68.3 million which is being amortized over a life of 3 years; and a perpetual right to use trademarks with an estimated fair value of \$2,305.5 million which is indefinite lived and therefore not subject to amortization.

In determining the purchase price allocation, the Company considered, among other factors, market participants' intentions to use the acquired assets and the historical and estimated future demand for the acquired Mexican Beer Brands. The estimated fair values for the customer relationships and the copyrights were determined using a cost approach. The estimated fair value for the distribution agreement was determined using an income approach. The estimated fair value for the favorable supply contract was determined using an income approach, specifically, the differential method. The estimated fair value for the trademarks was determined using an income approach, specifically, the relief from royalty method.

The intangible assets are being amortized either on a straight-line basis or an economic consumption basis, which is consistent with the pattern that the economic benefits of the intangible assets are expected to be utilized based upon estimated cash flows generated from such assets. Goodwill associated with the acquisition is primarily attributable to the distribution of the Mexican Beer Brands in the U.S. as well as complete control over the sourcing of product into the U.S. Approximately \$1,647.0 million of the goodwill recognized is expected to be deductible for income tax purposes.



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The Company has recognized transaction, integration and other acquisition-related costs of \$91.4 million through August 31, 2014. For the six months ended August 31, 2014, and August 31, 2013, the Company has recognized transaction, integration and other acquisition-related costs of \$13.1 million and \$35.8 million, respectively. For the three months ended August 31, 2014, and August 31, 2013, the Company has recognized transaction, integration and other acquisition-related costs of \$8.6 million and \$8.2 million, respectively. These costs are included in selling, general and administrative expenses on the Company's Consolidated Statements of Comprehensive Income.

The results of operations of the Beer Business Acquisition is reported in the Company's Beer segment and has been included in the consolidated results of operations of the Company from the date of acquisition. The following table sets forth the unaudited historical financial information for the six months and three months ended August 31, 2014, and the unaudited pro forma financial information for the six months and three months ended August 31, 2013. The unaudited pro forma financial information for the six months and three months ended August 31, 2013, presents consolidated information as if the Beer Business Acquisition had occurred on March 1, 2013. Because of different fiscal period ends, and in order to present results for comparable periods, the unaudited pro forma financial information for the six months ended August 31, 2013, combines (i) the Company's historical statement of income for the six months ended August 31, 2013; (ii) Crown Imports' historical statement of income for (a) the three months ended March 31, 2013, and (b) the period from June 1, 2013, through June 6, 2013; and (iii) the Brewery Business' carve-out combined income statement for the three months ended March 31, 2013. The unaudited pro forma financial information for the three months ended August 31, 2013, combines (i) the Company's historical statement of income for the three months ended August 31, 2013; and (ii) Crown Imports' historical statement of income for the period from June 1, 2013, through June 6, 2013. The unaudited pro forma financial information for the six months and three months ended August 31, 2013, does not give effect to the Brewery Business' carve-out combined income statement for the period from June 1, 2013, through June 6, 2013, as it is not significant. The unaudited pro forma financial information is presented after giving effect to certain adjustments for depreciation, amortization of definite lived intangible assets, interest expense on acquisition financing, amortization of deferred financing costs and related income tax effects. The unaudited pro forma financial information excludes the gain on the remeasurement to fair value of the Company's preexisting 50% equity interest in Crown Imports and the acquisition-related costs noted above as both are nonrecurring amounts directly attributable to the transaction. The unaudited pro forma financial information is based upon currently available information and upon certain assumptions that the Company believes are reasonable under the circumstances. The unaudited pro forma financial information does not purport to present what the Company's results of operations would actually have been if the aforementioned transaction had in fact occurred on such date or at the beginning of the period indicated, nor does it project the Company's financial position or results of operations at any future date or for any future period.

|  | For the Six Months<br>Ended August 31,<br>2014 |           | For the Three Months<br>Ended August 31,<br>2014 |           |
|--|--|-----------|--|-----------|
|  | 2014   | 2013      | 2014   | 2013      |
| (in millions, except per share data)       |  |           |  |           |
| Net sales                                  | \$3,130.1                                      | \$2,750.6 | \$1,604.1  | \$1,511.6 |
| Income (loss) before income taxes          | \$595.0  | \$162.9   | \$288.7  | \$(43.5)  |
| Net income (loss)                          | \$402.5  | \$22.5    | \$195.8  | \$(112.8) |
| Earnings (loss) per common share:          |  |           |  |           |
| Basic – Class A Common Stock               | \$2.12   | \$0.12    | \$1.03   | \$(0.61)  |
| Basic – Class B Convertible Common Stock   | \$1.93   | \$0.11    | \$0.93   | \$(0.55)  |
| Diluted – Class A Common Stock             | \$2.01   | \$0.11    | \$0.98   | \$(0.61)  |
| Diluted – Class B Convertible Common Stock | \$1.84   | \$0.11    | \$0.90   | \$(0.55)  |

Weighted average common shares outstanding:



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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Basic – Class A Common Stock               | 168.663 | 163.277 | 169.158 | 164.825 |
| Basic – Class B Convertible Common Stock   | 23.408  | 23.485  | 23.401  | 23.472  |
| Diluted – Class A Common Stock             | 200.579 | 196.056 | 200.800 | 196.767 |
| Diluted – Class B Convertible Common Stock | 23.408  | 23.485  | 23.401  | 23.472  |

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Subsequent to August 31, 2014, the Company agreed to acquire a state-of-the-art glass production plant that is located adjacent to the Brewery in Nava, Mexico, for approximately \$300 million. This transaction also includes the purchase of a high-density warehouse, land and rail infrastructure and, along with customary closing conditions, is subject to U.S. Department of Justice and Mexican regulatory approvals, both of which are expected to be received before the end of calendar year 2014. The Company also entered into an agreement to form an equally-owned joint venture with Owens-Illinois to own and operate the glass production plant.

## 4. INVENTORIES:

Inventories are stated at the lower of cost (computed in accordance with the first-in, first-out method) or market. Elements of cost include materials, labor and overhead and consist of the following:

| (in millions)              | August 31,<br>2014 | February 28,<br>2014 |
|----------------------------|--------------------|----------------------|
| Raw materials and supplies | \$82.6             | \$87.8               |
| In-process inventories     | 1,122.0            | 1,235.4              |
| Finished case goods        | 574.3              | 420.6                |
|                            | \$1,778.9          | \$1,743.8            |

## 5. DERIVATIVE INSTRUMENTS:

As a multinational company, the Company is exposed to market risk from changes in foreign currency exchange rates, commodity prices and interest rates that could affect the Company's results of operations and financial condition. The amount of volatility realized will vary based upon the effectiveness and level of derivative instruments outstanding during a particular period of time, as well as the currency, commodity and interest rate market movements during that same period.

The Company enters into derivative instruments, primarily foreign currency forward and option contracts, commodity pricing swaps and interest rate swaps, to manage foreign currency, commodity pricing and interest rate risks, respectively. The Company recognizes all derivatives as either assets or liabilities on its Consolidated Balance Sheets and measures those instruments at fair value (see Note 6). The fair values of the Company's derivative instruments change with fluctuations in currency rates, commodity prices and/or interest rates and are expected to offset changes in the values of the underlying exposures. The Company's derivative instruments are held solely to hedge economic exposures. The Company follows strict policies to manage foreign currency, commodity pricing and interest rate risks, including prohibitions on derivative market-making or other speculative activities.

To qualify for hedge accounting treatment under the FASB guidance for derivatives and hedging, the details of the hedging relationship must be formally documented at inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risk that is being hedged, the derivative instrument, how effectiveness is being assessed and how ineffectiveness will be measured. The derivative must be highly effective in offsetting either changes in the fair value or cash flows, as appropriate, of the risk being hedged. Effectiveness is evaluated on a retrospective and prospective basis based on quantitative and qualitative measures.

Furthermore, when the Company determines that a derivative instrument which qualified for hedge accounting treatment has ceased to be highly effective as a hedge, the Company discontinues hedge accounting prospectively. The Company also discontinues hedge accounting prospectively when (i) a derivative expires or is sold, terminated, or exercised; (ii) it is no longer probable that the forecasted transaction will occur; or (iii) management determines that designating the derivative as a hedging instrument is no longer appropriate.

Certain of the Company's derivative instruments do not qualify for hedge accounting treatment under the FASB guidance for derivatives and hedging; for others, the Company chooses not to maintain the required documentation to apply hedge accounting treatment. These undesignated instruments are primarily used to

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economically hedge the Company's exposure to fluctuations in the value of foreign currency denominated receivables and payables; foreign currency investments, primarily consisting of loans to subsidiaries, and cash flows related primarily to the repatriation of those loans or investments; and commodity prices, primarily consisting of diesel fuel, corn, aluminum and natural gas prices. Foreign currency contracts, generally less than 12 months in duration, and commodity swap contracts, generally less than 36 months in duration, are used to hedge some of these risks. The Company's derivative policy permits the use of undesignated derivatives as approved by senior management.

For these undesignated instruments, the mark to fair value is reported currently through earnings on the Company's Consolidated Statements of Comprehensive Income. For purposes of measuring segment operating performance, the unrealized gains or losses from the mark to fair value of the Company's undesignated commodity swap contracts are reported outside of segment operating results until such time that the underlying exposure is realized in the segment operating results. At that time, the realized gains or losses from the mark to fair value of the undesignated commodity swap contracts are reported in the appropriate operating segment, allowing the Company's operating segments to realize the economic effects of the commodity swap contracts without the resulting unrealized mark to fair value volatility. The net unrealized loss reported outside of segment operating results for the six months and three months ended August 31, 2014, was not material. There were no amounts reported outside of segment operating results for the six months and three months ended August 31, 2013.

Cash flow hedges:

The Company is exposed to foreign denominated cash flow fluctuations in connection with third party and intercompany sales and purchases and, historically, third party financing arrangements. The Company primarily uses foreign currency forward and option contracts to hedge certain of these risks. In addition, the Company utilizes commodity swap contracts to manage its exposure to changes in commodity prices and interest rate swap contracts to manage its exposure to changes in interest rates. Derivatives managing the Company's cash flow exposures generally mature within three years or less, with a maximum maturity of five years. Throughout the term of the designated cash flow hedge relationship on at least a quarterly basis, a retrospective evaluation and prospective assessment of hedge effectiveness is performed. All components of the Company's derivative instruments' gains or losses are included in the assessment of hedge effectiveness. In the event the relationship is no longer effective, the Company recognizes the change in the fair value of the hedging derivative instrument from the date the hedging derivative instrument became no longer effective immediately on the Company's Consolidated Statements of Comprehensive Income. In conjunction with its effectiveness testing, the Company also evaluates ineffectiveness associated with the hedge relationship. Resulting ineffectiveness, if any, is recognized immediately on the Company's Consolidated Statements of Comprehensive Income.

The Company records the fair value of its foreign currency contracts, commodity swap contracts and interest rate swap contracts qualifying for cash flow hedge accounting treatment on its Consolidated Balance Sheets with the effective portion of the related gain or loss on those contracts deferred in stockholders' equity (as a component of AOCI (as defined in Note 15)). These deferred gains or losses are recognized on the Company's Consolidated Statements of Comprehensive Income in the same period in which the underlying hedged items are recognized and on the same line item as the underlying hedged items. However, to the extent that any derivative instrument is not considered to be highly effective in offsetting the change in the value of the hedged item, the hedging relationship is terminated and the amount related to the ineffective portion of such derivative instrument is immediately recognized on the Company's Consolidated Statements of Comprehensive Income. The Company expects \$1.8 million of net losses, net of income tax effect, to be reclassified from AOCI to earnings within the next 12 months.

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The absolute notional value of outstanding derivative instruments are as follows:

|  | August 31,<br>2014 | February 28,<br>2014 |
|--|--------------------|----------------------|
| (in millions)  |                    |                      |
| Derivative instruments designated as hedging instruments     |                    |                      |
| Foreign currency contracts                                   | \$628.3            | \$636.6              |
| Interest rate swap contracts                                 | \$500.0            | \$500.0              |
| Derivative instruments not designated as hedging instruments |                    |                      |
| Foreign currency contracts                                   | \$1,000.0          | \$643.8              |
| Commodity swap contracts                                     | \$194.4            | \$88.0               |
| Interest rate swap contracts                                 | \$1,000.0          | \$1,000.0            |

Fair values of derivative instruments:

The estimated fair value and location of the Company's derivative instruments on its Consolidated Balance Sheets are as follows (see Note 6):

| Balance Sheet Location                                       | August 31,<br>2014 | February 28,<br>2014 |
|--|--------------------|----------------------|
| (in millions)  |                    |                      |
| Derivative instruments designated as hedging instruments     |                    |                      |
| Foreign currency contracts:                                  |                    |                      |
| Prepaid expenses and other                                   | \$9.1              | \$11.2               |
| Other accrued expenses and liabilities                       | \$3.4              | \$3.2                |
| Other assets, net  | \$5.1              | \$4.4                |
| Other liabilities  | \$0.9              | \$0.7                |
| Interest rate swap contracts:                                |                    |                      |
| Other accrued expenses and liabilities                       | \$3.4              | \$3.4                |
| Other assets, net  | \$0.6              | \$—                  |
| Other liabilities  | \$—                | \$0.7                |
| Derivative instruments not designated as hedging instruments |                    |                      |
| Foreign currency contracts:                                  |                    |                      |
| Prepaid expenses and other                                   | \$2.5              | \$3.3                |
| Other accrued expenses and liabilities                       | \$2.4              | \$0.9                |
| Commodity swap contracts:                                    |                    |                      |
| Prepaid expenses and other                                   | \$2.0              | \$1.3                |
| Other accrued expenses and liabilities                       | \$4.0              | \$0.1                |
| Other assets, net  | \$2.0              | \$0.2                |
| Other liabilities  | \$2.3              | \$0.4                |
| Interest rate swap contracts:                                |                    |                      |
| Prepaid expenses and other                                   | \$4.1              | \$3.5                |
| Other accrued expenses and liabilities                       | \$16.4             | \$13.3               |
| Other assets, net  | \$—                | \$0.9                |
| Other liabilities  | \$9.8              | \$15.5               |



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The effect of the Company's derivative instruments designated in cash flow hedging relationships on its Consolidated Statements of Comprehensive Income, as well as its Other Comprehensive Income ("OCI"), net of income tax effect, is as follows:

| Derivative Instruments in Designated Cash Flow Hedging Relationships | Net Gain (Loss) Recognized in OCI (Effective portion) | Location of Net Gain (Loss) Reclassified from AOCI to Income (Effective portion) | Net Gain (Loss) Reclassified from AOCI to Income (Effective portion) |
|--|---|--|--|
| (in millions)  |   |  |  |
| For the Six Months Ended August 31, 2014                             |   |  |  |
| Foreign currency contracts   | \$5.1   | Sales  | \$4.2  |
| Foreign currency contracts   | (0.1)   | ) Cost of product sold   | 0.5  |
| Interest rate swap contracts   | (0.2)   | ) Interest expense, net  | (4.2 )   |
| Total  | \$4.8   | Total  | \$0.5  |
| For the Six Months Ended August 31, 2013                             |   |  |  |
| Foreign currency contracts   | \$(0.2)   | ) Sales  | \$1.6  |
| Foreign currency contracts   | (1.8)   | ) Cost of product sold   | 0.2  |
| Interest rate swap contracts   | 2.6   | Interest expense, net  | (4.1 )   |
| Total  | \$0.6   | Total  | \$(2.3 )   |
| For the Three Months Ended August 31, 2014                           |   |  |  |
| Foreign currency contracts   | \$(4.8)   | ) Sales  | \$3.0  |
| Foreign currency contracts   | (0.5)   | ) Cost of product sold   | 0.2  |
| Interest rate swap contracts   | 0.3   | Interest expense, net  | (2.2 )   |
| Total  | \$(5.0)   | ) Total  | \$1.0  |
| For the Three Months Ended August 31, 2013                           |   |  |  |
| Foreign currency contracts   | \$0.3   | Sales  | \$0.7  |
| Foreign currency contracts   | (0.6)   | ) Cost of product sold   | —  |
| Interest rate swap contracts   | 1.4   | Interest expense, net  | (2.0 )   |
| Total  | \$1.1   | Total  | \$(1.3 )   |
| Derivative Instruments in Designated Cash Flow Hedging Relationships |   | Location of Net Gain Recognized in Income (Ineffective portion)                  | Net Gain Recognized in Income (Ineffective portion)                  |
| (in millions)  |   |  |  |
| For the Six Months Ended August 31, 2014                             |   |  |  |
| Foreign currency contracts   |   | Selling, general and administrative expenses                                     | \$0.2  |
| For the Six Months Ended August 31, 2013                             |   |  |  |
| Foreign currency contracts   |   | Selling, general and administrative expenses                                     | \$0.2  |

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|  |  |              |
|--|--|--------------|
| Commodity swap contracts                   | Selling, general and administrative expenses | 0.1<br>\$0.3 |
| For the Three Months Ended August 31, 2014 |  |              |
| Foreign currency contracts                 | Selling, general and administrative expenses | \$0.3        |
| For the Three Months Ended August 31, 2013 |  |              |
| Foreign currency contracts                 | Selling, general and administrative expenses | \$0.1        |

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The effect of the Company's undesignated derivative instruments on its Consolidated Statements of Comprehensive Income is as follows:

| Derivative Instruments Not Designated as Hedging Instruments | Location of Net (Loss) Gain Recognized in Income | Net (Loss) Gain Recognized in Income |
|--|--|--------------------------------------|
| (in millions)  |  |                                      |
| For the Six Months Ended August 31, 2014                     |  |                                      |
| Commodity swap contracts                                     | Cost of product sold                             | \$(2.6 )                             |
| Foreign currency contracts                                   | Selling, general and administrative expenses     | (7.2 )                               |
|  |  | \$(9.8 )                             |
| For the Six Months Ended August 31, 2013                     |  |                                      |
| Foreign currency contracts                                   | Selling, general and administrative expenses     | \$(2.6 )                             |
| Commodity swap contracts                                     | Selling, general and administrative expenses     | 1.6                                  |
|  |  | \$(1.0 )                             |
| For the Three Months Ended August 31, 2014                   |  |                                      |
| Commodity swap contracts                                     | Cost of product sold                             | \$(2.8 )                             |
| Foreign currency contracts                                   | Selling, general and administrative expenses     | (1.5 )                               |
|  |  | \$(4.3 )                             |
| For the Three Months Ended August 31, 2013                   |  |                                      |
| Foreign currency contracts                                   | Selling, general and administrative expenses     | \$(0.6 )                             |
| Commodity swap contracts                                     | Selling, general and administrative expenses     | 2.6                                  |
|  |  | \$2.0                                |

## Credit risk:

The Company enters into master agreements with its bank derivative trading counterparties that allow netting of certain derivative positions in order to manage credit risk. The Company's derivative instruments are not subject to credit rating contingencies or collateral requirements. As of August 31, 2014, the estimated fair value of derivative instruments in a net liability position due to counterparties was \$27.1 million. If the Company were required to settle the net liability position under these derivative instruments on August 31, 2014, the Company would have had sufficient availability under its revolving credit facility to satisfy this obligation.

## Counterparty credit risk:

Counterparty credit risk relates to losses the Company could incur if a counterparty defaults on a derivative contract. The Company manages exposure to counterparty credit risk by requiring specified minimum credit standards and diversification of counterparties. The Company enters into master agreements with its bank derivative trading counterparties that allow netting of certain derivative positions in order to manage counterparty credit risk. As of August 31, 2014, all of the Company's counterparty exposures are with financial institutions which have investment

grade ratings. The Company has procedures to monitor counterparty credit risk for both current and future potential credit exposures. As of August 31, 2014, the estimated fair value of derivative instruments in a net receivable position due from counterparties was \$9.9 million.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Company calculates the estimated fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available, the Company uses standard pricing models for various types of financial instruments (such as forwards, options, swaps, etc.) which take into account the present value of estimated future cash flows.

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The carrying amount and estimated fair value of the Company's financial instruments are summarized as follows:

|   | August 31, 2014 |            | February 28, 2014 |            |
|---|-----------------|------------|-------------------|------------|
|   | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| (in millions)                             |                 |            |                   |            |
| Assets:                                   |                 |            |                   |            |
| Cash and cash investments                 | \$104.3         | \$104.3    | \$63.9            | \$63.9     |
| Accounts receivable, net                  | \$656.9         | \$656.9    | \$626.2           | \$626.2    |
| Available-for-sale debt securities        | \$9.0           | \$9.0      | \$8.8             | \$8.8      |
| Foreign currency contracts                | \$16.7          | \$16.7     | \$18.9            | \$18.9     |
| Interest rate swap contracts              | \$4.7           | \$4.7      | \$4.4             | \$4.4      |
| Commodity swap contracts                  | \$4.0           | \$4.0      | \$1.5             | \$1.5      |
| Liabilities:                              |                 |            |                   |            |
| Notes payable to banks                    | \$253.0         | \$246.7    | \$57.2            | \$57.2     |
| Accounts payable                          | \$441.9         | \$441.9    | \$295.2           | \$295.2    |
| Long-term debt, including current portion | \$6,938.9       | \$7,058.0  | \$6,963.3         | \$7,140.8  |
| Foreign currency contracts                | \$6.7           | \$6.7      | \$4.8             | \$4.8      |
| Interest rate swap contracts              | \$29.6          | \$29.6     | \$32.9            | \$32.9     |
| Commodity swap contracts                  | \$6.3           | \$6.3      | \$0.5             | \$0.5      |

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash investments, accounts receivable and accounts payable: The carrying amounts approximate fair value due to the short maturity of these instruments (Level 1 fair value measurement).

Available-for-sale ("AFS") debt securities: The fair value is estimated by discounting cash flows using market-based inputs (see "Fair value measurements" below) (Level 3 fair value measurement).

Foreign currency contracts: The fair value is estimated using market-based inputs, obtained from independent pricing services, into valuation models (see "Fair value measurements" below) (Level 2 fair value measurement).

Interest rate swap contracts: The fair value is estimated based on quoted market prices from respective counterparties (see "Fair value measurements" below) (Level 2 fair value measurement).

Commodity swap contracts: The fair value is estimated based on quoted market prices from respective counterparties (see "Fair value measurements" below) (Level 2 fair value measurement).

Notes payable to banks: The revolving credit facility under the Company's senior credit facility is a variable interest rate bearing note which includes a fixed margin which is adjustable based upon the Company's debt ratio (as defined in the Company's senior credit facility). The fair value of the revolving credit facility is estimated by discounting cash flows using LIBOR plus a margin reflecting current market conditions obtained from participating member financial institutions. The remaining instruments are variable interest rate bearing notes for which the carrying value approximates the fair value (Level 2 fair value measurement).

Long-term debt: The term loans under the Company's senior credit facility are variable interest rate bearing notes which include a fixed margin which is adjustable based upon the Company's debt ratio. The fair value of the term loans is estimated by discounting cash flows using LIBOR plus a margin reflecting current market conditions obtained from participating member financial institutions. The fair value of the remaining long-term debt, which is all fixed interest rate, is estimated by discounting cash flows using interest rates currently available for debt with similar terms and maturities (Level 2 fair value measurement).

#### Fair value measurements –

The FASB guidance on fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and requires disclosures about fair value



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measurements. This guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing an asset or liability. The fair value measurement guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset and liability, either directly or indirectly; and Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

The following table presents the Company's financial assets and liabilities measured at estimated fair value on a recurring basis.

|                              | Fair Value Measurements Using                         |   |  | Total  |
|------------------------------|---|---|--|--------|
|                              | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |        |
| (in millions)                |   |   |  |        |
| August 31, 2014              |   |   |  |        |
| Assets:                      |   |   |  |        |
| AFS debt securities          | \$—   | \$—   | \$9.0  | \$9.0  |
| Foreign currency contracts   | \$—   | \$16.7  | \$—  | \$16.7 |
| Interest rate swap contracts | \$—   | \$4.7   | \$—  | \$4.7  |
| Commodity swap contracts     | \$—   | \$4.0   | \$—  | \$4.0  |
| Liabilities:                 |   |   |  |        |
| Foreign currency contracts   | \$—   | \$6.7   | \$—  | \$6.7  |
| Interest rate swap contracts | \$—   | \$29.6  | \$—  | \$29.6 |
| Commodity swap contracts     | \$—   | \$6.3   | \$—  | \$6.3  |
| February 28, 2014            |   |   |  |        |
| Assets:                      |   |   |  |        |
| AFS debt securities          | \$—   | \$—   | \$8.8  | \$8.8  |
| Foreign currency contracts   | \$—   | \$18.9  | \$—  | \$18.9 |
| Interest rate swap contracts | \$—   | \$4.4   | \$—  | \$4.4  |
| Commodity swap contracts     | \$—   | \$1.5   | \$—  | \$1.5  |
| Liabilities:                 |   |   |  |        |
| Foreign currency contracts   | \$—   | \$4.8   | \$—  | \$4.8  |
| Interest rate swap contracts | \$—   | \$32.9  | \$—  | \$32.9 |
| Commodity swap contracts     | \$—   | \$0.5   | \$—  | \$0.5  |

The Company's foreign currency contracts consist of foreign currency forward and option contracts which are valued using market-based inputs, obtained from independent pricing services, into valuation models. These valuation models require various inputs, including contractual terms, market foreign exchange prices, interest-rate yield curves and currency volatilities. Interest rate swap fair values are based on quotes from respective counterparties. Quotes are corroborated by the Company using discounted cash flow calculations based upon forward interest-rate yield curves, which are obtained from independent pricing services. Commodity swap fair values are based on quotes from

respective counterparties. Quotes are corroborated by the Company using market data. AFS debt securities are valued using market-based inputs into discounted cash flow models.

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The following table presents the Company's assets and liabilities measured at estimated fair value on a nonrecurring basis for which an impairment assessment was performed for the periods presented:

|  | Fair Value Measurements Using                         |   |  | Total Losses |
|--|---|---|--|--------------|
|  | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |              |
| (in millions)                              |   |   |  |              |
| For the Six Months Ended August 31, 2013   |   |   |  |              |
| Goodwill                                   | \$—   | \$—   | \$159.6  | \$278.7      |
| Trademarks                                 | —   | —   | 68.3   | 22.2         |
|  | \$—   | \$—   | \$227.9  | \$300.9      |
| For the Three Months Ended August 31, 2013 |   |   |  |              |
| Goodwill                                   | \$—   | \$—   | \$159.6  | \$278.7      |
| Trademarks                                 | —   | —   | 68.3   | 22.2         |
|  | \$—   | \$—   | \$227.9  | \$300.9      |

**Goodwill:**

For the three months ended August 31, 2013, the Company identified certain negative trends within its Wine and Spirits' Canadian reporting unit which, when combined with then recent changes in strategy within the Canadian business, indicated that the estimated fair value of the reporting unit might be below its carrying value. Accordingly, the Company performed the two-step process to evaluate goodwill for impairment for the Wine and Spirits' Canadian reporting unit. In connection with this evaluation, the implied fair value of the Canadian reporting unit's goodwill of \$159.6 million compared to the carrying value of the Canadian reporting unit's goodwill of \$433.9 million resulted in the recognition of an impairment of \$278.7 million. This impairment is included in impairment of goodwill and intangible assets on the Company's Consolidated Statements of Comprehensive Income for the six months and three months ended August 31, 2013.

**Trademarks:**

For the three months ended August 31, 2013, prior to the goodwill impairment analysis discussed above, the Company performed a review of indefinite lived intangible assets for impairment. The Company determined that certain trademarks associated with the Wine and Spirits segment's Canadian business were impaired largely due to lower revenue and profits associated with the related products included in the then updated long-term financial forecasts developed as part of the Company's then new strategy for the Canadian business. Accordingly, trademarks with a carrying value of \$90.2 million were written down to their estimated fair value of \$68.3 million, resulting in an impairment of \$22.2 million. This impairment is included in impairment of goodwill and intangible assets on the Company's Consolidated Statements of Comprehensive Income for the six months and three months ended August 31, 2013.

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## 7. GOODWILL:

The changes in the carrying amount of goodwill are as follows:

|  | Beer      | Wine and<br>Spirits | Consolidation<br>and<br>Eliminations | Consolidated |
|--|-----------|---------------------|--------------------------------------|--------------|
| (in millions)                            |           |                     |                                      |              |
| Balance, February 28, 2013               |           |                     |                                      |              |
| Goodwill                                 | \$13.0    | \$2,722.3           | \$(13.0)                             | ) \$2,722.3  |
| Accumulated impairment losses            | —         | —                   | —                                    | —            |
|  | 13.0      | 2,722.3             | (13.0)                               | ) 2,722.3    |
| Purchase accounting allocations          | 3,702.8   | —                   | 13.0                                 | 3,715.8      |
| Impairment of goodwill                   | —         | (278.7)             | ) —                                  | (278.7)      |
| Foreign currency translation adjustments | (1.2)     | ) (11.4)            | ) —                                  | (12.6)       |
| Balance, February 28, 2014               |           |                     |                                      |              |
| Goodwill                                 | 3,714.6   | 2,693.5             | —                                    | 6,408.1      |
| Accumulated impairment losses            | —         | (261.3)             | ) —                                  | (261.3)      |
|  | 3,714.6   | 2,432.2             | —                                    | 6,146.8      |
| Foreign currency translation adjustments | 0.6       | 1.9                 | —                                    | 2.5          |
| Balance, August 31, 2014                 |           |                     |                                      |              |
| Goodwill                                 | 3,715.2   | 2,699.9             | —                                    | 6,415.1      |
| Accumulated impairment losses            | —         | (265.8)             | ) —                                  | (265.8)      |
|  | \$3,715.2 | \$2,434.1           | \$—                                  | \$6,149.3    |

For the year ended February 28, 2014, purchase accounting allocations of \$3,702.8 million and \$13.0 million in the Beer segment and Consolidation and Eliminations, respectively, consist of purchase accounting allocations associated with the Beer Business Acquisition. For the year ended February 28, 2014, impairment of goodwill in the Wine and Spirits segment consists of an impairment loss of \$278.7 million associated with goodwill assigned to the segment's Canadian reporting unit.

## 8. INTANGIBLE ASSETS:

The major components of intangible assets are as follows:

|                                    | August 31, 2014             |                           | February 28, 2014           |                           |
|------------------------------------|-----------------------------|---------------------------|-----------------------------|---------------------------|
|                                    | Gross<br>Carrying<br>Amount | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Net<br>Carrying<br>Amount |
| (in millions)                      |                             |                           |                             |                           |
| Amortizable intangible assets:     |                             |                           |                             |                           |
| Customer relationships             | \$103.9                     | \$68.0                    | \$103.6                     | \$70.5                    |
| Favorable interim supply agreement | 68.3                        | 43.4                      | 68.3                        | 62.3                      |
| Other                              | 21.5                        | 8.7                       | 14.7                        | 5.3                       |
| Total                              | \$193.7                     | 120.1                     | \$186.6                     | 138.1                     |
| Nonamortizable intangible assets:  |                             |                           |                             |                           |
| Trademarks                         |                             | 3,088.3                   |                             | 3,088.0                   |
| Other                              |                             | 5.1                       |                             | 5.0                       |
| Total                              |                             | 3,093.4                   |                             | 3,093.0                   |
| Total intangible assets, net       |                             | \$3,213.5                 |                             | \$3,231.1                 |





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The Company did not incur costs to renew or extend the term of acquired intangible assets during the six months and three months ended August 31, 2014, and August 31, 2013. The difference between the gross carrying amount and net carrying amount for each item presented is attributable to accumulated amortization. Amortization expense for intangible assets was \$24.7 million and \$7.1 million for the six months ended August 31, 2014, and August 31, 2013, respectively, and \$14.2 million and \$5.6 million for the three months ended August 31, 2014, and August 31, 2013, respectively. Estimated amortization expense for the remaining six months of fiscal 2015 and for each of the five succeeding fiscal years and thereafter is as follows:

(in millions)

|            |        |
|------------|--------|
| 2015       | \$17.6 |
| 2016       | \$39.4 |
| 2017       | \$8.9  |
| 2018       | \$5.5  |
| 2019       | \$5.5  |
| 2020       | \$5.5  |
| Thereafter | \$37.7 |

## 9. OTHER ACCRUED EXPENSES AND LIABILITIES:

The major components of other accrued expenses and liabilities are as follows:

|  | August 31,<br>2014 | February 28,<br>2014 |
|--|--------------------|----------------------|
| (in millions)  |                    |                      |
| Promotions and advertising                                   | \$110.2            | \$103.1              |
| Accrued interest   | 87.6               | 56.9                 |
| Salaries, commissions, and payroll benefits and withholdings | 78.2               | 118.7                |
| Income taxes payable   | 77.7               | 45.4                 |
| Deferred revenue   | 44.5               | 52.8                 |
| Beer Business Acquisition payable                            | 1.4                | 555.7                |
| Other  | 136.6              | 123.0                |
|  | \$536.2            | \$1,055.6            |

## 10. BORROWINGS:

Borrowings consist of the following:

|   | August 31, 2014 |           |           | February 28,<br>2014 |
|---|-----------------|-----------|-----------|----------------------|
|   | Current         | Long-term | Total     | Total                |
| (in millions)                                   |                 |           |           |                      |
| Notes Payable to Banks:                         |                 |           |           |                      |
| Senior Credit Facility – Revolving Credit Loans | \$110.0         | \$—       | \$110.0   | \$—                  |
| Other   | 143.0           | —         | 143.0     | 57.2                 |
|   | \$253.0         | \$—       | \$253.0   | \$57.2               |
| Long-term Debt:                                 |                 |           |           |                      |
| Senior Credit Facility – Term Loans             | \$97.0          | \$2,743.5 | \$2,840.5 | \$2,864.8            |
| Senior Notes                                    | 499.8           | 3,548.2   | 4,048.0   | 4,047.3              |
| Other Long-term Debt                            | 18.9            | 31.5      | 50.4      | 51.2                 |
|   | \$615.7         | \$6,323.2 | \$6,938.9 | \$6,963.3            |



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Senior credit facility –

In connection with the Beer Business Acquisition, on May 2, 2013, the Company, CIH International S.à r.l., an indirect wholly owned subsidiary of the Company (“CIH” and together with the Company, the “Borrowers”), and Bank of America, N.A., as administrative agent (the “Administrative Agent”), and certain other lenders entered into a Restatement Agreement (the “2013 Restatement Agreement”) that amended and restated the Company’s then existing senior credit facility (as amended and restated by the 2013 Restatement Agreement, the “2013 Credit Agreement”). The 2013 Restatement Agreement was entered into by the Company to arrange a portion of the debt to finance the Beer Business Acquisition.

On May 28, 2014, the Company, CIH, the Administrative Agent, and certain other lenders entered into a Restatement Agreement (the “2014 Restatement Agreement”) that amended and restated the 2013 Credit Agreement (as amended and restated by the 2014 Restatement Agreement, the “May 2014 Credit Agreement”). The principal change to the 2013 Credit Agreement effected by the May 2014 Credit Agreement was the conversion of the pre-existing \$850.0 million revolving credit facility into two tranches, a \$425.0 million U.S. revolving credit facility (the “U.S. Revolving Credit Facility”) and a \$425.0 million European revolving credit facility (the “European Revolving Credit Facility”). The Company is the borrower under the U.S. Revolving Credit Facility and the Company and/or CIH is the borrower under the European Revolving Credit Facility.

On August 20, 2014, the Company, CIH, the Administrative Agent, and certain other lenders (all such parties other than either of the Borrowers are collectively referred to as the “Lenders”) entered into Amendment No. 1 (the “Amendment”) to the May 2014 Credit Agreement (as amended, the “2014 Credit Agreement”). The Amendment was entered into primarily to reduce the interest rate applicable to the then existing European Term B loan facility under the May 2014 Credit Agreement by removing the provisions imposing certain minimums, or floors, used in the calculation of the interest rate on the European Term B loan facility. This was accomplished by adding a new European Term B-1 tranche to the 2014 Credit Agreement which replaced the existing European Term B loan facility.

The 2014 Credit Agreement provides for aggregate credit facilities of \$3,712.3 million, consisting of a \$496.3 million U.S. term loan facility maturing on June 7, 2018 (the “U.S. Term A Facility”), a \$245.0 million U.S. term loan facility maturing on June 7, 2019 (the “U.S. Term A-1 Facility”), a \$649.7 million U.S. term loan facility maturing on June 7, 2018 (the “U.S. Term A-2 Facility”), a \$481.3 million European term loan facility maturing on June 7, 2018 (the “European Term A Facility”), a \$990.0 million European term loan facility maturing on June 7, 2020 (the “European Term B-1 Facility”), and an aggregate \$850.0 million revolving credit facility (including two sub-facilities for letters of credit of up to \$200.0 million in the aggregate) which terminates on June 7, 2018 (the “Revolving Credit Facility”). The Revolving Credit Facility provides for credit facilities consisting of the \$425.0 million U.S. Revolving Credit Facility and the \$425.0 million European Revolving Credit Facility. The 2014 Credit Agreement also permits the Company from time to time to elect to increase the Lenders’ revolving credit commitments under the U.S. Revolving Credit Facility or add one or more tranches of additional term loans, subject to the willingness of existing or new lenders to fund such increase or term loans and other customary conditions. The minimum aggregate principal amount of such incremental revolving credit commitment increases or additional term loans may be no less than \$25.0 million and the maximum aggregate principal amount of all such incremental revolving credit commitment increases and additional term loans, other than term loans the proceeds of which are applied to repay existing term loans, may be no more than \$750.0 million. A portion of the borrowings under the 2013 Credit Agreement were used to refinance the outstanding obligations under the Company’s then existing senior credit facility with the remainder used to finance a portion of the purchase price for the Beer Business Acquisition and related expenses.

The rate of interest for borrowings under the 2014 Credit Agreement is a function of LIBOR plus a margin or the base rate plus a margin. The margin is adjustable based upon the Company’s debt ratio (as defined in the 2014 Credit Agreement). As of August 31, 2014, the LIBOR margin for the U.S. Term A Facility, the U.S. Term A-2 Facility, the European Term A Facility, the European Term B-1 Facility and the Revolving Credit Facility was 1.75%; and the

LIBOR margin for the U.S. Term A-1 Facility was 2.0%.

The U.S. obligations under the 2014 Credit Agreement are guaranteed by certain of the Company's U.S. subsidiaries. These obligations are also secured by a pledge of (i) 100% of the ownership interests in certain of the

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Company's U.S. subsidiaries and (ii) 65% of the ownership interests in certain of the Company's foreign subsidiaries. The European obligations under the 2014 Credit Agreement are guaranteed by the Company and certain of the Company's U.S. subsidiaries. These obligations are also secured by a pledge of (i) 100% of certain interests in certain of CIH's subsidiaries and (ii) 100% of the ownership interests in certain of the Company's U.S. subsidiaries and 65% of the ownership interests in certain of the Company's foreign subsidiaries.

As of August 31, 2014, under the 2014 Credit Agreement, the Company had outstanding borrowings under the U.S. Term A Facility of \$489.8 million bearing an interest rate of 1.9%, U.S. Term A-1 Facility of \$244.4 million bearing an interest rate of 2.2%, U.S. Term A-2 Facility of \$641.3 million bearing an interest rate of 1.9%, European Term A Facility of \$475.0 million bearing an interest rate of 1.9%, European Term B-1 Facility of \$990.0 million bearing an interest rate of 1.9%, Revolving Credit Facility of \$110.0 million bearing an interest rate of 1.9%, outstanding letters of credit of \$14.1 million, and \$725.9 million in revolving loans available to be drawn.

In April 2012, the Company transitioned its interest rate swap agreement to a one-month LIBOR base rate versus the then existing three-month LIBOR base rate by entering into a new interest rate swap agreement which was designated as a cash flow hedge for \$500.0 million of the Company's floating LIBOR rate debt. In addition, the then existing interest rate swap agreement was dedesignated as a hedge. The Company also entered into an additional interest rate swap agreement for \$500.0 million that was not designated as a hedge to offset the prospective impact of the newly undesignated interest rate swap agreement. As a result of these hedges, the Company has fixed its interest rates on \$500.0 million of the Company's floating LIBOR rate debt at an average rate of 2.8% (exclusive of borrowing margins) through September 1, 2016. The unrealized losses in AOCI related to the dedesignated interest rate swap agreements are being reclassified from AOCI ratably into earnings in the same period in which the original hedged item is recorded in the Consolidated Statements of Comprehensive Income. For the six months ended August 31, 2014, and August 31, 2013, the Company reclassified net losses of \$4.2 million and \$4.1 million, net of income tax effect, respectively, from AOCI to interest expense, net, on the Company's Consolidated Statements of Comprehensive Income. For the three months ended August 31, 2014, and August 31, 2013, the Company reclassified net losses of \$2.2 million and \$2.0 million, net of income tax effect, respectively, from AOCI to interest expense, net, on the Company's Consolidated Statements of Comprehensive Income.

## Senior notes –

On May 14, 2013, the Company issued \$500.0 million aggregate principal amount of 3.75% Senior Notes due May 2021 (the "May 2013 Eight Year Senior Notes") and \$1,050.0 million aggregate principal amount of 4.25% Senior Notes due May 2023 (the "May 2013 Ten Year Senior Notes") (collectively, the "May 2013 Senior Notes"). The Company used the net proceeds from the offering (\$1,535.5 million) to fund a portion of the purchase price for the Beer Business Acquisition. Interest on the May 2013 Senior Notes is payable semiannually on May 1 and November 1 of each year, beginning November 1, 2013. The May 2013 Senior Notes are redeemable, in whole or in part, at the option of the Company at any time at a redemption price equal to 100% of the outstanding principal amount plus a make whole payment based on the present value of the future payments at the adjusted Treasury Rate plus 50 basis points. The May 2013 Senior Notes are senior unsecured obligations that rank equally with the Company's other senior unsecured indebtedness. Certain of the Company's U.S. subsidiaries guarantee the May 2013 Senior Notes on a senior unsecured basis. In connection with the issuance of the May 2013 Senior Notes, the Company and Manufacturers and Traders Trust Company, as Trustee, escrow agent, and securities intermediary, entered into an agreement (the "May 2013 Escrow Agreement"), pursuant to which an amount equal to 100% of the principal amount of the May 2013 Senior Notes (collectively, with any other property from time to time held by the escrow agent, the "May 2013 Escrowed Property") was placed into an escrow account to be released to the Company upon the closing of the Beer Business Acquisition. In accordance with the terms of the May 2013 Escrow Agreement, in connection with the closing of the Beer Business Acquisition, the May 2013 Escrowed Property was released to the Company and used to fund a portion of the purchase price for the Beer Business Acquisition. As of August 31, 2014, the Company had outstanding \$1,550.0 million aggregate principal amount of May 2013 Senior Notes.

Accounts receivable securitization facilities –

On October 1, 2013, the Company entered into an amended and restated 364-day revolving trade accounts receivable securitization facility (the “CBI Facility”). Under the CBI Facility, trade accounts receivable generated by the Company and certain of its subsidiaries are sold by the Company to a wholly-owned bankruptcy remote

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single purpose subsidiary (the “CBI SPV”), which is consolidated with the Company for financial reporting purposes. The CBI Facility provides borrowing capacity of \$190.0 million up to \$290.0 million structured to account for the seasonality of the Company’s business, subject to further limitations based upon various pre-agreed formulas. As of August 31, 2014, the CBI SPV had no aggregate outstanding borrowings under the CBI Facility. As of August 31, 2014, the Company had \$270.0 million available under the CBI Facility.

Also, on October 1, 2013, Crown Imports entered into a 364-day revolving trade accounts receivable securitization facility (the “Crown Facility”). Under the Crown Facility, trade accounts receivable generated by Crown Imports are sold by Crown Imports to its wholly-owned bankruptcy remote single purpose subsidiary (the “Crown SPV”), which is consolidated with the Company for financial reporting purposes. The Crown Facility provides borrowing capacity of \$100.0 million up to \$160.0 million structured to account for the seasonality of Crown Imports’ business. As of August 31, 2014, the Crown SPV had aggregate outstanding borrowings under the Crown Facility of \$6.0 million bearing a weighted average interest rate of 1.1%. As of August 31, 2014, the Company had \$154.0 million available under the Crown Facility.

On September 29, 2014, the Company’s existing accounts receivable securitization facilities were amended, resulting in the extension of each facility for an additional 364-day term. The remaining provisions of the amended facilities are substantially identical in all material respects to the prior facilities.

### 11. INCOME TAXES:

The Company’s effective tax rate for the six months ended August 31, 2014, and August 31, 2013, was 32.4% and 5.7%, respectively. The Company’s effective tax rate for the three months ended August 31, 2014, and August 31, 2013, was 32.2% and 4.1%, respectively.

The Company’s effective tax rate for both the six months and three months ended August 31, 2014, benefited primarily from the integration of the Beer Business Acquisition. The Company’s effective tax rate for both the six months and three months ended August 31, 2013, was favorably impacted by the Beer Business Acquisition, primarily attributable to the recognition of the nontaxable gain on the remeasurement to fair value of the Company’s preexisting 50% equity interest in Crown Imports of \$1,642.0 million, and the recognition of tax benefits of \$6.6 million related to the resolution of certain tax positions, partially offset by the write-off of nondeductible goodwill of \$278.7 million.

### 12. COMMITMENTS AND CONTINGENCIES:

#### Indemnification liabilities –

In connection with a prior divestiture, the Company indemnified respective parties against certain liabilities that may arise related to certain contracts with certain investees of the divested business, a certain facility in the U.K. and certain income tax matters. As of August 31, 2014, and February 28, 2014, the carrying amount of these indemnification liabilities was \$11.3 million and \$11.6 million, respectively, and is included in other liabilities on the Company’s Consolidated Balance Sheets. If the indemnified party were to incur a liability, pursuant to the terms of the indemnification, the Company would be required to reimburse the indemnified party. As of August 31, 2014, the Company estimates that these indemnifications could require the Company to make potential future payments of up to \$292.5 million under these indemnifications with \$278.9 million of this amount able to be recovered by the Company from third parties under recourse provisions. The Company does not expect to be required to make material payments under the indemnifications and the Company believes that the likelihood is remote that the indemnifications could have a material adverse effect on the Company’s financial position, results of operations, cash flows or liquidity.

### 13. PRODUCT RECALL:



In August 2014, the Company announced a voluntary product recall of select packages in the U.S. and Guam containing 12-ounce clear glass bottles of its Corona Extra beer that may contain small particles of glass (the “Product Recall”). The Product Recall was a precautionary step after routine inspections in the Company’s quality control laboratory detected defects in certain bottles that could cause small particles of glass to break off and fall

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into the bottle. The potentially affected bottles came from a glass plant run by a third-party manufacturer that supplies the Company with bottles.

For the six months and three months ended August 31, 2014, the Company has recorded an estimated \$9.2 million reduction, net of recoveries, to operating income for costs which the third-party manufacturer has not yet agreed to reimburse to the Company. This reduction consists primarily of a reduction to net sales of \$3.5 million and a charge to cost of product sold of \$5.4 million. The reduction to net sales is associated primarily with wholesale distributor payments in connection with the collection and handling of recalled product. The charge to cost of product sold consists primarily of freight costs associated with the potentially affected product.

While the Company expects to continue to collaborate with its third-party manufacturer and obtain reimbursement from its third-party manufacturer for some or all of the costs associated with the Product Recall, there can be no assurance there will be any potential recoveries. The Company may incur additional direct costs related to the Product Recall within the next three to six months.

14. EARNINGS PER COMMON SHARE:

Earnings per common share – basic excludes the effect of common stock equivalents and is computed using the two-class computation method. Earnings per common share – diluted for Class A Common Stock reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock. Earnings per common share – diluted for Class A Common Stock has been computed using the more dilutive of the if-converted or two-class computation method. Using the if-converted method, earnings per common share – diluted for Class A Common Stock assumes the exercise of stock options using the treasury stock method and the conversion of Class B Convertible Common Stock. Using the two-class computation method, earnings per common share – diluted for Class A Common Stock assumes the exercise of stock options using the treasury stock method and no conversion of Class B Convertible Common Stock. For the six months and three months ended August 31, 2014, and August 31, 2013, earnings per common share – diluted for Class A Common Stock has been calculated using the if-converted method. For the six months and three months ended August 31, 2014, and August 31, 2013, earnings per common share – diluted for Class B Convertible Common Stock is presented without assuming conversion into Class A Common Stock and is computed using the two-class computation method.

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The computation of basic and diluted earnings per common share is as follows:

|  | For the Six Months<br>Ended August 31, |           | For the Three Months<br>Ended August 31, |           |
|--|--|-----------|--|-----------|
|  | 2014                                   | 2013      | 2014                                     | 2013      |
| (in millions, except per share data)                     |  |           |  |           |
| Income available to common stockholders                  | \$402.5                                | \$1,574.9 | \$195.8                                  | \$1,522.0 |
| Weighted average common shares outstanding – basic:      |  |           |  |           |
| Class A Common Stock                                     | 168.663                                | 163.277   | 169.158                                  | 164.825   |
| Class B Convertible Common Stock                         | 23.408                                 | 23.485    | 23.401                                   | 23.472    |
| Weighted average common shares outstanding –<br>diluted: |  |           |  |           |
| Class A Common Stock                                     | 168.663                                | 163.277   | 169.158                                  | 164.825   |
| Class B Convertible Common Stock                         | 23.408                                 | 23.485    | 23.401                                   | 23.472    |
| Stock-based awards, primarily stock options              | 8.508                                  | 9.294     | 8.241                                    | 8.470     |
| Weighted average common shares outstanding –<br>diluted  | 200.579                                | 196.056   | 200.800                                  | 196.767   |
| Earnings per common share – basic:                       |  |           |  |           |
| Class A Common Stock                                     | \$2.12                                 | \$8.53    | \$1.03                                   | \$8.18    |
| Class B Convertible Common Stock                         | \$1.93                                 | \$7.75    | \$0.93                                   | \$7.43    |
| Earnings per common share – diluted:                     |  |           |  |           |
| Class A Common Stock                                     | \$2.01                                 | \$8.03    | \$0.98                                   | \$7.74    |
| Class B Convertible Common Stock                         | \$1.84                                 | \$7.38    | \$0.90                                   | \$7.11    |

For the six months ended August 31, 2014, and August 31, 2013, stock-based awards, primarily stock options, which could result in the issuance of 1.0 million and 1.4 million shares, respectively, of Class A Common Stock were outstanding, but were not included in the computation of earnings per common share – diluted for Class A Common Stock because the effect of including such awards would have been antidilutive. For the three months ended August 31, 2014, and August 31, 2013, stock-based awards, primarily stock options, which could result in the issuance of 0.9 million and 1.4 million shares, respectively, of Class A Common Stock were outstanding, but were not included in the computation of earnings per common share – diluted for Class A Common Stock because the effect of including such awards would have been antidilutive.

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## 15. COMPREHENSIVE INCOME:

Comprehensive income consists of net income, foreign currency translation adjustments, net unrealized gains (losses) on derivative instruments, net unrealized gains (losses) on AFS debt securities and pension/postretirement adjustments. The reconciliation of net income to comprehensive income is as follows:

|   | Before Tax<br>Amount | Tax (Expense)<br>Benefit | Net of Tax<br>Amount |
|---|----------------------|--------------------------|----------------------|
| (in millions)                                     |                      |                          |                      |
| For the Six Months Ended August 31, 2014          |                      |                          |                      |
| Net income  |                      |                          | \$402.5              |
| Other comprehensive income:                       |                      |                          |                      |
| Foreign currency translation adjustments:         |                      |                          |                      |
| Net gains   | \$15.8               | \$(1.2)                  | ) 14.6               |
| Reclassification adjustments                      | —                    | —                        | —                    |
| Net gain recognized in other comprehensive income | 15.8                 | (1.2)                    | ) 14.6               |
| Unrealized gain on cash flow hedges:              |                      |                          |                      |
| Net derivative gains                              | 6.4                  | (1.6)                    | ) 4.8                |
| Reclassification adjustments                      | (0.1)                | ) (0.6)                  | ) (0.7)              |
| Net gain recognized in other comprehensive income | 6.3                  | (2.2)                    | ) 4.1                |
| Unrealized gain on AFS debt securities:           |                      |                          |                      |
| Net AFS debt securities gains                     | 0.2                  | (0.1)                    | ) 0.1                |
| Reclassification adjustments                      | —                    | —                        | —                    |
| Net gain recognized in other comprehensive income | 0.2                  | (0.1)                    | ) 0.1                |
| Pension/postretirement adjustments:               |                      |                          |                      |
| Net actuarial gains                               | —                    | —                        | —                    |
| Reclassification adjustments                      | —                    | —                        | —                    |
| Net gain recognized in other comprehensive income | —                    | —                        | —                    |
| Other comprehensive income                        | \$22.3               | \$(3.5)                  | ) 18.8               |
| Total comprehensive income                        |                      |                          | \$421.3              |
| For the Six Months Ended August 31, 2013          |                      |                          |                      |
| Net income  |                      |                          | \$1,574.9            |
| Other comprehensive (loss) income:                |                      |                          |                      |
| Foreign currency translation adjustments:         |                      |                          |                      |
| Net losses  | \$(66.4)             | ) \$(1.6)                | ) (68.0)             |
| Reclassification adjustments                      | —                    | —                        | —                    |
| Net loss recognized in other comprehensive loss   | (66.4)               | ) (1.6)                  | ) (68.0)             |
| Unrealized gain on cash flow hedges:              |                      |                          |                      |
| Net derivative gains                              | 2.4                  | (1.8)                    | ) 0.6                |
| Reclassification adjustments                      | 3.6                  | (1.6)                    | ) 2.0                |
| Net gain recognized in other comprehensive loss   | 6.0                  | (3.4)                    | ) 2.6                |
| Unrealized loss on AFS debt securities:           |                      |                          |                      |
| Net AFS debt securities losses                    | (2.9)                | ) (0.1)                  | ) (3.0)              |
| Reclassification adjustments                      | —                    | —                        | —                    |
| Net loss recognized in other comprehensive loss   | (2.9)                | ) (0.1)                  | ) (3.0)              |
| Pension/postretirement adjustments:               |                      |                          |                      |
| Net actuarial gains                               | 0.6                  | (0.2)                    | ) 0.4                |
| Reclassification adjustments                      | 0.6                  | (0.1)                    | ) 0.5                |
| Net gain recognized in other comprehensive loss   | 1.2                  | (0.3)                    | ) 0.9                |

|                            |         |          |           |   |
|----------------------------|---------|----------|-----------|---|
| Other comprehensive loss   | \$(62.1 | ) \$(5.4 | ) (67.5   | ) |
| Total comprehensive income |         |          | \$1,507.4 |   |

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|   | Before Tax<br>Amount | Tax (Expense)<br>Benefit | Net of Tax<br>Amount |
|---|----------------------|--------------------------|----------------------|
| (in millions)                                   |                      |                          |                      |
| For the Three Months Ended August 31, 2014      |                      |                          |                      |
| Net income                                      |                      |                          | \$195.8              |
| Other comprehensive loss:                       |                      |                          |                      |
| Foreign currency translation adjustments:       |                      |                          |                      |
| Net losses                                      | \$(21.7)             | ) \$(0.5)                | ) (22.2)             |
| Reclassification adjustments                    | —                    | —                        | —                    |
| Net loss recognized in other comprehensive loss | (21.7)               | ) (0.5)                  | ) (22.2)             |
| Unrealized loss on cash flow hedges:            |                      |                          |                      |
| Net derivative losses                           | (7.2)                | ) 2.2                    | (5.0)                |
| Reclassification adjustments                    | (1.5)                | ) 0.2                    | (1.3)                |
| Net loss recognized in other comprehensive loss | (8.7)                | ) 2.4                    | (6.3)                |
| Unrealized loss on AFS debt securities:         |                      |                          |                      |
| Net AFS debt securities losses                  | (0.1)                | ) —                      | (0.1)                |
| Reclassification adjustments                    | —                    | —                        | —                    |
| Net loss recognized in other comprehensive loss | (0.1)                | ) —                      | (0.1)                |
| Pension/postretirement adjustments:             |                      |                          |                      |
| Net actuarial gains                             | —                    | —                        | —                    |
| Reclassification adjustments                    | —                    | —                        | —                    |
| Net gain recognized in other comprehensive loss | —                    | —                        | —                    |
| Other comprehensive loss                        | \$(30.5)             | ) \$1.9                  | (28.6)               |
| Total comprehensive income                      |                      |                          | \$167.2              |
| For the Three Months Ended August 31, 2013      |                      |                          |                      |
| Net income                                      |                      |                          | \$1,522.0            |
| Other comprehensive (loss) income:              |                      |                          |                      |
| Foreign currency translation adjustments:       |                      |                          |                      |
| Net losses                                      | \$(44.1)             | ) \$(1.1)                | ) (45.2)             |
| Reclassification adjustments                    | —                    | —                        | —                    |
| Net loss recognized in other comprehensive loss | (44.1)               | ) (1.1)                  | ) (45.2)             |
| Unrealized gain on cash flow hedges:            |                      |                          |                      |
| Net derivative gains                            | 2.4                  | (1.3)                    | ) 1.1                |
| Reclassification adjustments                    | 2.1                  | (0.9)                    | ) 1.2                |
| Net gain recognized in other comprehensive loss | 4.5                  | (2.2)                    | ) 2.3                |
| Unrealized loss on AFS debt securities:         |                      |                          |                      |
| Net AFS debt securities losses                  | (1.7)                | ) —                      | (1.7)                |
| Reclassification adjustments                    | —                    | —                        | —                    |
| Net loss recognized in other comprehensive loss | (1.7)                | ) —                      | (1.7)                |
| Pension/postretirement adjustments:             |                      |                          |                      |
| Net actuarial gains                             | 0.4                  | (0.1)                    | ) 0.3                |
| Reclassification adjustments                    | 0.3                  | —                        | 0.3                  |
| Net gain recognized in other comprehensive loss | 0.7                  | (0.1)                    | ) 0.6                |
| Other comprehensive loss                        | \$(40.6)             | ) \$(3.4)                | (44.0)               |
| Total comprehensive income                      |                      |                          | \$1,478.0            |



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Accumulated other comprehensive income (loss) (“AOCI”), net of income tax effect, includes the following components:

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Net<br>Unrealized<br>(Losses)<br>Gains on<br>Derivative<br>Instruments | Net<br>Unrealized<br>(Losses) Gains<br>on AFS Debt<br>Securities | Pension/<br>Postretirement<br>Adjustments | Accumulated<br>Other<br>Comprehensive<br>Income |
|--|---|--|--|---|---|
| (in millions)  |   |  |  |   |   |
| Balance, February 28, 2014   | \$ 103.6  | \$(8.9   | ) \$(1.5   | ) \$(7.2                                  | ) \$86.0  |
| Other comprehensive income:  |   |  |  |   |   |
| Other comprehensive income before<br>reclassification adjustments      | 14.6  | 4.8  | 0.1  | —   | 19.5  |
| Amounts reclassified from<br>accumulated other comprehensive<br>income | —   | (0.7   | ) —  | —   | (0.7  |
| Other comprehensive income   | 14.6  | 4.1  | 0.1  | —   | 18.8  |
| Balance, August 31, 2014   | \$ 118.2  | \$(4.8   | ) \$(1.4   | ) \$(7.2                                  | ) \$ 104.8                                      |

## 16. CONDENSED CONSOLIDATING FINANCIAL INFORMATION:

The following information sets forth the condensed consolidating balance sheets as of August 31, 2014, and February 28, 2014, the condensed consolidating statements of comprehensive income for the six months and three months ended August 31, 2014, and August 31, 2013, and the condensed consolidating statements of cash flows for the six months ended August 31, 2014, and August 31, 2013, for the parent company, the combined subsidiaries of the Company which guarantee the Company’s senior notes (“Subsidiary Guarantors”), the combined subsidiaries of the Company which are not Subsidiary Guarantors (primarily foreign subsidiaries) (“Subsidiary Nonguarantors”) and the Company. The Subsidiary Guarantors are 100% owned, directly or indirectly, by the parent company and the guarantees are joint and several obligations of each of the Subsidiary Guarantors. The guarantees are full and unconditional, as those terms are used in Rule 3-10 of Regulation S-X, except that a Subsidiary Guarantor can be automatically released and relieved of its obligations under certain customary circumstances contained in the indentures governing the Company’s senior notes. These customary circumstances include, so long as other applicable provisions of the indentures are adhered to, the termination or release of a Subsidiary Guarantor’s guarantee of other indebtedness or upon the legal defeasance or covenant defeasance or satisfaction and discharge of the Company’s senior notes. Separate financial statements for the Subsidiary Guarantors of the Company are not presented because the Company has determined that such financial statements would not be material to investors. The accounting policies of the parent company, the Subsidiary Guarantors and the Subsidiary Nonguarantors are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 1 to the Company’s consolidated financial statements included in the Company’s 2014 Annual Report, and include the recently adopted accounting guidance described in Note 2 herein. There are no restrictions on the ability of the Subsidiary Guarantors to transfer funds to the Company in the form of cash dividends, loans or advances.

In connection with the preparation of the condensed consolidating financial information, the Company made certain immaterial adjustments to the condensed consolidating statement of cash flows for the six months ended August 31, 2013. These adjustments (i) did not change the net (decrease) increase in cash and cash investments for the parent company, the Subsidiary Guarantors or the Subsidiary Nonguarantors and (ii) had no impact on the consolidated amounts. The substantial majority of these adjustments had the effect of (i) decreasing the parent company’s cash flows from operating activities and increasing the parent company’s cash flows from financing activities and (ii) increasing the Subsidiary Guarantors’ cash flows from operating activities and decreasing the Subsidiary Guarantors’ cash flows from financing activities.





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|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations | Consolidated |
|--|-------------------|--------------------------|-----------------------------|--------------|--------------|
| (in millions)  |                   |                          |                             |              |              |
| Condensed Consolidating Balance Sheet at August 31, 2014 |                   |                          |                             |              |              |
| Current assets:  |                   |                          |                             |              |              |
| Cash and cash investments                                | \$13.7            | \$0.7                    | \$89.9                      | \$—          | \$104.3      |
| Accounts receivable, net                                 | 0.3               | 6.8                      | 649.7                       | 0.1          | 656.9        |
| Inventories  | 158.2             | 1,294.4                  | 404.7                       | (78.4)       | 1,778.9      |
| Intercompany receivable                                  | 10,723.1          | 15,121.0                 | 4,970.6                     | (30,814.7)   | —            |
| Prepaid expenses and other                               | 47.3              | 54.4                     | 682.7                       | (486.4)      | 298.0        |
| Total current assets                                     | 10,942.6          | 16,477.3                 | 6,797.6                     | (31,379.4)   | 2,838.1      |
| Property, plant and equipment, net                       | 51.9              | 861.3                    | 1,386.7                     | —            | 2,299.9      |
| Investments in subsidiaries                              | 11,384.4          | 11.9                     | —                           | (11,396.3)   | —            |
| Goodwill   | —                 | 5,411.3                  | 738.0                       | —            | 6,149.3      |
| Intangible assets, net                                   | —                 | 708.4                    | 2,501.8                     | 3.3          | 3,213.5      |
| Intercompany notes receivable                            | 3,715.0           | 9.8                      | —                           | (3,724.8)    | —            |
| Other assets, net  | 57.0              | 69.9                     | 29.7                        | —            | 156.6        |
| Total assets   | \$26,150.9        | \$23,549.9               | \$11,453.8                  | \$(46,497.2) | \$14,657.4   |
| Current liabilities:                                     |                   |                          |                             |              |              |
| Notes payable to banks                                   | \$—               | \$—                      | \$253.0                     | \$—          | \$253.0      |
| Current maturities of long-term debt                     | 563.1             | 17.2                     | 35.4                        | —            | 615.7        |
| Accounts payable   | 26.6              | 169.6                    | 245.7                       | —            | 441.9        |
| Accrued excise taxes                                     | 14.5              | 10.1                     | 4.9                         | —            | 29.5         |
| Intercompany payable                                     | 14,396.0          | 11,167.3                 | 5,251.4                     | (30,814.7)   | —            |
| Other accrued expenses and liabilities                   | 752.4             | 129.1                    | 165.8                       | (511.1)      | 536.2        |
| Total current liabilities                                | 15,752.6          | 11,493.3                 | 5,956.2                     | (31,325.8)   | 1,876.3      |
| Long-term debt, less current maturities                  | 4,861.7           | 30.4                     | 1,431.1                     | —            | 6,323.2      |
| Deferred income taxes                                    | 18.3              | 602.7                    | 194.0                       | —            | 815.0        |
| Intercompany notes payable                               | —                 | 3,702.0                  | 22.8                        | (3,724.8)    | —            |
| Other liabilities  | 30.9              | 24.2                     | 100.4                       | —            | 155.5        |
| Stockholders' equity                                     | 5,487.4           | 7,697.3                  | 3,749.3                     | (11,446.6)   | 5,487.4      |
| Total liabilities and stockholders' equity               | \$26,150.9        | \$23,549.9               | \$11,453.8                  | \$(46,497.2) | \$14,657.4   |

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|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations  | Consolidated |
|--|-------------------|--------------------------|-----------------------------|---------------|--------------|
| (in millions)  |                   |                          |                             |               |              |
| Condensed Consolidating Balance Sheet at February 28, 2014 |                   |                          |                             |               |              |
| Current assets:  |                   |                          |                             |               |              |
| Cash and cash investments                                  | \$0.5             | \$0.8                    | \$ 62.6                     | \$—           | \$63.9       |
| Accounts receivable, net                                   | 0.2               | 9.0                      | 617.0                       | —             | 626.2        |
| Inventories  | 153.5             | 1,270.0                  | 384.8                       | (64.5 )       | 1,743.8      |
| Intercompany receivable                                    | 8,529.4           | 13,339.0                 | 4,104.0                     | (25,972.4 )   | —            |
| Prepaid expenses and other                                 | 49.1              | 61.6                     | 701.6                       | (499.0 )      | 313.3        |
| Total current assets                                       | 8,732.7           | 14,680.4                 | 5,870.0                     | (26,535.9 )   | 2,747.2      |
| Property, plant and equipment, net                         | 39.4              | 846.3                    | 1,128.6                     | —             | 2,014.3      |
| Investments in subsidiaries                                | 10,795.6          | 9.4                      | —                           | (10,805.0 )   | —            |
| Goodwill   | —                 | 5,411.3                  | 735.5                       | —             | 6,146.8      |
| Intangible assets, net                                     | —                 | 707.6                    | 2,523.0                     | 0.5           | 3,231.1      |
| Intercompany notes receivable                              | 3,606.0           | 8.5                      | —                           | (3,614.5 )    | —            |
| Other assets, net  | 62.4              | 64.6                     | 35.7                        | —             | 162.7        |
| Total assets   | \$23,236.1        | \$21,728.1               | \$ 10,292.8                 | \$(40,954.9 ) | \$ 14,302.1  |
| Current liabilities:                                       |                   |                          |                             |               |              |
| Notes payable to banks                                     | \$—               | \$—                      | \$ 57.2                     | \$—           | \$57.2       |
| Current maturities of long-term debt                       | 547.1             | 16.4                     | 26.5                        | —             | 590.0        |
| Accounts payable   | 24.4              | 109.0                    | 161.8                       | —             | 295.2        |
| Accrued excise taxes                                       | 13.7              | 8.5                      | 5.5                         | —             | 27.7         |
| Intercompany payable                                       | 11,996.5          | 9,700.4                  | 4,275.5                     | (25,972.4 )   | —            |
| Other accrued expenses and liabilities                     | 712.9             | 182.3                    | 680.7                       | (520.3 )      | 1,055.6      |
| Total current liabilities                                  | 13,294.6          | 10,016.6                 | 5,207.2                     | (26,492.7 )   | 2,025.7      |
| Long-term debt, less current maturities                    | 4,892.3           | 32.8                     | 1,448.2                     | —             | 6,373.3      |
| Deferred income taxes                                      | 17.2              | 569.4                    | 176.0                       | —             | 762.6        |
| Intercompany notes payable                                 | —                 | 3,597.7                  | 16.8                        | (3,614.5 )    | —            |
| Other liabilities  | 50.7              | 21.5                     | 87.0                        | —             | 159.2        |
| Stockholders' equity                                       | 4,981.3           | 7,490.1                  | 3,357.6                     | (10,847.7 )   | 4,981.3      |
| Total liabilities and stockholders' equity                 | \$23,236.1        | \$21,728.1               | \$ 10,292.8                 | \$(40,954.9 ) | \$ 14,302.1  |

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|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations | Consolidated |
|--|-------------------|--------------------------|-----------------------------|--------------|--------------|
| (in millions)  |                   |                          |                             |              |              |
| Condensed Consolidating Statement of Comprehensive Income for the Six Months Ended August 31, 2014 |                   |                          |                             |              |              |
| Sales  | \$1,139.2         | \$2,659.5                | \$1,605.4                   | \$(1,947.0)  | \$3,457.1    |
| Less – excise taxes  | (153.2)           | (139.1)                  | (34.7)                      | —            | (327.0)      |
| Net sales  | 986.0             | 2,520.4                  | 1,570.7                     | (1,947.0)    | 3,130.1      |
| Cost of product sold   | (796.9)           | (1,906.4)                | (1,012.9)                   | 1,928.2      | (1,788.0)    |
| Gross profit   | 189.1             | 614.0                    | 557.8                       | (18.8)       | 1,342.1      |
| Selling, general and administrative expenses   | (194.1)           | (301.0)                  | (83.5)                      | 7.4          | (571.2)      |
| Operating (loss) income  | (5.0)             | 313.0                    | 474.3                       | (11.4)       | 770.9        |
| Equity in earnings (losses) of equity method investees and subsidiaries                            | 509.0             | 1.8                      | 0.6                         | (511.5)      | (0.1)        |
| Interest income  | —                 | —                        | 0.6                         | —            | 0.6          |
| Intercompany interest income   | 88.5              | 103.8                    | 0.2                         | (192.5)      | —            |
| Interest expense   | (146.0)           | (0.7)                    | (25.3)                      | —            | (172.0)      |
| Intercompany interest expense  | (103.5)           | (88.4)                   | (0.6)                       | 192.5        | —            |
| Loss on write-off of financing costs   | —                 | —                        | (4.4)                       | —            | (4.4)        |
| Income before income taxes   | 343.0             | 329.5                    | 445.4                       | (522.9)      | 595.0        |
| Benefit from (provision for) income taxes  | 59.5              | (123.1)                  | (132.4)                     | 3.5          | (192.5)      |
| Net income   | \$402.5           | \$206.4                  | \$313.0                     | \$(519.4)    | \$402.5      |
| Comprehensive income   | \$421.3           | \$207.5                  | \$329.4                     | \$(536.9)    | \$421.3      |
| Condensed Consolidating Statement of Comprehensive Income for the Six Months Ended August 31, 2013 |                   |                          |                             |              |              |
| Sales  | \$1,121.8         | \$1,633.4                | \$821.6                     | \$(1,197.3)  | \$2,379.5    |
| Less – excise taxes  | (153.3)           | (59.1)                   | (33.9)                      | —            | (246.3)      |
| Net sales  | 968.5             | 1,574.3                  | 787.7                       | (1,197.3)    | 2,133.2      |
| Cost of product sold   | (825.0)           | (1,092.7)                | (539.9)                     | 1,157.5      | (1,300.1)    |
| Gross profit   | 143.5             | 481.6                    | 247.8                       | (39.8)       | 833.1        |
| Selling, general and administrative expenses   | (219.4)           | (144.5)                  | (74.1)                      | 8.3          | (429.7)      |
| Impairment of goodwill and intangible assets   | —                 | —                        | (300.9)                     | —            | (300.9)      |
| Gain on remeasurement to fair value of equity method investment                                    | —                 | 1,642.0                  | —                           | —            | 1,642.0      |
| Operating (loss) income  | (75.9)            | 1,979.1                  | (127.2)                     | (31.5)       | 1,744.5      |
| Equity in earnings of equity method investees and subsidiaries                                     | 1,722.8           | 74.1                     | 0.2                         | (1,726.8)    | 70.3         |
| Interest income  | 0.1               | —                        | 3.8                         | —            | 3.9          |
| Intercompany interest income   | 70.7              | 77.9                     | 0.8                         | (149.4)      | —            |
| Interest expense   | (130.8)           | (3.0)                    | (15.2)                      | —            | (149.0)      |
| Intercompany interest expense  | (82.7)            | (66.4)                   | (0.3)                       | 149.4        | —            |
| Income (loss) before income taxes  | 1,504.2           | 2,061.7                  | (137.9)                     | (1,758.3)    | 1,669.7      |
| Benefit from (provision for) income taxes  | 70.7              | (153.0)                  | (21.7)                      | 9.2          | (94.8)       |
| Net income (loss)  | \$1,574.9         | \$1,908.7                | \$(159.6)                   | \$(1,749.1)  | \$1,574.9    |
| Comprehensive income (loss)  | \$1,507.4         | \$1,915.8                | \$(234.4)                   | \$(1,681.4)  | \$1,507.4    |



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|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations | Consolidated |
|--|-------------------|--------------------------|-----------------------------|--------------|--------------|
| (in millions)  |                   |                          |                             |              |              |
| Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended August 31, 2014 |                   |                          |                             |              |              |
| Sales  | \$594.7           | \$1,357.2                | \$791.4                     | \$(973.3)    | \$1,770.0    |
| Less – excise taxes  | (76.9)            | (71.5)                   | (17.5)                      | —            | (165.9)      |
| Net sales  | 517.8             | 1,285.7                  | 773.9                       | (973.3)      | 1,604.1      |
| Cost of product sold   | (418.6)           | (983.1)                  | (504.2)                     | 973.8        | (932.1)      |
| Gross profit   | 99.2              | 302.6                    | 269.7                       | 0.5          | 672.0        |
| Selling, general and administrative expenses   | (101.2)           | (152.5)                  | (43.1)                      | 3.5          | (293.3)      |
| Operating (loss) income  | (2.0)             | 150.1                    | 226.6                       | 4.0          | 378.7        |
| Equity in earnings (losses) of equity method investees and subsidiaries                              | 3.2               | 0.3                      | 0.4                         | (4.5)        | (0.6)        |
| Interest income  | —                 | —                        | 0.1                         | —            | 0.1          |
| Intercompany interest income   | 44.4              | 54.5                     | 0.1                         | (99.0)       | —            |
| Interest expense   | (74.1)            | (0.4)                    | (10.6)                      | —            | (85.1)       |
| Intercompany interest expense  | (54.3)            | (44.3)                   | (0.4)                       | 99.0         | —            |
| Loss on write-off of financing costs   | —                 | —                        | (4.4)                       | —            | (4.4)        |
| (Loss) income before income taxes  | (82.8)            | 160.2                    | 211.8                       | (0.5)        | 288.7        |
| Benefit from (provision for) income taxes  | 278.6             | (60.6)                   | (309.8)                     | (1.1)        | (92.9)       |
| Net income (loss)  | \$195.8           | \$99.6                   | \$(98.0)                    | \$(1.6)      | \$195.8      |
| Comprehensive income (loss)  | \$167.2           | \$99.0                   | \$(128.4)                   | \$29.4       | \$167.2      |
| Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended August 31, 2013 |                   |                          |                             |              |              |
| Sales  | \$569.3           | \$1,243.1                | \$607.7                     | \$(806.8)    | \$1,613.3    |
| Less – excise taxes  | (75.2)            | (61.1)                   | (17.2)                      | —            | (153.5)      |
| Net sales  | 494.1             | 1,182.0                  | 590.5                       | (806.8)      | 1,459.8      |
| Cost of product sold   | (425.0)           | (817.6)                  | (413.4)                     | 773.2        | (882.8)      |
| Gross profit   | 69.1              | 364.4                    | 177.1                       | (33.6)       | 577.0        |
| Selling, general and administrative expenses   | (100.4)           | (115.6)                  | (32.2)                      | 4.1          | (244.1)      |
| Impairment of goodwill and intangible assets   | —                 | —                        | (300.9)                     | —            | (300.9)      |
| Gain on remeasurement to fair value of equity method investment                                      | —                 | 1,642.0                  | —                           | —            | 1,642.0      |
| Operating (loss) income  | (31.3)            | 1,890.8                  | (156.0)                     | (29.5)       | 1,674.0      |
| Equity in earnings of equity method investees and subsidiaries                                       | 1,589.0           | 7.7                      | 0.1                         | (1,593.1)    | 3.7          |
| Interest income  | 0.1               | —                        | 1.9                         | —            | 2.0          |
| Intercompany interest income   | 44.9              | 41.2                     | 0.4                         | (86.5)       | —            |
| Interest expense   | (77.4)            | (0.3)                    | (14.6)                      | —            | (92.3)       |
| Intercompany interest expense  | (43.7)            | (42.6)                   | (0.2)                       | 86.5         | —            |
| Income (loss) before income taxes  | 1,481.6           | 1,896.8                  | (168.4)                     | (1,622.6)    | 1,587.4      |
| Benefit from (provision for) income taxes  | 40.4              | (91.0)                   | (23.4)                      | 8.6          | (65.4)       |
| Net income (loss)  | \$1,522.0         | \$1,805.8                | \$(191.8)                   | \$(1,614.0)  | \$1,522.0    |
| Comprehensive income (loss)  | \$1,478.0         | \$1,809.5                | \$(239.8)                   | \$(1,569.7)  | \$1,478.0    |



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|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations | Consolidated |
|--|-------------------|--------------------------|-----------------------------|--------------|--------------|
| (in millions)  |                   |                          |                             |              |              |
| Condensed Consolidating Statement of Cash Flows for the Six Months Ended August 31, 2014 |                   |                          |                             |              |              |
| Net cash (used in) provided by operating activities                                      | \$ (224.8         | ) \$ 393.2               | \$ 499.7                    | \$ —         | \$ 668.1     |
| Cash flows from investing activities:  |                   |                          |                             |              |              |
| Purchases of property, plant and equipment   | (13.3             | ) (54.5                  | ) (240.4                    | ) —          | (308.2       |
| Net proceeds from intercompany notes   | 207.9             | —                        | —                           | (207.9       | ) —          |
| Net investments in equity affiliates   | (46.4             | ) —                      | —                           | 46.4         | —            |
| Other investing activities   | —                 | (5.7                     | ) 7.7                       | —            | 2.0          |
| Net cash provided by (used in) investing activities                                      | 148.2             | (60.2                    | ) (232.7                    | ) (161.5     | ) (306.2     |
| Cash flows from financing activities:  |                   |                          |                             |              |              |
| Payments of dividends  | —                 | —                        | (24.9                       | ) 24.9       | —            |
| Net (returns of capital to) contributions from equity affiliates                         | —                 | (16.6                    | ) 87.9                      | (71.3        | ) —          |
| Net proceeds from (repayments of) intercompany notes                                     | 20.6              | (281.7                   | ) 53.2                      | 207.9        | —            |
| Payment of delayed purchase price arrangement  | —                 | —                        | (543.3                      | ) —          | (543.3       |
| Principal payments of long-term debt   | (16.8             | ) (8.7                   | ) (8.9                      | ) —          | (34.4        |
| Payments of minimum tax withholdings on stock-based payment awards                       | —                 | (26.1                    | ) (2.3                      | ) —          | (28.4        |
| Payments of financing costs of long-term debt  | (0.1              | ) —                      | (1.9                        | ) —          | (2.0         |
| Net proceeds from notes payable  | —                 | —                        | 197.0                       | —            | 197.0        |
| Excess tax benefits from stock-based payment awards                                      | 64.0              | —                        | —                           | —            | 64.0         |
| Proceeds from exercises of employee stock options  | 18.3              | —                        | —                           | —            | 18.3         |
| Proceeds from employee stock purchases   | 3.8               | —                        | —                           | —            | 3.8          |
| Net cash provided by (used in) financing activities                                      | 89.8              | (333.1                   | ) (243.2                    | ) 161.5      | (325.0       |
| Effect of exchange rate changes on cash and cash investments                             | —                 | —                        | 3.5                         | —            | 3.5          |
| Net increase (decrease) in cash and cash investments                                     | 13.2              | (0.1                     | ) 27.3                      | —            | 40.4         |
| Cash and cash investments, beginning of period   | 0.5               | 0.8                      | 62.6                        | —            | 63.9         |
| Cash and cash investments, end of period   | \$ 13.7           | \$ 0.7                   | \$ 89.9                     | \$ —         | \$ 104.3     |





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|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations | Consolidated |   |
|--|-------------------|--------------------------|-----------------------------|--------------|--------------|---|
| (in millions)  |                   |                          |                             |              |              |   |
| Condensed Consolidating Statement of Cash Flows for the Six Months Ended August 31, 2013 |                   |                          |                             |              |              |   |
| Net cash (used in) provided by operating activities                                      | \$(138.9          | ) \$704.3                | \$ (57.6                    | ) \$(18.8    | ) \$489.0    |   |
| Cash flows from investing activities:  |                   |                          |                             |              |              |   |
| Purchases of property, plant and equipment   | (5.0              | ) (33.1                  | ) (11.1                     | ) —          | (49.2        | ) |
| Purchase of business, net of cash acquired   | —                 | (1,770.1                 | ) (2,902.8                  | ) —          | (4,672.9     | ) |
| Net proceeds from intercompany notes   | 695.3             | —                        | —                           | (695.3       | ) —          |   |
| Net investments in equity affiliates   | (1,149.7          | ) —                      | —                           | 1,149.7      | —            |   |
| Other investing activities   | —                 | 2.5                      | 0.2                         | —            | 2.7          |   |
| Net cash used in investing activities  | (459.4            | ) (1,800.7               | ) (2,913.7                  | ) 454.4      | (4,719.4     | ) |
| Cash flows from financing activities:  |                   |                          |                             |              |              |   |
| Payments of dividends  | —                 | —                        | (18.8                       | ) 18.8       | —            |   |
| Net (returns of capital to) contributions from equity affiliates                         | —                 | (139.7                   | ) 1,289.4                   | (1,149.7     | ) —          |   |
| Net (repayments of) proceeds from intercompany notes                                     | (1,945.0          | ) 1,260.7                | (11.0                       | ) 695.3      | —            |   |
| Principal payments of long-term debt   | (2.3              | ) (7.6                   | ) —                         | —            | (9.9         | ) |
| Payments of minimum tax withholdings on stock-based payment awards                       | —                 | (16.4                    | ) (1.6                      | ) —          | (18.0        | ) |
| Payments of financing costs of long-term debt  | (69.6             | ) —                      | (12.6                       | ) —          | (82.2        | ) |
| Net proceeds from notes payable  | 78.0              | —                        | 194.1                       | —            | 272.1        |   |
| Excess tax benefits from stock-based payment awards                                      | 53.8              | —                        | —                           | —            | 53.8         |   |
| Proceeds from exercises of employee stock options  | 77.5              | —                        | —                           | —            | 77.5         |   |
| Proceeds from employee stock purchases   | 2.5               | —                        | —                           | —            | 2.5          |   |
| Proceeds from issuance of long-term debt   | 2,225.0           | —                        | 1,500.0                     | —            | 3,725.0      |   |
| Net cash provided by financing activities  | 419.9             | 1,097.0                  | 2,939.5                     | (435.6       | ) 4,020.8    |   |
| Effect of exchange rate changes on cash and cash investments                             |                   |                          |                             |              |              |   |
|  | —                 | —                        | (5.1                        | ) —          | (5.1         | ) |
| Net (decrease) increase in cash and cash investments                                     | (178.4            | ) 0.6                    | (36.9                       | ) —          | (214.7       | ) |
| Cash and cash investments, beginning of period   | 185.8             | 0.7                      | 145.0                       | —            | 331.5        |   |
| Cash and cash investments, end of period   | \$7.4             | \$1.3                    | \$ 108.1                    | \$—          | \$116.8      |   |

## 17. BUSINESS SEGMENT INFORMATION:

Prior to the Beer Business Acquisition, Crown Imports was a reportable segment of the Company. In connection with the Beer Business Acquisition and the resulting consolidation of the acquired businesses from the date of acquisition, the Crown Imports segment, together with the Brewery Purchase, is now known as the Beer segment. Accordingly, the Company's internal management financial reporting consists of two business divisions: (i) Beer and (ii) Wine and Spirits, and the Company reports its operating results in three segments: (i) Beer, (ii) Wine and Spirits, and (iii) Corporate Operations and Other. In the Beer segment, the Company has an exclusive perpetual brand license to import, market and sell in the U.S. the Mexican Beer Brands. In the Wine and Spirits segment, the Company sells a large number of wine brands across all categories – table wine, sparkling wine and dessert wine – and across all price points – popular, premium, super-premium and fine wine, complemented by certain premium spirits brands. Amounts included in the Corporate Operations and Other segment consist of costs of executive management, corporate development, corporate finance, human resources,

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internal audit, investor relations, legal, public relations and global information technology. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other reportable segments. The business segments reflect how the Company's operations are managed, how operating performance within the Company is evaluated by senior management and the structure of its internal financial reporting.

In addition, management excludes items that affect comparability ("Unusual Items") from its evaluation of the results of each operating segment as these Unusual Items are not reflective of continuing operations of the segments. Segment operating performance and segment management compensation is evaluated based upon continuing segment operating income. As such, the performance measures for incentive compensation purposes for segment management do not include the impact of these items.

For the six months and three months ended August 31, 2014, and August 31, 2013, Unusual Items included in consolidated operating income consist of:

| (in millions)   | For the Six Months<br>Ended August 31, |            | For the Three Months<br>Ended August 31, |            |
|---|--|------------|--|------------|
|   | 2014                                   | 2013       | 2014                                     | 2013       |
| Net Sales   |  |            |  |            |
| Product recall  | \$3.5                                  | \$—        | \$3.5                                    | \$—        |
| Cost of Product Sold  |  |            |  |            |
| Amortization of favorable interim supply agreement              | 18.9                                   | 2.1        | 11.3                                     | 2.1        |
| Product recall  | 5.4                                    | —          | 5.4                                      | —          |
| Flow through of inventory step-up                               | —                                      | 11.0       | —  | 9.5        |
| Other costs   | 5.9                                    | —          | 5.6                                      | —          |
| Total Cost of Product Sold                                      | 30.2                                   | 13.1       | 22.3                                     | 11.6       |
| Selling, General and Administrative Expenses                    |  |            |  |            |
| Transaction, integration and other acquisition-related costs    | 13.1                                   | 34.9       | 8.6                                      | 7.4        |
| Product recall  | 0.3                                    | —          | 0.3                                      | —          |
| Deferred compensation   | —                                      | 7.0        | —  | —          |
| Restructuring charges and other                                 | —                                      | (2.9       | ) —                                      | —          |
| Total Selling, General and Administrative Expenses              | 13.4                                   | 39.0       | 8.9                                      | 7.4        |
| Impairment of Goodwill and Intangible Assets                    | —                                      | 300.9      | —  | 300.9      |
| Gain on Remeasurement to Fair Value of Equity Method Investment | —                                      | (1,642.0   | ) —                                      | (1,642.0   |
| Unusual Items   | \$47.1                                 | \$(1,289.0 | ) \$34.7                                 | \$(1,322.1 |

The Company evaluates performance based on operating income of the respective business units. The accounting policies of the segments are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 1 to the Company's consolidated financial statements included in the Company's 2014 Annual Report, and include the recently adopted accounting guidance described in Note 2 herein.



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Segment information is as follows:

|  | For the Six Months<br>Ended August 31, |             | For the Three Months<br>Ended August 31, |             |
|--|--|-------------|--|-------------|
|  | 2014                                   | 2013        | 2014                                     | 2013        |
| (in millions)  |  |             |  |             |
| <b>Beer</b>  |  |             |  |             |
| Net sales  | \$1,759.5                              | \$1,576.2   | \$891.8                                  | \$814.6     |
| Segment operating income                               | \$558.6                                | \$360.4     | \$271.1                                  | \$226.4     |
| Long-lived tangible assets                             | \$1,060.6                              | \$668.7     | \$1,060.6                                | \$668.7     |
| Total assets   | \$7,713.3                              | \$7,294.5   | \$7,713.3                                | \$7,294.5   |
| Capital expenditures                                   | \$228.8                                | \$3.6       | \$143.5                                  | \$3.3       |
| Depreciation and amortization                          | \$19.9                                 | \$11.0      | \$10.1                                   | \$10.5      |
| <b>Wine and Spirits</b>                                |  |             |  |             |
| Net sales:   |  |             |  |             |
| Wine   | \$1,227.1                              | \$1,226.4   | \$640.7                                  | \$629.1     |
| Spirits  | 147.0                                  | 144.0       | 75.1                                     | 67.9        |
| Net sales  | \$1,374.1                              | \$1,370.4   | \$715.8                                  | \$697.0     |
| Segment operating income                               | \$312.9                                | \$285.8     | \$169.7                                  | \$158.2     |
| Equity in (losses) earnings of equity method investees | \$(0.1)                                | ) \$0.1     | \$(0.6)                                  | ) \$(0.6)   |
| Long-lived tangible assets                             | \$1,107.5                              | \$1,081.3   | \$1,107.5                                | \$1,081.3   |
| Investments in equity method investees                 | \$72.0                                 | \$73.2      | \$72.0                                   | \$73.2      |
| Total assets   | \$6,610.0                              | \$6,403.1   | \$6,610.0                                | \$6,403.1   |
| Capital expenditures                                   | \$51.5                                 | \$35.6      | \$20.2                                   | \$19.1      |
| Depreciation and amortization                          | \$50.9                                 | \$47.5      | \$25.3                                   | \$23.4      |
| <b>Corporate Operations and Other</b>                  |  |             |  |             |
| Segment operating loss                                 | \$(53.5)                               | ) \$(48.1)  | ) \$(27.4)                               | ) \$(24.1)  |
| Long-lived tangible assets                             | \$131.8                                | \$120.4     | \$131.8                                  | \$120.4     |
| Total assets   | \$334.1                                | \$425.2     | \$334.1                                  | \$425.2     |
| Capital expenditures                                   | \$27.9                                 | \$10.3      | \$13.1                                   | \$4.8       |
| Depreciation and amortization                          | \$13.3                                 | \$11.1      | \$6.8                                    | \$6.2       |
| <b>Unusual Items</b>                                   |  |             |  |             |
| Net sales  | \$(3.5)                                | ) \$—       | \$(3.5)                                  | ) \$—       |
| Operating (loss) income                                | \$(47.1)                               | ) \$1,289.0 | \$(34.7)                                 | ) \$1,322.1 |
| Equity in losses of equity method investees            | \$—                                    | ) \$(0.1)   | ) \$—                                    | ) \$—       |
| Depreciation and amortization                          | \$18.9                                 | \$2.1       | \$11.3                                   | \$2.1       |
| <b>Consolidation and Eliminations</b>                  |  |             |  |             |
| Net sales  | \$—                                    | ) \$(813.4) | ) \$—                                    | ) \$(51.8)  |
| Operating income                                       | \$—                                    | ) \$(142.6) | ) \$—                                    | ) \$(8.6)   |
| Equity in earnings of Crown Imports                    | \$—                                    | \$70.3      | \$—                                      | \$4.3       |
| Capital expenditures                                   | \$—                                    | ) \$(0.3)   | ) \$—                                    | ) \$—       |
| Depreciation and amortization                          | \$—                                    | ) \$(0.5)   | ) \$—                                    | ) \$—       |

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|  | For the Six Months |            | For the Three Months |            |
|--|--------------------|------------|----------------------|------------|
|  | Ended August 31,   |            | Ended August 31,     |            |
|  | 2014               | 2013       | 2014                 | 2013       |
| (in millions)  |                    |            |                      |            |
| Consolidated   |                    |            |                      |            |
| Net sales  | \$3,130.1          | \$2,133.2  | \$1,604.1            | \$1,459.8  |
| Operating income                                       | \$770.9            | \$1,744.5  | \$378.7              | \$1,674.0  |
| Equity in (losses) earnings of equity method investees | \$(0.1             | ) \$70.3   | \$(0.6               | ) \$3.7    |
| Long-lived tangible assets                             | \$2,299.9          | \$1,870.4  | \$2,299.9            | \$1,870.4  |
| Investments in equity method investees                 | \$72.0             | \$73.2     | \$72.0               | \$73.2     |
| Total assets   | \$14,657.4         | \$14,122.8 | \$14,657.4           | \$14,122.8 |
| Capital expenditures                                   | \$308.2            | \$49.2     | \$176.8              | \$27.2     |
| Depreciation and amortization                          | \$103.0            | \$71.2     | \$53.5               | \$42.2     |

## 18. ACCOUNTING GUIDANCE NOT YET ADOPTED:

## Discontinued operations –

In April 2014, the FASB issued amended guidance regarding the definition and disclosure of discontinued operations. Under the amended guidance, a disposal of a component of an entity (or a group of components) is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when certain criteria are met. The Company is required to adopt this guidance for its annual and interim periods beginning March 1, 2015. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

## Revenue recognition –

In May 2014, the FASB issued guidance regarding the recognition of revenue from contracts with customers. Under this guidance, an entity will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. A five step process will be utilized to recognize revenue, as follows: (i) identify the contract with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company is required to adopt this guidance for its annual and interim periods beginning March 1, 2017, utilizing one of two methods: retrospective restatement for each reporting period presented at time of adoption, or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. The Company is currently assessing the financial impact of this guidance on its consolidated financial statements.

## Share-based employee compensation –

In June 2014, the FASB issued amended guidance on the accounting for certain share-based employee compensation awards. The amended guidance requires that share-based employee compensation awards with terms of a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award and compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. The Company is required to adopt this guidance for its annual and interim periods beginning March 1, 2016. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.





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

#### Introduction

This MD&A provides additional information on our businesses, current developments, financial condition, cash flows and results of operations. It should be read in conjunction with our consolidated financial statements and notes thereto included herein (the "Financial Statements") and with our consolidated financial statements and notes included in our 2014 Annual Report. This MD&A is organized as follows:

- **Overview.** This section provides a general description of our business, which we believe is important in understanding the results of our operations, financial condition and potential future trends.

• **Strategy.** This section provides a description of our strategy on a business segment basis and a discussion of recent acquisitions.

**Results of operations.** This section provides an analysis of our results of operations presented on a business segment basis. In addition, a brief description of transactions and other items that affect the comparability of the results is provided.

• **Financial liquidity and capital resources.** This section provides an analysis of our cash flows and our outstanding debt and commitments. Included in the analysis of outstanding debt is a discussion of the amount of financial capacity available to fund our ongoing operations and future commitments, as well as a discussion of other financing arrangements.

#### Overview

We are a leading international beverage alcohol company with a broad portfolio of consumer-preferred premium imported beer, wine and spirits brands complemented by other select beverage alcohol products. We are the third-largest producer and marketer of beer for the U.S. market and the world's leading premium wine company. We are the largest multi-category supplier (beer, wine and spirits) ("Multi-category Supplier") of beverage alcohol in the U.S., the leading producer and marketer of wine in Canada, and a leading producer and exporter of wine from New Zealand and Italy.

Our internal management financial reporting consists of two business divisions: (i) Beer and (ii) Wine and Spirits, and we report our operating results in three segments: (i) Beer, (ii) Wine and Spirits, and (iii) Corporate Operations and Other. In the Beer segment, we have an exclusive perpetual brand license to import, market and sell in the U.S. the Mexican Beer Brands. In the Wine and Spirits segment, we sell a large number of wine brands across all categories – table wine, sparkling wine and dessert wine – and across all price points – popular, premium, super-premium and fine wine, complemented by certain premium spirits brands. Amounts included in the Corporate Operations and Other segment consist of costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations and global information technology. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in our chief operating decision maker's evaluation of the operating income performance of the other reportable segments. The business segments reflect how our operations are managed, how operating performance is evaluated by senior management and the structure of our internal financial reporting.

#### Product Recall

In August 2014, we announced the Product Recall as a precautionary step after routine inspections in our quality control laboratory detected defects in certain bottles that could cause small particles of glass to break off and fall into the bottle. The potentially affected bottles came from a glass plant run by a third party manufacturer that supplies us with bottles.

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For Second Quarter 2015 and Six Months 2015 (both as defined below), we have recorded an estimated \$9.2 million reduction, net of recoveries, to operating income for costs which the third-party manufacturer has not yet agreed to reimburse to us. While we expect to continue to collaborate with our third-party manufacturer and obtain reimbursement from our third-party manufacturer for some or all of the costs associated with the Product Recall, there can be no assurance there will be any potential recoveries. We may incur additional direct costs related to the Product Recall within the next three to six months.

## Strategy

Our business strategy in the Beer segment includes the following: (i) continued focus on growing our premium Mexican beer portfolio in the U.S. through expanding distribution for key brands, as well as new product development and innovation within the existing portfolio of brands; (ii) completion of the required Brewery expansion in Mexico from 10 million hectoliters production capacity to 20 million hectoliters production capacity by December 31, 2016, with a goal to complete the expansion within three years from the date of the Beer Business Acquisition; (iii) incremental expansion of the Brewery from 20 million hectoliters production capacity to 25 million hectoliters production capacity to meet current and future demand expectations; and (iv) continued focus on the sourcing of key production inputs, including agricultural and other raw materials and energy, in order to provide flexibility, enable growth and improve profitability. See “Acquisition” and “Recent Developments” below for additional discussion.

Our business strategy in the Wine and Spirits segment is centered on continued focus on consumer-preferred premium wine brands, complemented by premium spirits. In this segment, we continue to focus on growing premium product categories. We have consolidated our U.S. distribution network in markets where it was feasible, which currently represents about 70% of our branded wine and spirits volume in the U.S., in order to obtain dedicated distributor selling resources which focus on our U.S. wine and spirits portfolio to drive organic growth. Throughout the terms of these contracts, we generally expect shipments on an annual basis to these distributors (“Shipments”) to essentially equal the distributors’ shipments to retailers (“Depletions”). In addition, we dedicate a large share of our sales and marketing resources to our U.S. Focus Brands (as defined in our 2014 Annual Report) as they represent a majority of our U.S. wine and spirits revenue and profitability, and have strong positions in their respective price segments.

Marketing, sales and distribution of our products are managed on a geographic basis in order to fully leverage leading market positions. In addition, market dynamics and consumer trends vary across each of our markets. Within our primary market in the U.S., we offer a range of beverage alcohol products across the imported beer, branded wine and spirits categories, with separate distribution networks utilized for our imported beer portfolio and our wine and spirits portfolio. Within our next largest market, Canada, we offer a range of beverage alcohol products primarily across the branded wine category. The environment for our products is competitive in each of our markets.

We remain committed to our long-term financial model of growing sales, expanding margins and increasing cash flow in order to achieve earnings per share growth and reduce borrowings.

## Recent Developments – Beer Segment

### Glass Sourcing Strategy

In October 2014, we agreed to acquire a state-of-the-art glass production plant that is located adjacent to our Brewery in Nava, Mexico, for approximately \$300 million. This transaction also includes the purchase of a high-density warehouse, land and rail infrastructure and, along with customary closing conditions, is subject to U.S. Department of Justice and Mexican regulatory approvals, both of which are expected to be received before the end of calendar year 2014. We also entered into an agreement to form an equally-owned joint venture with Owens-Illinois to own and

operate the glass production plant. The joint venture will provide bottles exclusively for our Brewery. The glass plant currently has one operational glass furnace and plans are in place to expand it to four furnaces over the next four years. When fully operational with four furnaces, this facility is expected to supply

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more than 50% of our glass requirements for the Beer segment. We expect that the joint venture will become operational before the end of calendar year 2014. The results of operations of the joint venture are expected to be consolidated by us and reported in the Beer segment.

### Incremental Brewery Expansion

In October 2014, we also announced an incremental 5 million hectoliter expansion of our Brewery that will increase production capacity to 25 million hectoliters when completed. We currently expect this incremental expansion to be completed by the end of calendar year 2017.

As a result of these developments, we now plan to spend from \$725 million to \$775 million for capital expenditures for the year ended February 28, 2015, including from \$600 million to \$650 million for the Beer segment associated primarily with the Brewery expansions.

### Acquisition

#### Beer Business Acquisition

In June 2013, we completed the Beer Business Acquisition for an aggregate purchase price of \$5,226.4 million. The Beer Business Acquisition resulted in the acquisition of:

- the remaining 50% equity interest in Crown Imports;
- all of the equity interests of a company which owns and operates the Brewery and of a company which provides personnel and services for the operation and maintenance of the Brewery; and
- an irrevocable, fully-paid license to produce in Mexico (or worldwide under certain circumstances) and exclusively import, market and sell Modelo's Mexican beer portfolio sold in the U.S. and Guam as of the date of the acquisition, and certain extensions.

In connection with the Beer Business Acquisition, we are required to build out and expand the Brewery from 10 million hectoliters to a nominal capacity of at least 20 million hectoliters of packaged beer annually by December 31, 2016. In addition, an interim supply agreement and a transition services agreement were entered into in association with the Beer Business Acquisition. The interim supply agreement obligates the supplier to provide us with a supply of product not produced by the Brewery and the transition services agreement provides for certain specified services and production materials, both for a specified period of time. The associated agreements provide, among other things, that the United States will have approval rights, in its sole discretion, for amendments or modifications to the associated agreements and the United States will have a right of approval, in its sole discretion, of any extension of the term of the interim supply agreement beyond three years. The Beer Business Acquisition has positioned us as the third-largest producer and marketer of beer for the U.S. market and the largest Multi-category Supplier of beverage alcohol in the U.S.

The results of operations of the Beer Business Acquisition are reported in the Beer segment and are included in our consolidated results of operations from the date of acquisition. It is a significant acquisition that has had and will continue to have a material impact on our future results of operations, financial position and cash flows.

For more information on this acquisition see Note 3 of the Financial Statements.



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### Results of Operations

#### Financial Highlights

For the three months ended August 31, 2014 (“Second Quarter 2015”), and August 31, 2013 (“Second Quarter 2014”):

Our Beer Business Acquisition continued to drive improvement within our results of operations.

Our net sales increased 10% primarily due to the Beer Business Acquisition and strong consumer demand within the Mexican beer portfolio.

Operating income decreased significantly primarily due to the unfavorable overlap of the prior year nontaxable gain on the remeasurement to fair value of our preexisting 50% equity interest in Crown Imports, partially offset by (i) the favorable overlap of the prior year impairment of nondeductible goodwill and intangible assets, (ii) organic (as defined below) beer growth and (iii) the benefit from the Beer Business Acquisition.

Net income and diluted earnings per share also decreased significantly primarily due to the items discussed above.

For the six months ended August 31, 2014 (“Six Months 2015”), and August 31, 2013 (“Six Months 2014”):

Our Beer Business Acquisition continued to drive significant improvements within our results of operations, financial position and cash flows, including the continued realization of operating efficiencies and the strengthening of relationships with wholesalers and distributors.

Our net sales increased 47% primarily due to the Beer Business Acquisition and strong consumer demand within the Mexican beer portfolio.

Operating income decreased significantly primarily due to the unfavorable overlap of the prior year nontaxable gain on the remeasurement to fair value of our preexisting 50% equity interest in Crown Imports, partially offset by the favorable overlap of the prior year impairment of nondeductible goodwill and intangible assets and the benefit from the Beer Business Acquisition.

Net income also decreased significantly primarily due to the items discussed above combined with lower equity in earnings (Crown Imports) and an increase in interest expense, net, driven largely by financing for the Beer Business Acquisition.

The significant decrease in our diluted earnings per share resulted largely from the items discussed above.

References to organic throughout the following discussion exclude the impact on a consolidated basis of beer acquired in the Beer Business Acquisition. Prior to the Beer Business Acquisition, the results of operations of the Beer segment were eliminated in consolidation as our preexisting 50% equity interest in Crown Imports was accounted for under the equity method of accounting.

#### Unusual Items

Management excludes items that affect comparability (“Unusual Items”) from its evaluation of the results of each operating segment as these Unusual Items are not reflective of continuing operations of the segments. Segment operating performance and segment management compensation is evaluated based upon continuing segment operating income. As such, the performance measures for incentive compensation purposes for segment management do not

include the impact of these items.

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As more fully described herein and in the related notes to the Financial Statements, the Unusual Items that impacted comparability in our results for each period are as follows:

|   | Second<br>Quarter<br>2015 | Second<br>Quarter<br>2014 | Six Months<br>2015 | Six Months<br>2014 |
|---|---------------------------|---------------------------|--------------------|--------------------|
| (in millions)   |                           |                           |                    |                    |
| Net Sales   |                           |                           |                    |                    |
| Product recall  | \$3.5                     | \$—                       | \$3.5              | \$—                |
| Cost of Product Sold  |                           |                           |                    |                    |
| Amortization of favorable interim supply agreement              | 11.3                      | 2.1                       | 18.9               | 2.1                |
| Product recall  | 5.4                       | —                         | 5.4                | —                  |
| Flow through of inventory step-up                               | —                         | 9.5                       | —                  | 11.0               |
| Other costs   | 5.6                       | —                         | 5.9                | —                  |
| Total Cost of Product Sold                                      | 22.3                      | 11.6                      | 30.2               | 13.1               |
| Selling, General and Administrative Expenses                    |                           |                           |                    |                    |
| Transaction, integration and other acquisition-related costs    | 8.6                       | 7.4                       | 13.1               | 34.9               |
| Product recall  | 0.3                       | —                         | 0.3                | —                  |
| Deferred compensation   | —                         | —                         | —                  | 7.0                |
| Restructuring charges and other                                 | —                         | —                         | —                  | (2.9 )             |
| Total Selling, General and Administrative Expenses              | 8.9                       | 7.4                       | 13.4               | 39.0               |
| Impairment of Goodwill and Intangible Assets                    | —                         | 300.9                     | —                  | 300.9              |
| Gain on Remeasurement to Fair Value of Equity Method Investment | —                         | (1,642.0 )                | —                  | (1,642.0 )         |
| Equity in Losses of Equity Method Investees                     | —                         | —                         | —                  | 0.1                |
| Loss on Write-Off of Financing Costs                            | 4.4                       | —                         | 4.4                | —                  |
| Unusual Items   | \$39.1                    | \$(1,322.1 )              | \$51.5             | \$(1,288.9 )       |

Net Sales

Product Recall

For Second Quarter 2015 and Six Months 2015, product recall costs represents costs, net of recoveries, primarily associated with wholesale distributor payments in connection with the collection and handling of recalled product associated with the Product Recall.

Cost of Product Sold

Favorable Interim Supply Agreement

In connection with the Beer Business Acquisition, a temporary supply agreement was negotiated under a favorable pricing arrangement for the required volume of beer needed to fulfill expected U.S. demand in excess of the Brewery's

capacity. For all periods presented, amortization of favorable interim supply agreement reflects amounts associated with non-Brewery product purchased from the date of acquisition which has been sold to our U.S. customers during the respective period.

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### Product Recall

For Second Quarter 2015 and Six Months 2015, product recall costs represent costs, net of recoveries, primarily associated with freight costs associated with the potentially affected product of the Product Recall.

### Inventory Step-Up

In connection with acquisitions, the allocation of purchase price in excess of book value for certain inventory on hand at the date of acquisition is referred to as inventory step-up. Inventory step-up represents an assumed manufacturing profit attributable to the acquired company prior to acquisition. For Second Quarter 2014 and Six Months 2014, flow through of inventory step-up was primarily associated with the Beer Business Acquisition.

### Other Costs

For Second Quarter 2015 and Six Months 2015, other costs represent a net unrealized loss from the mark to fair value of undesignated commodity swap contracts and a loss on certain assets in connection with an earthquake in Napa, California. The net unrealized loss from the mark to fair value of undesignated commodity swap contracts is reported outside of segment operating results until such time that the underlying exposure is realized in the segment operating results. At that time, the realized gains or losses from the mark to fair value of the undesignated commodity swap contracts are reported in the appropriate operating segment, allowing our operating segments to realize the economic effects of the commodity swap contracts without the resulting unrealized mark to fair value volatility.

### Selling, General and Administrative Expenses

#### Transaction, Integration and Other Acquisition-Related Costs

For all periods presented, transaction, integration and other acquisition-related costs were associated primarily with the Beer Business Acquisition.

#### Deferred Compensation

For Six Months 2014, deferred compensation relates to a prior period correction of previously unrecognized deferred compensation costs that were associated with certain employment agreements.

#### Restructuring Charges and Other

For Six Months 2014, restructuring charges and other consist primarily of restructuring and related credits associated with previously announced restructuring plans.

#### Impairment of Goodwill and Intangible Assets

For Second Quarter 2014 and Six Months 2014, we recorded impairment losses of \$300.9 million consisting of impairments of goodwill and certain trademarks of \$278.7 million and \$22.2 million, respectively, related to our Wine and Spirits segment's Canadian reporting unit.

#### Gain on Remeasurement to Fair Value of Equity Method Investment

Prior to the Beer Business Acquisition, we accounted for our investment in Crown Imports under the equity method of accounting. In applying the acquisition method of accounting, our preexisting 50% equity interest was remeasured to

its estimated fair value of \$1,845.0 million, and we recognized a gain of \$1,642.0 million for Second Quarter 2014 and Six Months 2014 in connection with the Beer Business Acquisition.

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## Loss on Write-off of Financing Costs

We recorded a loss on the write-off of financing costs for Second Quarter 2015 and Six Months 2015 in connection with the Amendment to the May 2014 Credit Agreement.

## Second Quarter 2015 Compared to Second Quarter 2014

## Net Sales

The following table sets forth net sales for each of our reportable segments for Second Quarter 2015 and Second Quarter 2014.

|                                | Second<br>Quarter<br>2015 | Second<br>Quarter<br>2014 | % Increase |   |
|--------------------------------|---------------------------|---------------------------|------------|---|
| (in millions)                  |                           |                           |            |   |
| Beer                           | \$891.8                   | \$814.6                   | 9          | % |
| Wine and Spirits:              |                           |                           |            |   |
| Wine                           | 640.7                     | 629.1                     | 2          | % |
| Spirits                        | 75.1                      | 67.9                      | 11         | % |
| Total Wine and Spirits         | 715.8                     | 697.0                     | 3          | % |
| Total Reportable Segments      | 1,607.6                   | 1,511.6                   | 6          | % |
| Unusual Items                  | (3.5                      | ) —                       | NM         |   |
| Consolidation and Eliminations | —                         | (51.8                     | ) 100      | % |
| Consolidated Net Sales         | \$1,604.1                 | \$1,459.8                 | 10         | % |

NM = Not Meaningful

Net sales increased to \$1,604.1 million for Second Quarter 2015 from \$1,459.8 million for Second Quarter 2014, an increase of \$144.3 million, or 10%. This increase resulted primarily from \$73.4 million of net sales of products acquired in the Beer Business Acquisition combined with organic beer growth of \$55.6 million.

| Beer   | Second<br>Quarter<br>2015 | Second<br>Quarter<br>2014 | % Increase |   |
|--|---------------------------|---------------------------|------------|---|
| (in millions, branded product, 24 pack, 12 ounce case equivalents) |                           |                           |            |   |
| Net Sales  | \$891.8                   | \$814.6                   | 9.5        | % |
| Shipment Volume  | 56.8                      | 53.0                      | 7.2        | % |
| Depletion Volume <sup>(1)</sup>                                    |                           |                           | 8.1        | % |

<sup>(1)</sup> Depletions are based on third party data.

The increase in net sales for the Beer segment resulted primarily from volume growth within our Mexican beer portfolio which benefited from continued consumer demand and increased advertising spend, combined with a favorable impact from pricing in select markets. The increase in net sales for the Beer segment was tempered by the reversal of net sales of approximately \$37 million, or approximately 2 million case shipments, in connection with the Product Recall. We expect to replenish this volume with shipments to wholesaler distributors primarily during the

third quarter of fiscal 2015.

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## Wine and Spirits

|  | Second<br>Quarter<br>2015 | Second<br>Quarter<br>2014 | % Increase<br>(Decrease) |    |
|--|---------------------------|---------------------------|--------------------------|----|
| (in millions, branded product, 9 liter case equivalents) |                           |                           |                          |    |
| Net Sales  | \$715.8                   | \$697.0                   | 2.7                      | %  |
| Shipment Volume  |                           |                           |                          |    |
| Total  | 16.8                      | 16.6                      | 1.2                      | %  |
| U.S. Domestic  | 12.6                      | 12.5                      | 0.8                      | %  |
| U.S. Domestic Focus Brands                               | 8.6                       | 8.9                       | (3.4                     | %) |
| Depletion Volume <sup>(1)</sup>                          |                           |                           |                          |    |
| U.S. Domestic  |                           |                           | 2.4                      | %  |
| U.S. Domestic Focus Brands                               |                           |                           | 2.7                      | %  |

The increase in net sales for the Wine and Spirits segment resulted primarily from branded wine and spirits volume growth combined with lower promotional expense.

## Gross Profit

Gross profit increased to \$672.0 million for Second Quarter 2015 from \$577.0 million for Second Quarter 2014, an increase of \$95.0 million, or 16%. This increase is due to (i) organic beer growth of \$60.2 million (driven primarily by incremental gross profit from the Brewery Purchase and organic volume growth), (ii) gross profit from the Beer Business Acquisition of \$33.3 million and (iii) an increase in Wine and Spirits' gross profit of \$15.7 million, partially offset by an increase in Unusual Items of \$14.2 million.

The Beer segment's gross profit increased \$77.7 million, or 24%, primarily due to incremental gross profit from the Brewery Purchase, the volume growth and the favorable impact from pricing in select markets.

Wine and Spirits' gross profit increased \$15.7 million, or 6%, primarily due to favorable product mix and lower promotional expense for the branded wine and spirits portfolio.

Gross profit as a percent of net sales increased to 41.9% for Second Quarter 2015 compared to 39.5% for Second Quarter 2014 primarily due to the items discussed above.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$293.3 million for Second Quarter 2015 from \$244.1 million for Second Quarter 2014, an increase of \$49.2 million, or 20%. This increase is primarily due to an increase in organic beer selling, general and administrative expenses of \$28.8 million and \$11.5 million of selling, general and administrative expenses from the Beer Business Acquisition.

The Beer segment's selling, general and administrative expenses increased \$33.0 million, or 33%, primarily due to increases in advertising expenses of \$17.7 million and general and administrative expenses of \$10.7 million. The increase in advertising expenses is due largely to planned investment behind our Mexican beer portfolio. The increase in general and administrative expenses is primarily due to (i) foreign currency transaction losses for Second Quarter 2015 combined with an overlap of foreign currency transaction gains for Second Quarter 2014 and (ii) higher compensation and benefit costs associated largely with increased headcount and higher annual management incentive

expense.

Selling, general and administrative expenses as a percent of net sales increased to 18.3% for Second Quarter 2015 as compared to 16.7% for Second Quarter 2014 primarily due to the items discussed above.

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## Operating Income

The following table sets forth operating income (loss) for each of our reportable segments for Second Quarter 2015 and Second Quarter 2014.

|                                | Second<br>Quarter<br>2015 | Second<br>Quarter<br>2014 | % Increase<br>(Decrease) |    |
|--------------------------------|---------------------------|---------------------------|--------------------------|----|
| (in millions)                  |                           |                           |                          |    |
| Beer                           | \$271.1                   | \$226.4                   | 20                       | %  |
| Wine and Spirits               | 169.7                     | 158.2                     | 7                        | %  |
| Corporate Operations and Other | (27.4                     | ) (24.1                   | ) (14                    | %) |
| Total Reportable Segments      | 413.4                     | 360.5                     | 15                       | %  |
| Unusual Items                  | (34.7                     | ) 1,322.1                 | NM                       |    |
| Consolidation and Eliminations | —                         | (8.6                      | ) 100                    | %  |
| Consolidated Operating Income  | \$378.7                   | \$1,674.0                 | NM                       |    |

As a result of the factors discussed above, consolidated operating income decreased to \$378.7 million for Second Quarter 2015 from \$1,674.0 million for Second Quarter 2014, a decrease of \$1,295.3 million.

## Equity in (Losses) Earnings of Equity Method Investees

Equity in (losses) earnings of equity method investees decreased to losses of \$0.6 million for Second Quarter 2015 from earnings of \$3.7 million for Second Quarter 2014, a decrease of \$4.3 million. This decrease is primarily due to lower equity in earnings of Crown Imports as a result of the Beer Business Acquisition and the consolidation of Crown Imports' results of operations from the date of acquisition.

## Interest Expense, Net

Interest expense, net of interest income of \$0.1 million and \$2.0 million for Second Quarter 2015 and Second Quarter 2014, respectively, decreased to \$85.0 million for Second Quarter 2015 from \$90.3 million for Second Quarter 2014, a decrease of \$5.3 million, or (6%). This decrease was primarily due to lower average interest rates.

## Provision for Income Taxes

Our effective tax rate for Second Quarter 2015 and Second Quarter 2014 was 32.2% and 4.1%, respectively. Our effective tax rate for Second Quarter 2015 benefited primarily from the integration of the Beer Business Acquisition. Our effective tax rate for Second Quarter 2014 was favorably impacted by the Beer Business Acquisition, primarily attributable to the recognition of the nontaxable gain on the remeasurement to fair value of our preexisting 50% equity interest in Crown Imports of \$1,642.0 million, and the recognition of tax benefits of \$6.6 million related to the resolution of certain tax positions, partially offset by the write-off of nondeductible goodwill of \$278.7 million.

## Net Income

As a result of the above factors, net income decreased to \$195.8 million for Second Quarter 2015 from \$1,522.0 million for Second Quarter 2014, a decrease of \$1,326.2 million.

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## Six Months 2015 Compared to Six Months 2014

## Net Sales

The following table sets forth net sales for each of our reportable segments for Six Months 2015 and Six Months 2014.

|                                | Six Months<br>2015 | Six Months<br>2014 | % Increase |   |
|--------------------------------|--------------------|--------------------|------------|---|
| (in millions)                  |                    |                    |            |   |
| Beer                           | \$1,759.5          | \$1,576.2          | 12         | % |
| Wine and Spirits:              |                    |                    |            |   |
| Wine                           | 1,227.1            | 1,226.4            | —          | % |
| Spirits                        | 147.0              | 144.0              | 2          | % |
| Total Wine and Spirits         | 1,374.1            | 1,370.4            | —          | % |
| Total Reportable Segments      | 3,133.6            | 2,946.6            | 6          | % |
| Unusual Items                  | (3.5               | ) —                | NM         |   |
| Consolidation and Eliminations | —                  | (813.4             | ) 100      | % |
| Consolidated Net Sales         | \$3,130.1          | \$2,133.2          | 47         | % |

Net sales increased to \$3,130.1 million for Six Months 2015 from \$2,133.2 million for Six Months 2014, an increase of \$996.9 million, or 47%. This increase resulted primarily from \$941.1 million of net sales of products acquired in the Beer Business Acquisition.

| Beer   | Six Months<br>2015 | Six Months<br>2014 | % Increase |   |
|--|--------------------|--------------------|------------|---|
| (in millions, branded product, 24 pack, 12 ounce case equivalents) |                    |                    |            |   |
| Net Sales  | \$1,759.5          | \$1,576.2          | 11.6       | % |
| Shipment Volume  | 111.5              | 102.5              | 8.8        | % |
| Depletion Volume <sup>(1)</sup>                                    |                    |                    | 8.0        | % |

<sup>(1)</sup> Depletions are based on third party data.

The increase in net sales for the Beer segment resulted primarily from volume growth within our Mexican beer portfolio which benefited from continued consumer demand and increased advertising spend, combined with a favorable impact from pricing in select markets. As previously discussed, the increase in net sales for the Beer segment was tempered by the reversal of net sales in connection with the Product Recall in Second Quarter 2015. However, we expect to replenish this volume with shipments to wholesale distributors primarily during the third quarter of fiscal 2015.

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## Wine and Spirits

|  | Six Months<br>2015 | Six Months<br>2014 | % Increase<br>(Decrease) |   |
|--|--------------------|--------------------|--------------------------|---|
| (in millions, branded product, 9 liter case equivalents) |                    |                    |                          |   |
| Net Sales  | \$1,374.1          | \$1,370.4          | 0.3                      | % |
| Shipment Volume  |                    |                    |                          |   |
| Total  | 31.9               | 32.3               | (1.2)                    | % |
| U.S. Domestic  | 24.0               | 24.4               | (1.6)                    | % |
| U.S. Domestic Focus Brands                               | 16.7               | 17.1               | (2.3)                    | % |
| Depletion Volume <sup>(1)</sup>                          |                    |                    |                          |   |
| U.S. Domestic  |                    |                    | 0.4                      | % |
| U.S. Domestic Focus Brands                               |                    |                    | 0.8                      | % |

The increase in net sales for the Wine and Spirits segment is due primarily to an increase in spirits net sales of \$3.0 million, or 2%, resulting primarily from favorable product mix within the branded spirits portfolio. Wine net sales were fairly flat as lower wine volumes (predominantly in the U.S. due largely to a planned reduction in inventory levels by one of our exclusive distributors) were partially offset by the recognition of contractually required payments from the distributor equal to the approximate profit lost on the reduced sales associated with the inventory reduction. In addition, wine net sales benefited from favorable product mix predominantly within the U.S. branded wine portfolio.

## Gross Profit

Gross profit increased to \$1,342.1 million for Six Months 2015 from \$833.1 million for Six Months 2014, an increase of \$509.0 million, or 61%. This increase is due to (i) gross profit from the Beer Business Acquisition of \$443.5 million, (ii) organic beer growth of \$60.2 million (driven primarily by incremental gross profit from the Brewery Purchase and organic volume growth) and (iii) an increase in Wine and Spirits' gross profit of \$25.9 million, partially offset by an increase in unusual items of \$20.6 million.

The Beer segment's gross profit increased \$262.3 million, or 48%, primarily due to incremental gross profit from the Brewery Purchase, the volume growth and the favorable impact from pricing in select markets.

Wine and Spirits' gross profit increased \$25.9 million, or 5%, primarily due to favorable product mix for the branded wine and spirits portfolio.

Gross profit as a percent of net sales increased to 42.9% for Six Months 2015 compared to 39.1% for Six Months 2014 primarily due to the items discussed above.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$571.2 million for Six Months 2015 from \$429.7 million for Six Months 2014, an increase of \$141.5 million, or 33%. This increase is primarily due to (i) \$134.2 million of selling, general and administrative expenses from the Beer Business Acquisition, (ii) an increase in organic beer selling, general and administrative expenses of \$28.8 million and (iii) an increase in Corporate Operations and Other of \$5.3 million, partially offset by a decrease in Unusual items of \$25.6 million.

The Beer segment's selling, general and administrative expenses increased \$64.1 million, or 33%, primarily due to increases in advertising expenses of \$30.8 million and general and administrative expenses of \$28.3 million. The increase in advertising expenses is due largely to planned investment behind our Mexican beer portfolio. The increase in general and administrative expenses is primarily attributable to (i) higher compensation and benefit costs, (ii) higher allocated information technology expense in the Beer segment (which was offset by a decrease in allocated information technology expense in the Wine and Spirits segment) and (iii) current year foreign currency

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transaction losses combined with an overlap of prior year foreign currency transaction gains. The increase in compensation and benefit costs is associated largely with increased headcount and higher annual management incentive expense. The reallocation of information technology expense resulted from the Beer Business Acquisition and the associated consolidation of the Beer segment's results of operations. Information technology expense is allocated to each of our segments to reflect utilization of central support services and costs associated with our information technology systems.

The increase in Corporate Operations and Other's selling, general and administrative expenses is due to an increase in general and administrative expenses of \$5.3 million. The increase in general and administrative expenses is primarily attributable to an increase in compensation and benefit costs associated largely with higher annual management incentive expense.

Selling, general and administrative expenses as a percent of net sales decreased to 18.2% for Six Months 2015 as compared to 20.1% for Six Months 2014 primarily due to the Beer Business Acquisition and the associated lower fixed overhead and the decrease in Unusual Items.

## Operating Income

The following table sets forth operating income (loss) for each of our reportable segments for Six Months 2015 and Six Months 2014.

|                                 | Six Months<br>2015 | Six Months<br>2014 | % Increase<br>(Decrease) |
|---------------------------------|--------------------|--------------------|--------------------------|
| (in millions)                   |                    |                    |                          |
| Beer                            | \$558.6            | \$360.4            | 55%                      |
| Wine and Spirits                | 312.9              | 285.8              | 9%                       |
| Corporate Operations and Other  | (53.5)             | (48.1)             | 11%                      |
| Total Reportable Segments       | 818.0              | 598.1              | 37%                      |
| Unusual Items                   | (47.1)             | 1,289.0            | (104%)                   |
| Consolidations and Eliminations | —                  | (142.6)            | 100%                     |
| Consolidated Operating Income   | \$770.9            | \$1,744.5          | (56%)                    |

As a result of the factors discussed above, consolidated operating income decreased to \$770.9 million for Six Months 2015 from \$1,744.5 million for Six Months 2014, a decrease of \$973.6 million, or (56%).

## Equity in (Losses) Earnings of Equity Method Investees

Equity in (losses) earnings of equity method investees decreased to losses of \$0.1 million for Six Months 2015 from earnings of \$70.3 million for Six Months 2014, a decrease of \$70.4 million, or (100%). This decrease is primarily due to lower equity in earnings of Crown Imports as a result of the Beer Business Acquisition and the consolidation of Crown Imports' results of operations from the date of acquisition.

## Interest Expense, Net

Interest expense, net of interest income of \$0.6 million and \$3.9 million for Six Months 2015 and Six Months 2014, respectively, increased to \$171.4 million for Six Months 2015 from \$145.1 million for Six Months 2014, an increase of \$26.3 million, or 18%. The increase was driven largely by higher average borrowings, partially offset by a lower weighted average interest rate on outstanding borrowings, both due primarily to the issuance of the May 2013 Senior Notes and borrowings under our senior credit facility in connection with the financing for the Beer Business Acquisition.



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### Provision for Income Taxes

Our effective tax rate for Six Months 2015 and Six Months 2014 was 32.4% and 5.7%, respectively. Our effective tax rate for Six Months 2015 benefited primarily from the integration of the Beer Business Acquisition. Our effective tax rate for Six Months 2014 was favorably impacted by the Beer Business Acquisition, primarily attributable to the recognition of the nontaxable gain on the remeasurement to fair value of our preexisting 50% equity interest in Crown Imports of \$1,642.0 million, and the recognition of tax benefits of \$6.6 million related to the resolution of certain tax positions, partially offset by the write-off of nondeductible goodwill of \$278.7 million.

### Net Income

As a result of the above factors, net income decreased to \$402.5 million for Six Months 2015 from \$1,574.9 million for Six Months 2014, a decrease of \$1,172.4 million.

### Financial Liquidity and Capital Resources

#### General

Our principal use of cash in our operating activities is for purchasing and carrying inventories and carrying seasonal accounts receivable. Our primary source of liquidity has historically been cash flow from operations, except during annual grape harvests when we have relied on short-term borrowings. However, we expect our reliance on short-term borrowings to fund our annual grape harvests to be reduced given the historical cash flow from operations from the Beer segment. Historically, we have used cash flow from operating activities to repay our short-term borrowings and fund capital expenditures. We will continue to use our short-term borrowings, including our accounts receivable securitization facilities (see additional discussion below under “Accounts Receivable Securitization Facilities”), to support our working capital requirements.

We have maintained adequate liquidity to meet working capital requirements, fund capital expenditures and repay scheduled principal and interest payments on debt. Absent deterioration of market conditions, we believe that cash flows from operating activities and financing activities, primarily short-term borrowings, will provide adequate resources to satisfy our working capital, scheduled principal and interest payments on debt, and anticipated capital expenditure requirements for both our short-term and long-term capital needs, including our recently announced glass sourcing and incremental Brewery expansion as previously discussed in the Recent Developments section above.

As of September 30, 2014, we had a borrowing capacity of \$730.9 million available under our 2014 Credit Agreement. The member financial institutions participating in our 2014 Credit Agreement have complied with prior funding requests and we believe the member financial institutions will comply with ongoing funding requests. However, there can be no assurances that any particular financial institution will continue to do so in the future. In addition, we have borrowing capacity available under our accounts receivable securitization facilities.

#### Cash Flows

Cash and cash investments increased \$40.4 million and decreased \$214.7 million for Six Months 2015 and Six Months 2014, respectively. Components of these changes are discussed in more detail below.

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## Operating Activities

|  | Six Months<br>2015 | Six Months<br>2014 |
|--|--------------------|--------------------|
| (in millions)  |                    |                    |
| Net income   | \$402.5            | \$1,574.9          |
| Net noncash  | 208.9              | (1,268.8 )         |
| Change in operating assets and liabilities, net of effects from purchase of business | 72.4               | 158.0              |
| Other, net   | (15.7 )            | 24.9               |
| Net cash provided by operating activities  | \$668.1            | \$489.0            |

## Six Months 2015

The net noncash items consisted primarily of depreciation expense, deferred tax provision, stock-based compensation expense and amortization of intangible assets. The net cash provided by the net change in our operating assets and liabilities resulted primarily from an increase in accounts payable of \$107.1 million and other accrued expenses and liabilities of \$59.8 million, partially offset by increases in inventories, accounts receivable, net, and prepaid expenses and other current assets of \$34.3 million, \$31.3 million and \$30.7 million, respectively. The increase in accounts payable is primarily due to the timing of payments. The increase in other accrued expenses and liabilities is largely due to increases in income taxes payable and accrued interest, partially offset by a decrease in accrued salaries and benefits. The increase in income taxes payable is primarily due to higher taxable income driven by the Beer Business Acquisition, partially offset by the realization of current tax benefits on employee equity award exercise and vesting activity. The increase in accrued interest is largely due to the timing of payments. The decrease in accrued salaries and benefits is primarily due to payments under our annual management incentive plan during the first quarter of fiscal 2015. The increase in inventories is primarily due to an increase in beer inventory levels to support the Beer segment's growth and an increase in the Wine and Spirits segment's inventory levels primarily due to the Southern hemisphere calendar year 2014 grape harvest. The increase in accounts receivable, net, is primarily due to a receivable recorded from the third-party manufacturer for the recovery of costs associated with the Product Recall. The increase in prepaid expenses and other current assets is largely due to an increase in prepaid income and other taxes.

## Six Months 2014

The net noncash items consisted primarily of the gain on remeasurement to fair value of our preexisting 50% equity interest in Crown Imports, partially offset by the impairment of goodwill and intangible assets and depreciation expense. The net cash provided by the net change in our operating assets and liabilities resulted primarily from a decrease in inventories of \$67.4 million and an increase in other accrued expenses and liabilities of \$59.8 million. The decrease in inventories is primarily due to timing as early June inventory levels from the Beer Business Acquisition were at higher levels (as compared to the end of August) to support the strong summer selling season for beer, combined with the seasonality of the U.S. wine business which generally experiences lower levels of inventory before the fall grape harvest. The increase in other accrued expenses and liabilities is primarily due to increases in income taxes payable and accrued interest which are both largely due to the timing of payments.

## Investing Activities

|  | Six Months<br>2015 | Six Months<br>2014 |
|--|--------------------|--------------------|
| (in millions)                              |                    |                    |
| Purchases of property, plant and equipment | \$(308.2 )         | \$(49.2 )          |
| Purchase of business, net of cash acquired | —                  | (4,672.9 )         |
| Other                                      | 2.0                | 2.7                |
| Net cash used in investing activities      | \$(306.2 )         | \$(4,719.4 )       |





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Purchases of property, plant and equipment increased significantly in Six Months 2015 primarily due to the Brewery expansion associated with the Beer Business Acquisition. Purchase of business, net of cash acquired, for Six Months 2014 consists of net cash paid for the Beer Business Acquisition.

## Financing Activities

|  | Six Months<br>2015 | Six Months<br>2014 |
|--|--------------------|--------------------|
| (in millions)  |                    |                    |
| Payment of delayed purchase price arrangement                      | \$ (543.3)         | ) \$—              |
| Principal payments of long-term debt                               | (34.4)             | ) (9.9 )           |
| Payments of minimum tax withholdings on stock-based payment awards | (28.4)             | ) (18.0 )          |
| Payments of financing costs of long-term debt                      | (2.0)              | ) (82.2 )          |
| Net proceeds from notes payable                                    | 197.0              | 272.1              |
| Excess tax benefits from stock-based payment awards                | 64.0               | 53.8               |
| Proceeds from exercises of employee stock options                  | 18.3               | 77.5               |
| Proceeds from issuance of long-term debt                           | —                  | 3,725.0            |
| Other  | 3.8                | 2.5                |
| Net cash (used in) provided by financing activities                | \$ (325.0)         | ) \$4,020.8        |

For Six Months 2015, payment of delayed purchase price arrangement represents the additional purchase price for the finalization of the Final EBITDA Amount.

For Six Months 2014, proceeds from issuance of long-term debt include proceeds of \$2,175.0 million and \$1,550.0 million from term loan borrowings under the 2013 Credit Agreement and issuance of the May 2013 Senior Notes, respectively. These proceeds were used to fund a portion of the Beer Business Acquisition.

## Share Repurchase Program

Our Board of Directors authorized the repurchase of up to \$1.0 billion of our Class A Common Stock and Class B Convertible Common Stock in April 2012 (the “2013 Authorization”). As of August 31, 2014, we have \$703.3 million remaining under the 2013 Authorization for future stock repurchases. There have been no repurchases for Six Months 2015.

## Debt

Our total debt outstanding as of August 31, 2014, amounted to \$7,191.9 million, an increase of \$171.4 million from February 28, 2014.

## Senior Credit Facility

In connection with the Beer Business Acquisition, in May 2013, we, together with our wholly-owned subsidiary, CIH, and certain lenders, entered into a 2013 Restatement Agreement that amended and restated our then existing senior credit facility. The 2013 Restatement Agreement was entered into to arrange a portion of the debt to finance the Beer Business Acquisition.

In May 2014, the respective parties entered into a 2014 Restatement Agreement that amended and restated the 2013 Credit Agreement. The principal change to the 2013 Credit Agreement effected by the May 2014 Credit Agreement was the conversion of a pre-existing \$850.0 million revolving credit facility into two tranches, a \$425.0 million U.S. Revolving Credit Facility and a \$425.0 million European Revolving Credit Facility. We are the borrower under the

U.S. Revolving Credit Facility and we and/or CIH are the borrowers under the European Revolving Credit Facility.

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In August 2014, the respective parties entered into an Amendment that amended the May 2014 Credit Agreement. The Amendment was entered into primarily to reduce the interest rate applicable to our then existing European Term B loan facility under the May 2014 Credit Agreement by removing the provisions imposing certain minimums, or floors, used in the calculation of the interest rate on the European Term B loan facility. The May 2014 Credit Agreement as amended is our 2014 Credit Agreement.

The 2014 Credit Agreement provides for aggregate credit facilities of \$3,712.3 million, consisting of the following:

| (in millions)                             | Amount           | Maturity     |
|---|------------------|--------------|
| U.S. Term A Facility <sup>(1)</sup>       | \$496.3          | June 7, 2018 |
| U.S. Term A-1 Facility <sup>(1)</sup>     | 245.0            | June 7, 2019 |
| U.S. Term A-2 Facility <sup>(1)</sup>     | 649.7            | June 7, 2018 |
| European Term A Facility <sup>(1)</sup>   | 481.3            | June 7, 2018 |
| European Term B-1 Facility <sup>(1)</sup> | 990.0            | June 7, 2020 |
| Revolving Credit Facility <sup>(2)</sup>  | 850.0            | June 7, 2018 |
|   | <b>\$3,712.3</b> |              |

<sup>(1)</sup> Contractual interest rate varies based on our debt ratio and is a function of LIBOR plus a margin; or the base rate plus a margin.

<sup>(2)</sup> Includes two sub-facilities for letters of credit of up to \$200.0 million in the aggregate.

As of August 31, 2014, and September 30, 2014, information with respect to the Revolving Credit Facility under the 2014 Credit Agreement is as follows:

| (in millions)      | Outstanding Borrowings | Interest Rate | Outstanding Letters of Credit | Remaining Availability |
|--------------------|------------------------|---------------|-------------------------------|------------------------|
| August 31, 2014    | \$ 110.0               | 1.9           | % \$ 14.1                     | \$ 725.9               |
| September 30, 2014 | \$ 105.0               | 1.9           | % \$ 14.1                     | \$ 730.9               |

In April 2012, we transitioned our interest rate swap agreement to a one-month LIBOR base rate versus the then existing three-month LIBOR base rate by entering into a new interest rate swap agreement which was designated as a cash flow hedge for \$500.0 million of our floating LIBOR rate debt. In addition, the then existing interest rate swap agreement was redesignated as a hedge. We also entered into an additional interest rate swap agreement for \$500.0 million that was not designated as a hedge to offset the prospective impact of the newly undesignated interest rate swap agreement. As a result of these hedges, we have fixed our interest rates on \$500.0 million of our floating LIBOR rate debt at an average rate of 2.8% (exclusive of borrowing margins) through September 1, 2016. The unrealized losses in AOCI related to the redesignated interest rate swap agreement are being reclassified from AOCI ratably into earnings in the same period in which the original hedged item is recorded in income. For Six Months 2015 and Six Months 2014, we reclassified net losses of \$4.2 million and \$4.1 million, net of income tax effect, respectively, from AOCI to interest expense, net. For Second Quarter 2015 and Second Quarter 2014, we reclassified net losses of \$2.2 million and \$2.0 million, net of income tax effect, respectively, from AOCI to interest expense, net.

#### Accounts Receivable Securitization Facilities

In October 2013, we entered into the CBI Facility, an amended and restated 364-day revolving trade accounts receivable securitization facility. Under the CBI Facility, trade accounts receivable generated by us and certain of our subsidiaries are sold by us to our wholly-owned bankruptcy remote single purpose subsidiary, the CBI SPV, which is

consolidated by us for financial reporting purposes. The CBI Facility provides borrowing capacity of

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\$190.0 million up to \$290.0 million to account for the seasonality of our business, subject to further limitations based upon various pre-agreed formulas.

Also, in October 2013, Crown Imports entered into the Crown Facility, a 364-day revolving trade accounts receivable securitization facility. Under the Crown Facility, trade accounts receivable generated by Crown Imports are sold to its wholly-owned bankruptcy remote single purpose subsidiary, the Crown SPV, which is consolidated by us for financial reporting purposes. The Crown Facility provides borrowing capacity of \$100.0 million up to \$160.0 million to account for the seasonality of Crown Imports' business.

As of August 31, 2014, information with respect to our accounts receivable securitization facilities is as follows:

| (in millions)  | Aggregate<br>Outstanding<br>Borrowings | Weighted<br>Average<br>Interest Rate | Remaining<br>Availability |
|----------------|--|--------------------------------------|---------------------------|
| CBI Facility   | \$—                                    | —                                    | % \$270.0                 |
| Crown Facility | \$6.0                                  | 1.1                                  | % \$154.0                 |

On September 29, 2014, our existing accounts receivable securitization facilities were amended, resulting in the extension of each facility for an additional 364-day term. The remaining provisions of the amended facilities are substantially identical in all material respects to the prior facilities.

#### Accounting Guidance Not Yet Adopted

We are currently assessing the financial impact to our consolidated financial statements of accounting guidance not yet adopted. For further information on accounting guidance not yet adopted, refer to Note 18 of the Financial Statements.

#### Information Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q, including without limitation (I) the statements under Part I – Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding (i) our business strategy, future financial position, prospects, plans and objectives of management, (ii) information concerning expected or potential actions of third parties, (iii) the expected impact upon results of operations resulting from the consolidation of our U.S. distributor network, (iv) timing and source of funds for operating activities, and (v) the duration of the share repurchase implementation, and (II) the statements regarding the expansions of our Brewery, glass sourcing strategy, glass plant acquisition and expansion, formation of a glass joint venture, including anticipated costs and timeframes for completion are forward-looking statements. When used in this Quarterly Report on Form 10-Q, the words “anticipate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. In addition to the risks and uncertainties of

ordinary business operations and conditions in the general economy and markets in which we compete, our forward-looking statements contained in this Quarterly Report on Form 10-Q are also subject to the risk and uncertainty that (i) the actual demand for our products will vary from current expectations due to, among other reasons, actual shipments to

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distributors and actual consumer demand, (ii) the amount and timing of any share repurchases may vary due to market conditions, our cash and debt position, the impact of the Beer Business Acquisition, Brewery expansions, glass sourcing strategy, glass plant acquisition and expansion, glass joint venture formation and other factors as determined by management from time to time, and (iii) the timeframe and actual costs associated with the expansions of our Brewery, glass sourcing strategy, glass plant acquisition and expansion, and formation of a glass joint venture may vary from management's current expectations due to market conditions, our cash and debt position, receipt of all required regulatory approvals by the expected dates and on the expected terms, and other factors as determined by management. For additional information about risks and uncertainties that could adversely affect our forward-looking statements, please refer to Item 1A "Risk Factors" of our 2014 Annual Report.

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

As a result of our global operating, acquisition and financing activities, we are exposed to market risk associated with changes in foreign currency exchange rates, commodity prices and interest rates. To manage the volatility relating to these risks, we periodically purchase and/or sell derivative instruments including foreign currency forward and option contracts, commodity swap agreements and interest rate swap agreements. We use derivative instruments to reduce earnings and cash flow volatility resulting from shifts in market rates, as well as to hedge economic exposures. We do not use derivative instruments for trading or speculative purposes.

## Foreign Currency and Commodity Price Risk

Foreign currency derivative instruments are or may be used to hedge existing foreign currency denominated assets and liabilities, forecasted foreign currency denominated sales/purchases to/from third parties as well as intercompany sales/purchases, intercompany principal and interest payments, and in connection with acquisitions or joint venture investments outside the U.S. As of August 31, 2014, we had exposures to foreign currency risk primarily related to the Mexican peso, euro, New Zealand dollar and Canadian dollar. Approximately 76.9% of our balance sheet exposures and forecasted transactional exposures for the remainder of fiscal 2015 were hedged as of August 31, 2014.

Commodity derivative instruments are or may be used to hedge forecasted commodity purchases from third parties as either economic hedges or accounting hedges. As of August 31, 2014, exposures to commodity price risk which we are currently hedging include diesel fuel, aluminum, corn and natural gas. Approximately 78.3% of our forecasted transactional exposures for these commodities for the remainder of fiscal 2015 were hedged as of August 31, 2014.

We have performed a sensitivity analysis to estimate our exposure to market risk of foreign exchange rates and commodity prices reflecting the impact of a hypothetical 10% adverse change in the applicable market. The volatility of the applicable rates and prices is dependent on many factors which cannot be forecasted with reliable accuracy. Losses or gains from the revaluation or settlement of the related underlying positions would substantially offset such gains or losses on the derivative instruments. The absolute notional value, estimated fair value and sensitivity analysis for our open foreign currency and commodity derivative instruments are summarized as follows:

|                            | Absolute Notional Value |                    | Fair Value,<br>Net Asset (Liability) |                    | Increase (Decrease)<br>in Fair Value |                    |
|----------------------------|-------------------------|--------------------|--------------------------------------|--------------------|--------------------------------------|--------------------|
|                            | August 31,<br>2014      | August 31,<br>2013 | August 31,<br>2014                   | August 31,<br>2013 | August 31,<br>2014                   | August 31,<br>2013 |
| (in millions)              |                         |                    |                                      |                    |                                      |                    |
| Foreign currency contracts | \$1,628.3               | \$935.5            | \$10.0                               | \$1.0              | \$(58.5 )                            | \$16.9             |
| Commodity swap contracts   | \$194.4                 | \$36.6             | \$(2.3 )                             | \$1.5              | \$19.1                               | \$(3.4 )           |





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## Interest Rate Risk

The estimated fair value of our fixed interest rate debt is subject to interest rate risk, credit risk and foreign currency risk. In addition, we also have variable interest rate debt outstanding (primarily LIBOR-based), certain of which includes a fixed margin subject to the same risks identified for our fixed interest rate debt.

As of August 31, 2014, and August 31, 2013, we had an outstanding cash flow designated interest rate swap agreement which fixed LIBOR interest rates (to minimize interest rate volatility) on \$500.0 million of our floating LIBOR rate debt at an average rate of 2.8% (exclusive of borrowing margins) through September 1, 2016. In addition, we had offsetting undesignated interest rate swap agreements.

We have performed a sensitivity analysis to estimate our exposure to market risk of interest rates reflecting the impact of a hypothetical 1% increase in the prevailing interest rates. The volatility of the applicable rates is dependent on many factors which cannot be forecasted with reliable accuracy. The absolute notional value, estimated fair value and sensitivity analysis for our outstanding fixed and variable interest rate debt, including current maturities, and open interest rate derivative instruments are summarized as follows:

|                              | Absolute Notional Value |                    | Fair Value,<br>Net Asset (Liability) |                    | Increase (Decrease)<br>in Fair Value |                    |
|------------------------------|-------------------------|--------------------|--------------------------------------|--------------------|--------------------------------------|--------------------|
|                              | August 31,<br>2014      | August 31,<br>2013 | August 31,<br>2014                   | August 31,<br>2013 | August 31,<br>2014                   | August 31,<br>2013 |
| (in millions)                |                         |                    |                                      |                    |                                      |                    |
| Fixed interest rate debt     | \$4,100.4               | \$4,094.2          | \$(4,394.1 )                         | \$(4,263.7 )       | \$(189.1 )                           | \$(205.7 )         |
| Variable interest rate debt  | \$3,093.5               | \$3,209.6          | \$(2,910.6 )                         | \$(2,965.5 )       | \$(107.0 )                           | \$(124.7 )         |
| Interest rate swap contracts | \$1,500.0               | \$1,500.0          | \$(24.9 )                            | \$(32.3 )          | \$(9.1 )                             | \$(14.2 )          |

For additional discussion on our market risk, see Notes 5 and 6 of the Financial Statements.

## Item 4. Controls and Procedures.

## Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## Internal Control Over Financial Reporting

In connection with the foregoing evaluation by our Chief Executive Officer and our Chief Financial Officer, no changes were identified in the Company's "internal control over financial reporting" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(f) and 15d-15(f)) that occurred during our fiscal quarter ended August 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We continue the process of implementing our internal control over financial reporting structure over the Brewery Business we acquired in connection with the Beer Business Acquisition and expect that this effort will be completed in fiscal 2015.



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PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

As previously reported, an action had been filed by private parties against the Company, Anheuser-Busch InBev SA/NV (“ABI”), and Modelo alleging certain antitrust claims and seeking to enjoin the proposed transaction between ABI and Modelo. On June 4, 2013, the United States District Court for the Northern District of California denied plaintiffs’ Motion for a Temporary Restraining Order and the transaction between ABI and Modelo was consummated June 7, 2013. Plaintiffs’ Second Amended and Supplemental Complaint was filed June 25, 2013, and dismissed by the Court on September 13, 2013, and the district judge denied plaintiffs’ other procedural motions. Plaintiffs filed their Motion for Relief from Judgment Pursuant to Fed. R. Civ. P. 59(e) or 60(b), or in the alternative, Rule 60(d) on November 11, 2013 and the Motion was denied by the Court on January 24, 2014. Plaintiffs filed a Notice of Appeal on February 21, 2014. Plaintiffs filed their brief on August 29, 2014, and Defendants’ reply brief is due October 29, 2014. Management believes that this action is baseless and without merit and the Company intends to continue to defend itself vigorously against this claim.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 6. Exhibits.

Exhibits required to be filed by Item 601 of Regulation S-K.

For the exhibits that are filed herewith or incorporated herein by reference, see the Index to Exhibits located on page 57 of this report. The Index to Exhibits is incorporated herein by reference.

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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.

CONSTELLATION BRANDS, INC.

Date: October 9, 2014

By: /s/ Christopher Stenzel  
Christopher Stenzel, Senior Vice President,  
Treasurer and Controller

Date: October 9, 2014

By: /s/ Robert Ryder  
Robert Ryder, Executive Vice President and  
Chief Financial Officer (principal financial  
officer and principal accounting officer)

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INDEX TO EXHIBITS

Exhibit No.

- 2.1 Membership Interest Purchase Agreement, dated as of June 28, 2012, among Constellation Beers Ltd., Constellation Brands Beach Holdings, Inc., Constellation Brands, Inc. and Anheuser-Busch InBev SA/NV (filed as Exhibit 2.1 to the Company's Amendment No. 1 to Current Report on Form 8-K/A dated June 28, 2012, filed November 9, 2012 and incorporated herein by reference). +
- 2.2 Amended and Restated Membership Interest Purchase Agreement, dated as of February 13, 2013, among Constellation Beers Ltd., Constellation Brands Beach Holdings, Inc., Constellation Brands, Inc. and Anheuser-Busch InBev SA/NV (filed as Exhibit 2.1 to the Company's Amendment No. 1 to Current Report on Form 8-K/A dated February 13, 2013, filed February 25, 2013 and incorporated herein by reference). +
- 2.3 First Amendment dated as of April 19, 2013, to the Amended and Restated Membership Interest Purchase Agreement, dated as of February 13, 2013, among Constellation Beers Ltd., Constellation Brands Beach Holdings, Inc., Constellation Brands, Inc. and Anheuser-Busch InBev SA/NV (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated April 19, 2013, filed April 19, 2013 and incorporated herein by reference). +
- 2.4 Stock Purchase Agreement dated as of February 13, 2013, between Anheuser-Busch InBev SA/NV and Constellation Brands, Inc. (filed as Exhibit 2.2 to the Company's Amendment No. 1 to Current Report on Form 8-K/A dated February 13, 2013, filed February 25, 2013 and incorporated herein by reference). +
- 2.5 First Amendment dated as of April 19, 2013, to the Stock Purchase Agreement dated as of February 13, 2013, between Anheuser-Busch InBev SA/NV and Constellation Brands, Inc. (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K dated April 19, 2013, filed April 19, 2013 and incorporated herein by reference). +
- 3.1 Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2009 and incorporated herein by reference). #
- 3.2 Certificate of Amendment to the Certificate of Incorporation of the Company (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2009 and incorporated herein by reference). #
- 3.3 Amended and Restated By-Laws of the Company (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K dated December 6, 2007, filed December 12, 2007 and incorporated herein by reference). #
- 4.1 Indenture, dated as of August 15, 2006, by and among the Company, as Issuer, certain subsidiaries, as Guarantors and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated August 15, 2006, filed August 18, 2006 and incorporated herein by reference). #
- 4.2 Supplemental Indenture No. 1, with respect to 7.25% Senior Notes due 2016, dated as of August 15, 2006, among the Company, as Issuer, certain subsidiaries, as Guarantors, and BNY Midwest Trust

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Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, dated August 15, 2006, filed August 18, 2006 and incorporated herein by reference). #

4.3 Supplemental Indenture No. 2, dated as of November 30, 2006, by and among the Company, Vincor International Partnership, Vincor International II, LLC, Vincor Holdings, Inc., R.H. Phillips, Inc., The Hogue Cellars, Ltd., Vincor Finance, LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.28 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2006 and incorporated herein by reference). #

4.4 Supplemental Indenture No. 3, dated as of May 4, 2007, by and among the Company, Barton SMO Holdings LLC, ALCOFI INC., and Spirits Marque One LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.32 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2007 and incorporated herein by reference). #

4.5 Supplemental Indenture No. 4, with respect to 8 3/8% Senior Notes due 2014, dated as of December 5, 2007, by and among the Company, as Issuer, certain subsidiaries, as Guarantors, and The Bank of New York Trust Company, N.A., (as successor to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 5, 2007, filed December 11, 2007 and incorporated herein by reference). #

4.6 Supplemental Indenture No. 5, dated as of January 22, 2008, by and among the Company, BWE, Inc., Atlas Peak Vineyards, Inc., Buena Vista Winery, Inc., Clos du Bois Wines, Inc., Gary Farrell Wines, Inc., Peak Wines International, Inc., and Planet 10 Spirits, LLC, and The Bank of New York Trust Company, N.A. (successor trustee to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.37 to the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2008 and incorporated herein by reference). #

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- 4.7 Supplemental Indenture No. 6, dated as of February 27, 2009, by and among the Company, Constellation Services LLC, and The Bank of New York Mellon Trust Company National Association (successor trustee to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.31 to the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2009 and incorporated herein by reference). #
- 4.8 Supplemental Indenture No. 7, dated as of June 7, 2013, among the Company, Constellation Brands Beach Holdings, Inc., Crown Imports LLC, and The Bank of New York Mellon Trust Company, National Association, as trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference).
- 4.9 Supplemental Indenture No. 8, dated as of May 28, 2014, among the Company, Constellation Marketing Services, Inc., and The Bank of New York Mellon Trust Company, National Association, as trustee (filed as Exhibit 4.9 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2014 and incorporated herein by reference).
- 4.10 Indenture, with respect to 7.25% Senior Notes due May 2017, dated May 14, 2007, by and among the Company, as Issuer, certain subsidiaries, as Guarantors, and The Bank of New York Trust Company, N.A., as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated May 9, 2007, filed May 14, 2007 and incorporated herein by reference). #
- 4.11 Supplemental Indenture No. 1, dated as of January 22, 2008, by and among the Company, BWE, Inc., Atlas Peak Vineyards, Inc., Buena Vista Winery, Inc., Clos du Bois Wines, Inc., Gary Farrell Wines, Inc., Peak Wines International, Inc., and Planet 10 Spirits, LLC, and The Bank of New York Trust Company, N.A. (successor trustee to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.39 to the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2008 and incorporated herein by reference). #
- 4.12 Supplemental Indenture No. 2, dated as of February 27, 2009, by and among the Company, Constellation Services LLC, and The Bank of New York Mellon Trust Company National Association (successor trustee to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.34 to the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2009 and incorporated herein by reference). #
- 4.13 Supplemental Indenture No. 3, dated as of June 7, 2013, among the Company, Constellation Brands Beach Holdings, Inc., Crown Imports LLC, and The Bank of New York Mellon Trust Company, National Association, as trustee (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K, dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference).
- 4.14 Supplemental Indenture No. 4, dated as of May 28, 2014, among the Company, Constellation Marketing Services, Inc., and The Bank of New York Mellon Trust Company, National Association, as trustee (filed as Exhibit 4.14 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2014 and incorporated herein by reference).
- 4.15 Indenture, dated as of April 17, 2012, by and among the Company, as Issuer, certain subsidiaries, as Guarantors and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated April 17, 2012, filed April 23, 2012 and incorporated herein by reference).



4.16 Supplemental Indenture No. 1, with respect to 6.0% Senior Notes due May 2022, dated as of April 17, 2012, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1.1 to the Company's Current Report on Form 8-K, dated April 17, 2012, filed April 23, 2012 and incorporated herein by reference).

4.17 Supplemental Indenture No. 3, with respect to 3.75% Senior Notes due May 2021, dated as of May 14, 2013, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated May 14, 2013, filed May 16, 2013 and incorporated herein by reference).

4.18 Supplemental Indenture No. 4, with respect to 4.25% Senior Notes due May 2023, dated as of May 14, 2013, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, dated May 14, 2013, filed May 16, 2013 and incorporated herein by reference).

4.19 Supplemental Indenture No. 5, dated as of June 7, 2013, among the Company, Constellation Brands Beach Holdings, Inc., Crown Imports LLC, and Manufacturers and Traders Trust Company, as trustee (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K, dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference).

4.20 Supplemental Indenture No. 6 dated as of May 28, 2014, among the Company, Constellation Marketing Services, Inc., and Manufacturers and Traders Trust Company, as trustee (filed as Exhibit 4.21 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2014 and incorporated herein by reference).

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- 4.21 Restatement Agreement, dated as of May 2, 2013, among the Company, CIH International S.à r.l., Bank of America, N.A., as administrative agent, and the lenders party thereto, including Second Amended and Restated Credit Agreement dated as of May 2, 2013, among the Company, CIH International S.à r.l., Bank of America, N.A., as administrative agent, and the Lenders party thereto (filed as Exhibit 4.1 to the Company’s Current Report on Form 8-K, dated May 2, 2013, filed May 7, 2013 and incorporated herein by reference).
- 4.22 Restatement Agreement dated as of May 28, 2014, among the Company, CIH International S.à r.l., Bank of America, N.A., as administrative agent, and the lenders party thereto, including Third Amended and Restated Credit Agreement dated as of May 28, 2014, among the Company, CIH International S.à r.l., Bank of America, N.A., as administrative agent, and the Lenders party thereto (filed as Exhibit 4.23 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2014 and incorporated herein by reference).
- 4.23 Amendment No. 1 dated as of August 20, 2014, to the Third Amended and Restated Credit Agreement dated as of May 28, 2014, among the Company, CIH International S.à r.l., CI Cerveza S.à r.l., the Guarantors, Bank of America, N.A., as administrative agent, and the Lenders party to the Amendment (filed as Exhibit 4.1 to the Company’s Current Report on Form 8-K, dated August 20, 2014, filed August 25, 2014, and incorporated herein by reference).
- 4.24 Joinder Agreement, dated as of June 7, 2013, between CIH International S.à r.l., Bank of America, N.A., as administrative agent and lender (filed as Exhibit 4.1 to the Company’s Current Report on Form 8-K, dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference).
- 10.1 Amended and Restated Guarantee Agreement, dated as of June 7, 2013, made by the subsidiaries of Constellation Brands, Inc. from time to time party thereto and Constellation Brands, Inc. in favor of Bank of America, N.A., as Administrative Agent, for the ratable benefit of the Lenders party to the Credit Agreement (filed as Exhibit 10.4 to the Company’s Current Report on Form 8-K, dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference).
- 10.2 Form of Terms and Conditions Memorandum for Directors with respect to grants of options to purchase Class 1 Stock pursuant to the Company’s Long-Term Stock Incentive Plan (grants on or after July 23, 2014) (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K, dated July 23, 2014, filed July 25, 2014, and incorporated herein by reference).\*
- 10.3 Form of Restricted Stock Award Agreement for Directors with respect to awards of restricted stock pursuant to the Company’s Long-Term Stock Incentive Plan (awards on or after July 23, 2014) (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K, dated July 23, 2014, filed July 25, 2014, and incorporated herein by reference).\*
- 10.4 Form of Restricted Stock Unit Agreement for Directors with respect to awards of restricted stock units pursuant to the Company’s Long-Term Stock Incentive Plan (awards on or after July 23, 2014) (filed as Exhibit 10.3 to the Company’s Current Report on Form 8-K, dated July 23, 2014, filed July 25, 2014, and incorporated herein by reference).\*
- 12.1 Statements re computation of ratios (filed herewith).
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).

- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).
- 99.1 Stipulation and Order dated April 19, 2013, among Constellation Brands, Inc., Anheuser-Busch Inbev SA/NV, Grupo Modelo, S.A.B. de C.V., and the Antitrust Division of the United States Department of Justice (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated April 19, 2013, filed April 19, 2013 and incorporated herein by reference).
- 99.2 Final Judgment filed with the United States District Court for the District of Columbia on October 24, 2013, together with Exhibits B and C (filed as Exhibit 99.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2013 and incorporated therein by reference).
- 101.1 The following materials from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of August 31, 2014 and February 28, 2014, (ii) Consolidated Statements of Comprehensive Income for the six months and three months ended August 31, 2014 and 2013, (iii) Consolidated Statements of Cash Flows for the six months ended August 31, 2014 and 2013, and (iv) Notes to Consolidated Financial Statements.

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# Company's Commission File No. 001-08495.

Portions of this exhibit were redacted pursuant to a confidential treatment request filed with and  
+ approved by the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities  
Exchange Act of 1934, as amended.

\* Designates management contract or compensatory plan or arrangement.

The Company agrees, upon request of the Securities and Exchange Commission, to furnish copies of each instrument that defines the rights of holders of long-term debt of the Company or its subsidiaries that is not filed herewith pursuant to Item 601(b)(4)(iii)(A) because the total amount of long-term debt authorized under such instrument does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis.