

# BROWN FORMAN CORP

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 7/17/1998 For Period Ending 4/30/1998

Address	850 DIXIE HWY LOUISVILLE, Kentucky 40210
Telephone	502-585-1100
CIK	0000014693
Industry	Beverages (Alcoholic)
Sector	Consumer/Non-Cyclical
Fiscal Year	04/30

**United States**  
**Securities and Exchange Commission**  
Washington, D.C. 20549  
**FORM 10-K**

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

For the fiscal year ended April 30, 1998  
*Commission file number 1-123*

**BROWN-FORMAN CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

61-0143150  
(IRS Employer  
Identification No.)

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

40210  
(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class -----	Name of Each Exchange on Which Registered -----
Preferred \$0.40 Cumulative Stock, \$10.00 par value, redeemable at company's option at \$10.25 per share plus unpaid accrued dividends; liquidating value \$10.00 per share plus unpaid accrued dividends	New York Stock Exchange
Class A Common Stock (voting) \$0.15 par value	New York Stock Exchange
Class B Common Stock (nonvoting) \$0.15 par value	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:	None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value, at April 30, 1998, of the voting and nonvoting equity held by nonaffiliates of the registrant was approximately \$2,010,000,000.

The number of shares outstanding for each of the registrant's classes of Common Stock on May 28, 1998 was:  
Class A Common Stock (voting) 28,988,091 Class B Common Stock (nonvoting) 39,698,147

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's 1998 Annual Report to Stockholders are incorporated by reference into Parts I, II, and IV of this report. Portions of the Proxy Statement of Registrant for use in connection with the Annual Meeting of Stockholders to be held July 23, 1998 are incorporated by reference into Part III of this report.

## PART I

### Item 1. Business

#### (a) General development of business:

Brown-Forman Corporation ("we," "us," or "our" below) was incorporated under the laws of the State of Delaware in 1933, successor to a business founded in 1870 as a partnership and subsequently incorporated under the laws of the Commonwealth of Kentucky in 1901. Our principal executive offices are located at 850 Dixie Highway, Louisville, Kentucky 40210 (mailing address: P.O. Box 1080, Louisville, Kentucky 40201-1080).

#### (b) Financial information about industry segments:

Information regarding net sales, operating income, and total assets of each of our business segments is in Note 11 of Notes to Consolidated Financial Statements on page 35 of our 1998 Annual Report to Stockholders, which information is incorporated into this report by reference in response to Item 8.

#### (c) Narrative description of business:

The following is a description of our operations.

#### **Wine and Spirits Segment**

Wine and Spirits operations include manufacturing, bottling, importing, exporting, and marketing a wide variety of alcoholic beverage brands. This Segment also manufactures and markets new and used oak barrels.

The Segment's brands consist of the following:

Jack Daniel's Tennessee Whiskeys  
Southern Comfort  
Canadian Mist Canadian Whiskies  
Early Times Kentucky Whisky  
Finlandia Vodkas\*\*  
Old Forester Kentucky Straight Bourbon Whisky Bushmills Irish Whiskeys\*\*  
Jack Daniel's Country Cocktails  
Gentleman Jack Rare Tennessee Whiskey Woodford Reserve Kentucky Straight Bourbon Whiskey Glenmorangie Single Highland Malt Scotch Whiskies\*\* Forester 1870 Kentucky Straight Bourbon Whisky Black Bush Special Irish Whiskey\*\*  
Tropical Freezes  
Pepe Lopez Tequilas  
Korbel California Brandy\*  
Usher's Scotch Whisky\*\*  
Oblio Sambucas\*\*  
Jack Daniel's & Cola  
Southern Comfort & Cola

Fetzer Vineyards California Wines  
Korbel California Champagnes and Wines\* Bolla Italian Wines  
Jekel Vineyards California Wines  
Bonterra Vineyards California Wines Carmen Vineyards Chilean Wines\*\*  
Michel Picard French Wines\*\*  
Brolio Italian Wines\*\*  
Bel Arbor California Wines  
Fontana Candida Italian Wines\*\*  
Fontanafredda Italian Wines\*\*  
Armstrong Ridge California Champagne\* Noilly Prat Vermouths\*\*

\* Brands marketed by Brown-Forman worldwide by agency agreement. \*\* Brands marketed by Brown-Forman in the U.S. and other select markets by agency agreements.

Statistics based on case sales, published annually by a leading trade publication, rank Jack Daniel's as the largest selling Tennessee whiskey in the United States, Canadian Mist as the largest selling Canadian whiskey in the United States, and Southern Comfort as the largest selling domestic proprietary liqueur in the United States.

A leading industry trade publication reported Korbel California Champagnes as the largest selling premium champagne in the United States. This trade publication also reported that, among numerous imported wines, Bolla Italian Wine is the leading premium Italian table wine in the United States. Fetzer was ranked tenth among California varietal wines and sixteenth among all domestic table wines.

We believe the statistics used to rank these products are reasonably accurate.

Our strategy with respect to the Wine and Spirits Segment is to market high quality products that satisfy consumer preferences and to support them with extensive international, national, and regional marketing programs. These programs are intended to extend consumer brand recognition and brand loyalty.

Sales managers and representatives or brokers represent the Segment in all states. The Segment distributes its spirits products domestically either through state agencies or through wholesale distributors. The contracts which we have with many of our distributors have formulas which determine reimbursement to distributors if we terminate them; the amount of reimbursement is based primarily on the distributor's length of service and a percentage of its purchases over time. Some states have statutes which limit our ability to terminate distributor contracts.

Jack Daniel's Tennessee Whiskey and Southern Comfort are the principal products exported by the Segment. These brands are sold through contracts with brokers and distributors in most countries.

The principal raw materials used in manufacturing and packaging distilled spirits are corn, rye, malted barley, glass, cartons, and wood for new white oak barrels, which are used for storage of bourbon and Tennessee whiskey. None of these raw materials are in short supply, and there are adequate sources from which they may be obtained.

The principal raw materials used in the production of wines are grapes and packaging materials. Grapes are primarily purchased from independent growers and, from time to time, are adversely affected by weather and other forces which may limit production. We believe that our relationships with our growers are good.

Due to aging requirements, production of whiskeys is scheduled to meet demand three to five years in the future. Accordingly, inventories are larger in relation to sales and total assets than would be normal for most other businesses.

The industry is highly competitive and there are many brands sold in the consumer market. Trade information indicates that we are one of the largest wine and spirit suppliers in the United States in terms of revenues.

The wine and spirits industry is regulated by the Bureau of Alcohol, Tobacco, and Firearms of the United States Treasury Department with respect to production, blending, bottling, sales, advertising, and transportation of its products. Also, each state regulates advertising, promotion, transportation, sale, and distribution of such products.

Under federal regulations, whiskey must be aged for at least two years to be designated "straight whiskey." The Segment ages its straight whiskeys for a minimum of three to five years. Federal regulations also require that "Canadian" whiskey must be manufactured in Canada in compliance with Canadian laws and must be aged in Canada for at least three years.

### **Consumer Durables Segment**

The Consumer Durables Segment includes the manufacturing and/or marketing of the following:

- Fine China Dinnerware
- Casual Dinnerware and Glassware
- Crystal Stemware
- Crystal Barware
- China and Crystal Giftware
- China Lamps
- Collectibles and Jewelry
- Sterling Silver, Pewter and Silver-Plated Giftware Sterling Silver and Stainless Steel Flatware Contemporary Tabletop, Houseware and Giftware Luggage
- Business Cases and Folios
- Personal Leather Accessories

All of the products of the Segment are sold by segment-employed sales representatives under various compensation arrangements, and where appropriate to the class of trade, by specialized independent commissioned sales representatives and independent distributors.

The Segment's products are marketed domestically through authorized retail stores consisting of department stores and specialty and jewelry shops and through retail stores operated by the Segment. Products are also distributed domestically through the institutional, incentive, premium, business gift and military exchange classes of trade, and internationally through authorized retailers, duty free stores and/or distributors in selected foreign markets. Specially created collectible products are distributed both domestically and in selected foreign markets through the direct response/mail-order channel, as well as through authorized collectible retailers.

Fine china and casual dinnerware, as well as fine china giftware, are marketed under the Lenox trademark. Crystal stemware, barware and giftware are marketed under both the Lenox and Gorham trademarks. Contemporary tabletop, houseware and giftware products are marketed under the Dansk trademark. Sterling silver and stainless flatware and sterling giftware are marketed under the Gorham and "Lenox. Kirk Stieff" trademarks. Pewter and silver-plated giftware products are also marketed under the "Lenox. Kirk Stieff" trademark. Luggage, business cases, and personal leather accessories are marketed under the Hartmann, Wings, Veronica Hart, and Crouch & Fitzgerald trademarks. The direct response/ mail-order sales in the United States of specially designed collectibles are marketed under the Lenox and Gorham trademarks, while such sales abroad are marketed primarily under the Brooks & Bentley trademark.

The Lenox, Gorham, and Hartmann brand names hold significant positions in their industries. The Segment has granted licenses for the use of the Lenox trademark on selected fine table linens, premium collectible plates, collectible dolls, wall coverings and candles, subject to the terms of licensing agreements.

The Segment believes that it is the largest domestic manufacturer and marketer of fine china dinnerware and the only significant domestic manufacturer of fine quality china giftware. The Segment is also a leading manufacturer and distributor of fine quality luggage, business cases, and personal leather accessories. The Segment competes with a number of other companies and is subject to intense foreign competition in the marketing of its fine china, contemporary and casual dinnerware, crystal stemware and giftware, stainless flatware, and luggage products.

In the Segment's china and stainless businesses, competition is based primarily on quality, design, brand, style, product appeal, consumer satisfaction, and price. In its luggage, business case and personal leather accessories business, competition is based primarily on brand awareness, quality, design, style, and price. In its direct response/mail-order business, the most important competitive factors are the brand, product appeal, design, sales/marketing program, service, and price. In its crystal, sterling silver, silver-plated, and pewter businesses, competition is based primarily on price, with quality, design, brand, style, product appeal, and consumer satisfaction also being factors.

Clay and feldspar are the principal raw materials used to manufacture china products and silica is the principal raw material used to manufacture crystal products. Gold and platinum are significant raw materials used to decorate china and crystal products. Leather and nylon fabric are the principal raw materials used to manufacture luggage and business cases. Fine silver is the principal raw material used to manufacture sterling silver giftware and flatware products; tin is the principal raw material used to manufacture pewter products; and stainless steel is the principal raw material used to manufacture stainless steel flatware. It is anticipated that raw materials used by the Segment will be in adequate supply. However, the acquisition price of gold, platinum, fine silver, and tin is influenced significantly by worldwide economic events and commodity trading.

Sales of certain Segment products are traditionally greater in the second quarter of the fiscal year, primarily because of seasonal holiday buying.

#### **Other Information**

As of April 30, 1998, we employ approximately 7,600 persons, including 1,140 employed on a part-time basis.

We are an equal opportunity employer and we recruit and place employees without regard to race, color, religion, national or ethnic origin, veteran status, age, gender, sexual preference, or physical or mental disability.

We believe our employee relations are good.

For information on the effects of compliance with federal, state, and local environmental regulations, refer to Note 13, "Environmental," on page 35 of our 1998 Annual Report to Stockholders, which information is incorporated into this report by reference in response to Item 8.

## **Item 2. Properties**

The corporate offices consist of office buildings, including renovated historic structures, all located in Louisville, Kentucky.

Significant properties by business segments are as follows:

### **Wine and Spirits Segment**

The facilities of the Wine and Spirits Segment are shown below. The owned facilities are held in fee simple.

Owned facilities:

- Production facilities:
- Distilled Spirits and Wines:
  - Lynchburg, Tennessee
  - Louisville, Kentucky
  - Collingwood, Ontario
  - Shively, Kentucky
  - Woodford County, Kentucky
  - Frederiksted, St. Croix, U.S. Virgin Islands
  - Mendocino County, California
  - Monterey County, California
  - Pedemonte, Italy
  - Soave, Italy
- Oak Barrels:
  - Louisville, Kentucky
  - Mendocino County, California
  
- Bottling facilities:
  - Lynchburg, Tennessee
  - Louisville, Kentucky
  - Woodford County, Kentucky
  - Frederiksted, St. Croix, U.S. Virgin Islands
  - Mendocino County, California
  - Monterey County, California
  - Pedemonte, Italy

- Warehousing facilities:
- Lynchburg, Tennessee
- Louisville, Kentucky
- Collingwood, Ontario
- Shively, Kentucky
- Woodford County, Kentucky
- Mendocino County, California
- Monterey County, California
- Pedemonte, Italy
- Soave, Italy

Leased facilities:

- Production and bottling facility in Dublin, Ireland
- Wine production and warehousing facility in Mendocino County, California
- Vineyards in Monterey County, California

We believe that the productive capacities of the Wine and Spirits Segment are adequate for the business, and that the facilities are maintained in a good state of repair.

### **Consumer Durables Segment**

The facilities of the Consumer Durables Segment are shown below. The owned facilities are held in fee simple.

Owned facilities:

- Office facilities:
- Lenox corporate - Lawrenceville, New Jersey
- Headquarters for Lenox Direct Response/Collectibles Division (includes retail store and warehouse) - Langhorne, Pennsylvania
  
- Production and office facilities:
- Lenox - Pomona, New Jersey (includes retail store); Oxford, North Carolina; Kinston, North Carolina; and Mt. Pleasant, Pennsylvania (includes retail store)
- Gorham - Smithfield, Rhode Island (includes retail store)
- Hartmann - Lebanon, Tennessee (includes retail store)

- Warehousing facilities:
- Lenox/Dansk/Gorham - Williamsport, Maryland

Leased facilities:

- Office facilities:
- Dansk headquarters - White Plains, New York

- Production/Warehousing/Office facilities:
- Kirk Stieff - Baltimore, Maryland (includes retail store)

- Warehousing facilities:
- Lenox - South Brunswick, New Jersey (includes retail store); Oxford, North Carolina; Kinston, North Carolina; and Mt. Pleasant, Pennsylvania
- Hartmann - Lebanon, Tennessee

- Retail stores:
- The Segment operates 39 Lenox outlet stores in 26 states and a Lenox Gift Express store in Pennsylvania. The Segment also operates 59 Dansk stores in 29 states. In addition, the Segment operates 2 Crouch & Fitzgerald luggage stores in 2 states and 3 Hartmann luggage outlet stores in 3 states.

The lease terms expire at various dates and are generally renewable, except for the Crouch & Fitzgerald store leases.

We believe that the Segment's facilities are in good condition and are adequate for the business.

### Item 3. Legal Proceedings

Expansion Plus, Inc. v. Brown-Forman Corporation, et al., (United States District Court for the Southern District of Texas, Houston Division, Civil Action No. H-94-3498.)

The summary judgment dismissing all claims by Expansion Plus, Inc. against Brown-Forman and other defendants, affirmed by the Federal Court of Appeals for the Fifth Circuit in January 1998, has become final and this litigation is concluded.

### Item 4. Submission of Matters to a Vote of Security Holders

None.

### Executive Officers of the Registrant

Name	Age	Principal Occupation and Business Experience	Family Relationship
Owsley Brown II	55	Chairman of the company since July 1995. Chief Executive Officer of the company since July 1993. President of the company from July 1987 to July 1995.	Cousin to Owsley Brown Frazier
Owsley Brown Frazier	62	Vice Chairman of the company since August 1983.	Cousin to Owsley Brown II
William M. Street	59	Vice Chairman of the company since July 1987.	None
Steven B. Ratoff	55	Executive Vice President and Chief Financial Officer of the company since December 1994. Private investor in a number of small privately-held companies from February 1992 to November 1994. Senior Vice President and Chief Financial Officer for Pharmaceutical Group of Bristol-Myers Squibb from January 1990 to January 1992.	None

John P. Bridendall	48	Senior Vice President and Director of Corporate Development since July 1987.	None
Russell C. Buzby	64	Senior Vice President and Executive Director of Human Resources and Information Services since July 1987.	None
Michael B. Crutcher	54	Senior Vice President, General Counsel, and Secretary since May 1989.	None
Lois A. Mateus	51	Senior Vice President of Corporate Communications and Corporate Services since January 1988.	None

## PART II

### **Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters**

Except as presented below, for the information required by this item refer to the section entitled "Quarterly Financial Information" appearing on the "Highlights" page of the 1998 Annual Report to Stockholders, which information is incorporated into this report by reference.

Holders of record of Common Stock at April 30, 1998:

Class A Common Stock (Voting) 3,446 Class B Common Stock (Nonvoting) 4,957

The principal market for Brown-Forman common shares is the New York Stock Exchange.

### **Item 6. Selected Financial Data**

For the information required by this item, refer to the section entitled "Selected Financial Data" appearing on page 17 of the 1998 Annual Report to Stockholders, which information is incorporated into this report by reference.

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

For the information required by this item, refer to the section entitled "Management's Discussion and Analysis" appearing on pages 18 through 24 of the 1998 Annual Report to Stockholders, which information is incorporated into this report by reference.

Risk Factors Affecting Forward-Looking Statements:

From time to time, we may make forward-looking statements related to our anticipated financial performance, business prospects, new products, and similar matters. We make several such statements in the discussion and analysis referred to above, but we do not guarantee that the results indicated will actually be achieved.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, we note that the following non-exclusive list of important risk factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements:

Generally: We operate in highly competitive markets. Our business is subject to changes in general economic conditions, changes in consumer preferences, the degree of acceptance of new products, and the uncertainties of litigation. As our business continues to expand outside the U.S., our financial results are more exposed to foreign exchange rate fluctuations and the health of foreign economies. Our operations could also be adversely impacted by incomplete or untimely resolution of the "Year 2000" issue, as discussed more fully on page 24 of the 1998 Annual Report to Stockholders.

**Beverage Risk Factors:** The U.S. beverage alcohol business is highly sensitive to tax increases; an increase in federal or state excise taxes (which we do not anticipate at this time) would depress our domestic beverage business. Our current outlook for our domestic beverage business anticipates continued success of Jack Daniel's Tennessee whiskey, Southern Comfort, and our other core spirits brands. Current expectations from our foreign beverage business could prove to be optimistic if the U.S. dollar strengthens against other currencies or if economic conditions deteriorate in the principal countries where we export our beverage products, including Germany, the United Kingdom, Japan, and Australia. The wine and spirits business, both in the United States and abroad, is also sensitive to political and social trends. Legal or regulatory measures against beverage alcohol (including its advertising and promotion) could adversely affect sales. Product liability litigation against the alcohol industry, while not currently a major risk factor, could become significant if new lawsuits were filed against alcohol manufacturers. Current expectations for our global beverage business may not be met if consumption trends do not continue to increase. Profits could also be affected if grain or grape prices increase.

**Consumer Durables Risk Factors:** Earnings projections for our consumer durables segment anticipate a continued strengthening of our Lenox and Hartmann businesses. These projections could be offset by factors such as poor consumer response rates at Lenox Collections, a soft retail environment at outlet malls, further department store consolidation, or weakened demand for tableware, giftware and/or leather goods.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

For the information required by this item, refer to the section entitled "Market Risks" appearing on page 24 of the 1998 Annual Report to Stockholders, which information is incorporated into this report by reference.

#### **Item 8. Financial Statements and Supplementary Data**

For the information required by this item, refer to the Consolidated Financial Statements, Notes to Consolidated Financial Statements, and Report of Management appearing on pages 25 through 37 of the 1998 Annual Report to Stockholders, which information is incorporated into this report by reference, and the Report of Independent Accountants included on page S-1 of this report. For selected quarterly financial information, refer to the section entitled "Quarterly Financial Information" appearing on the "Highlights" page of the 1998 Annual Report to Stockholders, which information is incorporated into this report by reference.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## PART III

### **Item 10. Directors and Executive Officers of the Registrant**

For the information required by this item, refer to the following sections of our definitive proxy statement for the Annual Meeting of Stockholders to be held July 23, 1998, which information is incorporated into this report by reference:

(a) "Election of Directors" on page 4 through the fourth paragraph on page 5 (for information on directors); and (b) the last paragraph on page 7 (for information on delinquent Section 16 filings). Also, see the information with respect to "Executive Officers of the Registrant" under Part I of this report, which information is incorporated herein by reference.

### **Item 11. Executive Compensation**

For the information required by this item, refer to the following sections of our definitive proxy statement for the Annual Meeting of Stockholders to be held July 23, 1998, which information is incorporated into this report by reference:

(a) "Executive Compensation" on pages 8 through 13; (b) "Retirement Plan Descriptions" on page 14; and (c) "Director Compensation" on page 15.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

For the information required by this item, refer to the section entitled "Stock Ownership" appearing on pages 6 through 7 of our definitive proxy statement for the Annual Meeting of Stockholders to be held July 23, 1998, which information is incorporated into this report by reference.

### **Item 13. Certain Relationships and Related Transactions**

For the information required by this item, refer to the section entitled "Transactions with Management" appearing on page 17 of our definitive proxy statement for the Annual Meeting of Stockholders to be held July 23, 1998, which information is incorporated into this report by reference.

## PART IV

### Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1 and 2 - Index to Consolidated Financial Statements and Schedules:

	Reference	
	Form 10-K Annual Report Page	Annual Report to Stockholders Page(s)
Incorporated by reference to our Annual Report to Stockholders for the year ended April 30, 1998:		
Consolidated Statement of Income for the years ended April 30, 1996, 1997, and 1998*	--	25
Consolidated Balance Sheet at April 30, 1996, 1997, and 1998*	--	26 - 27
Consolidated Statement of Cash Flows for the years ended April 30, 1996, 1997, and 1998*	--	28
Consolidated Statement of Stockholders' Equity for the years ended April 30, 1996, 1997, and 1998*	--	29
Notes to Consolidated Financial Statements* Report of Management*	--	30 - 36 37
Report of Independent Accountants	S-1	--
Consolidated Financial Statement Schedule: II - Valuation and Qualifying Accounts	S-2	--

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted either because they are not required under the related instructions, because the information required is included in the consolidated financial statements and notes thereto, or because they are inapplicable.

\* Incorporated by reference to Item 8 in this report.

(a) 3 - Exhibits: Filed with this report:

#### **Exhibit Index**

13 Brown-Forman Corporation's Annual Report to Stockholders for the year ended April 30, 1998, but only to the extent set forth in Items 1, 5, 6, 7, 7A and 8 of this Annual Report on Form 10-K for the year ended April 30, 1998.

21 Subsidiaries of the Registrant.

23 Consent of PricewaterhouseCoopers LLP independent accountants.

Previously Filed:  
Exhibit Index

- 3(a) Restated Certificate of Incorporation of registrant, which is incorporated into this report by reference to Brown-Forman Corporation's 10-K filed on July 19, 1994.
- 3(b) Certificate of Amendment to Restated Certificate of Incorporation of registrant, which is incorporated into this report by reference to Brown-Forman Corporation's 10-K filed on July 19, 1994.
- 3(c) Certificate of Ownership and Merger of Brown-Forman Corporation into Brown-Forman, Inc., which is incorporated into this report by reference to Brown-Forman Corporation's 10-K filed on July 19, 1994.
- 3(d) Certificate of Amendment to Restated and Amended Certificate of Incorporation of Brown-Forman Corporation, which is incorporated into this report by reference to Brown-Forman Corporation's 10-K filed on July 19, 1994.
- 3(e) The by-laws of registrant, as amended on May 25, 1988, which is incorporated into this report by reference to Brown-Forman Corporation's 10-K filed on July 26, 1993.
- 3(f) Amendment to the by-laws of registrant (to increase the mandatory retirement age for outside directors), which is incorporated into this report by reference to Brown-Forman Corporation's Form 10-Q filed on December 5, 1997.
- 4 The Form of Indenture dated as of March 1, 1994 between Brown-Forman Corporation and The First National Bank of Chicago, as Trustee, which is incorporated into this report by reference to Brown-Forman Corporation's Form S-3 (Registration No. 33-52551) filed on March 8, 1994.
- 10(a) A description of the Brown-Forman Omnibus Compensation Plan, which is incorporated into this report by reference to the Appendix of the registrant's definitive proxy statement for the Annual Meeting of Stockholders held on July 27, 1995.
- 10(b) Brown-Forman Corporation Restricted Stock Plan, which is incorporated into this report by reference to Brown-Forman Corporation's 10-K filed on July 19, 1994.
- 10(c) Brown-Forman Corporation Supplemental Excess Retirement Plan, which is incorporated into this report by reference to Brown-Forman Corporation's 10-K filed on July 23, 1990.
- 10(d) Brown-Forman Corporation Stock Appreciation Rights Plan, which is incorporated into this report by reference to Brown-Forman Corporation's 10-K filed on July 23, 1990.
- 10(e) A description of the Brown-Forman Savings Plan, which is incorporated into this report by reference to page 10 of the registrant's definitive proxy statement for the Annual Meeting of Stockholders held on July 25, 1996.
- 10(f) A description of the Brown-Forman Flexible Reimbursement Plan, which is incorporated into this report by reference to page 10 of the registrant's definitive proxy statement for the Annual Meeting of Stockholders held on July 25, 1996.

- 10(g) A description of the Brown-Forman Non-Employee Director Compensation Plan, which is incorporated into this report by reference to Brown-Forman Corporation's Form S-8 (Registration No. 333-38649) filed on October 24, 1997.
- 10(h) Credit Agreement dated as of October 29, 1997, among Brown-Forman Corporation and a group of United States and international banks, which is incorporated into this report by reference to Amendment No. 1 to Brown-Forman Corporation's 10-Q filed on December 15, 1997.

(b) No reports on Form 8-K were filed during the last quarter of the period covered by this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### BROWN-FORMAN CORPORATION (Registrant)

Date: May 28, 1998

/s/ OWSLEY BROWN II

-----  
By: Owsley Brown II  
Chairman of the Board and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on May 28, 1998 as indicated:

/s/ BARRY D. BRAMLEY

-----  
By: Barry D. Bramley  
Director

/s/ DONALD G. CALDER

-----  
By: Donald G. Calder  
Director

/s/ OWSLEY BROWN FRAZIER

-----  
By: Owsley Brown Frazier  
Director, Vice Chairman  
of the Board

/s/ RICHARD P. MAYER

-----  
By: Richard P. Mayer  
Director

/s/ STEPHEN E. O'NEIL

-----  
By: Stephen E. O'Neil  
Director

/s/ WILLIAM M. STREET

-----  
By: William M. Street  
Director, Vice Chairman  
of the Board

/s/ JAMES S. WELCH

-----  
By: James S. Welch  
Director

/s/ OWSLEY BROWN II

-----  
By: Owsley Brown II  
Director, Chairman of the  
Board and Chief Executive  
Officer

/s/ STEVEN B. RATOFF

-----  
By: Steven B. Ratoff  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

/s/ GEO. GARVIN BROWN III

-----  
By: Geo. Garvin Brown III  
Director

/s/ LAWRENCE K. PROBUS

-----  
By: Lawrence K. Probus  
Vice President and Controller  
(Principal Accounting Officer)

## REPORT OF INDEPENDENT ACCOUNTANTS

Brown-Forman Corporation  
Louisville, Kentucky

We have audited the consolidated financial statements of Brown-Forman Corporation and Subsidiaries as of April 30, 1996, 1997, and 1998, and for the years then ended, which financial statements are included on pages 25 through 36 of the 1998 Annual Report to Stockholders of Brown-Forman Corporation and incorporated by reference herein. We have also audited the financial statement schedule listed in the index on page 12 of this Form 10-K. These financial statements and financial statement schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brown-Forman Corporation and Subsidiaries as of April 30, 1996, 1997, and 1998 and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

*/s/ PricewaterhouseCoopers LLP  
Louisville, Kentucky  
May 27, 1998*

**BROWN-FORMAN CORPORATION AND SUBSIDIARIES**  
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**  
**For the Years Ended April 30, 1996, 1997, and 1998**  
(Expressed in thousands)

Col. A ----- Description -----	Col. B ----- Balance at Beginning of Period -----	Col. C ----- Additions Charged to Costs and Expenses -----	Col. D ----- Deductions -----	Col. E ----- Balance at End of Period -----
1996 Allowance for Doubtful Accounts	\$14,061	\$ 9,386	\$10,241(1)	\$13,206
1997 Allowance for Doubtful Accounts	\$13,206	\$ 5,530	\$ 8,516(1)	\$10,220
1998 Allowance for Doubtful Accounts	\$10,220	\$ 6,648	\$ 5,906(1)	\$10,962

(1) Doubtful accounts written off, net of recoveries.

## HIGHLIGHTS

(Expressed in millions, except per share amounts and ratios)

Year Ended April 30,	1997	1998	% Change
Net Sales	\$1,841	\$1,924	5%
Gross Profit	\$ 904	\$ 979	8%
Operating Income	\$ 287	\$ 307	7%
Net Income	\$ 169	\$ 185	9%
Earnings Per Share - Basic and Diluted	\$ 2.45	\$ 2.67	9%
Cash Dividends Paid Per Common Share	\$ 1.06	\$ 1.10	4%
Shareholder Value Added	\$ 84	\$ 94	12%
Return on Average Invested Capital	19.4%	20.4%	
Return on Average Common Stockholders' Equity	25.2%	24.3%	

## QUARTERLY FINANCIAL INFORMATION

(Expressed in millions, except per share amounts)

	Net Sales	Gross Profit	Net Income	Earnings Per Share- Basic and Diluted	Cash Dividends Paid Per Common Share	Market Price (High-Low) Per Common Share	
						Class A	Class B
Fiscal 1998	\$1,924	\$ 979	\$ 185	\$2.67	\$ 1.10	\$55 1/4 - \$44 1/2	
Quarters							
First	428	218	34	0.50	0.27	52 3/4 - 47	
Second	554	278	61	0.88	0.27	51 - 44 1/2	
Third	481	251	46	0.66	0.28	53 - 47 1/4	
Fourth	461	232	44	0.63	0.28	55 1/4 - 49 3/8	
Fiscal 1997	\$1,841	\$ 904	\$ 169	\$2.45	\$ 1.06	\$50 7/8 - \$34 3/4	
Quarters							
First	424	212	32	0.47	0.26	42 5/8 - 34 3/4	
Second	526	255	55	0.80	0.26	43 1/2 - 36 1/8	
Third	458	219	42	0.60	0.27	47 1/4 - 42 1/4	
Fourth	433	218	40	0.58	0.27	50 7/8 - 42 3/8	

## FINANCIAL TABLE OF CONTENTS

	17
Selected Financial Data	
	18
Management's Discussion and Analysis	
	25
Consolidated Statement of Income	
	26
Consolidated Balance Sheet	
	28
Consolidated Statement of Cash Flows	
	29
Consolidated Statement of Stockholders' Equity	
	30
Notes to Consolidated Financial Statements	
	37
Report of Management	
	37
Report of Independent Accountants	

## SELECTED FINANCIAL DATA

Year Ended April 30,  
(Expressed in millions, except per share amounts and ratios)

Operations	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Net Sales	\$1,262	1,279	1,366	1,496	1,658	1,628	1,680	1,807	1,841	1,924
Gross Profit	\$ 546	584	645	719	791	790	824	880	904	979
Operating Income	\$ 208	225	223	234	255	240	268	274	287	307
Net Income	\$ 144	93	145	146	156	129	149	160	169	185
Weighted Average Shares used to calculate Earnings Per Share										
- Basic	83.9	83.9	83.3	82.7	82.7	78.7	69.0	69.0	69.0	68.9
- Diluted	83.9	83.9	83.3	82.7	82.7	78.7	69.0	69.0	69.0	69.0
Earnings Per Share - Basic and Diluted	\$ 1.72	1.10	1.74	1.76	1.88	1.63	2.15	2.31	2.45	2.67
Cash Dividends Paid Per Common Share	\$ 0.51	0.63	0.72	0.78	0.86	0.93	0.97	1.02	1.06	1.10
Invested Capital										
Average Invested Capital	\$ 671	704	743	823	925	900	835	875	929	948
Average Common Stockholders' Equity	\$ 493	564	616	686	765	629	493	578	671	756
Total Assets	\$1,003	1,021	1,083	1,194	1,311	1,234	1,286	1,381	1,428	1,494
Long-Term Debt	\$ 115	114	112	114	154	299	247	211	63	50
Other Key Measures										
Gross Margin	43.3%	45.7%	47.2%	48.1%	47.7%	48.5%	49.1%	48.7%	49.1%	50.9%
Operating Margin	16.5%	17.6%	16.4%	15.6%	15.4%	14.8%	15.9%	15.2%	15.6%	15.9%
Effective Tax Rate	36.0%	48.7%	33.8%	34.6%	35.6%	37.4%	39.8%	37.8%	38.0%	37.6%
Return on Average Invested Capital	23.8%	14.6%	20.5%	18.8%	18.0%	15.4%	19.5%	19.7%	19.4%	20.4%
Return on Average Common Stockholders' Equity	29.2%	16.3%	23.5%	21.3%	20.4%	20.4%	30.1%	27.5%	25.2%	24.3%
Total Long-Term Debt to Total Long-Term Capital	17.2%	16.1%	14.5%	13.4%	15.9%	39.2%	31.1%	25.0%	8.0%	5.7%
Total Cash Dividends Paid to Net Income	29.8%	57.4%	41.7%	44.4%	45.8%	57.5%	45.3%	44.2%	43.3%	41.2%
Cash Flows from Operations	\$ 138	125	134	156	193	221	197	167	176	220
EBITDA	\$ 239	259	256	271	299	286	311	320	337	358

### Notes:

1. Includes the operations of Fetzer Vineyards and Dansk International Designs Ltd., since their acquisitions on August 31, 1992, and July 2, 1991, respectively.
2. Fiscal 1994 net income and earnings per share were reduced by \$32 million and \$0.41, respectively, from the cumulative effect of accounting changes. Fiscal 1990 net income and earnings per share were increased by \$12 million and \$0.14, respectively, from the cumulative effect of accounting changes.
3. On October 15, 1993, the company sold Brown-Forman Enterprises, its credit card processing operations, resulting in an after-tax gain of \$18 million.
4. On January 31, 1989, the company sold the U.S. marketing rights for Martell Cognacs resulting in an after-tax gain of \$22 million.
5. Fiscal 1990 net income was reduced \$60 million to reflect the write-down of intangible assets of California Cooler.
6. Weighted average shares, earnings per share and cash dividends paid per common share have been adjusted for a 3-for-1 common stock split in fiscal 1994.
7. Return on Average Invested Capital is defined as the sum of net income (excluding extraordinary items) and after-tax interest expense, divided by average invested capital. Average invested capital is the sum of all interest-bearing debt and preferred and common equity.
8. Return on Average Common Stockholders' Equity is defined as the sum of income applicable to common stock divided by average common stockholders' equity.
9. Total Long-Term Debt to Total Long-Term Capital is defined as long-term debt divided by the sum of long-term debt and preferred and

common equity.

10. EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and as such represents a measure of the company's liquidity. It should be considered in addition to, but not as a substitute for, other measures of financial performance in accordance with generally accepted accounting principles.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In the discussion below, and in the Chairman's letter, we discuss Brown-Forman's consolidated financial condition and results of operations for the fiscal years ended April 30, 1996, 1997 and 1998. We also discuss factors that may affect the company's future financial condition. Please read this section along with Brown-Forman's consolidated financial statements for the year ended April 30, 1998, and the related notes.

When we make forward-looking statements about Brown-Forman's anticipated financial performance, business prospects, new products, or similar matters, we do not guarantee that the results indicated will actually be achieved. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, we have prepared a non-exclusive list of important risk factors that could cause our actual results to differ materially from anticipated results. You can find this list in Part II, Item 7 of the company's Annual Report on Form 10-K, into which this discussion is incorporated by reference.

### CONSOLIDATED SALES AND EARNINGS

#### Fiscal 1998 Compared to 1997

Net sales reached record levels in fiscal 1998, growing \$83 million, or 5%. Sales of wines and spirits increased 3%, as solid growth of Jack Daniel's and wines was tempered by a decline in sales of frozen cocktails. Revenues from the consumer durables segment improved 9%, reflecting strong growth by the Lenox Collections direct marketing division as well as higher sales of fine china dinnerware and luggage products.

Net Sales			
Dollars in Millions	1996	1997	1998
	-----	-----	-----
Wine and Spirits	\$1,294	\$1,347	\$1,385
Consumer Durables	513	494	539
	-----	-----	-----
Total	\$1,807	\$1,841	\$1,924
	=====	=====	=====
Total change	+8%	+2%	+5%

International sales of \$347 million were up 5% in fiscal 1998, despite a significant strengthening of the U.S. dollar. Growth outside the U.S. reflects our successful efforts to expand the international distribution of Brown-Forman's leading brands. Sales outside the United States represented 18%, 21% and 21% of our revenues (excluding excise taxes) during fiscal 1996, 1997 and 1998, respectively.

Gross profit performance is a key measure by which we gauge the quality of volume growth. Fiscal 1998 gross profit improved 8%, significantly exceeding the rate of sales growth. By focusing our marketing efforts on high-margin products and realizing manufacturing efficiencies, we have steadily improved the company's gross margin from less than 40% in fiscal 1988 to nearly 51% in fiscal 1998.

Gross Profit			
Dollars in Millions	1996	1997	1998
	----	----	----
Wine and Spirits	\$622	\$662	\$713
Consumer Durables	258	242	266
	----	----	----
Total	\$880	\$904	\$979
	=====	=====	=====
Total change	+7%	+3%	+8%

Operating income for fiscal 1998 improved \$20 million, or 7%. Profits from wine and spirits grew \$16 million, reflecting higher volumes, price increases and manufacturing efficiencies, allowing the company to increase its investment in brand building and international expansion initiatives. The consumer durables segment achieved a \$5 million increase in operating income, reflecting profitable growth of Lenox Collections and fine china dinnerware.

Operating Income			
Dollars in Millions	1996	1997	1998
	-----	-----	-----
Wine and Spirits	\$262	\$273	\$289
Consumer Durables	27	30	35
Corporate	(15)	(16)	(17)
	-----	-----	-----
Total	\$274	\$287	\$307
	=====	=====	=====
Total change	+2%	+5%	+7%



Earnings per share reached a record \$2.67, up 9% over fiscal 1997. Earnings growth resulted from improved operating income, lower interest expense and a slightly more favorable effective tax rate.

	1996	1997	1998
	----	----	----
Earnings Per Share	\$2.31	\$2.45	\$2.67
Change	+7%	+6%	+9%

### Fiscal 1997 Compared to 1996

Net sales grew \$34 million, or 2%, in fiscal 1997. Sales of wine and spirits increased 4% resulting from worldwide growth of Jack Daniel's and premium wine brands, partially offset by sharply lower sales of frozen cocktail products. Sales from the consumer durables segment declined 4%, primarily reflecting a planned contraction of Lenox Collections.

Operating income improved \$13 million, or 5%, during fiscal 1997. A 4% increase in operating income for the wine and spirits segment resulted from strong worldwide growth of Jack Daniel's and our premium wine brands, partially offset by sharply lower sales of frozen cocktail products and by investments associated with our international expansion initiative. Operating income for the consumer durables segment increased 11% in fiscal 1997, largely reflecting a rebound in profits at Lenox Collections.

Earnings per share grew 6% over fiscal 1996 to \$2.45 per share, reflecting higher operating income and lower interest expense.

### SHAREHOLDER VALUE ADDED

Brown-Forman's foremost goal is to increase the value of our shareholders' investment. To assist us in achieving this objective, we gauge performance and compensate our management based on a measure we call Shareholder Value Added (SVA). SVA represents the company's after-tax operating income less our cost of capital, which recognizes not only the profits generated by the company but also the investment required to produce those profits.

Dollars in Millions	1996	1997	1998
	----	----	----
Shareholder Value Added	\$80	\$84	\$94
Change	+7%	+4%	+12%

During the three years ended April 30, 1998, SVA increased at an annual compound rate of 8%. Strong 12% growth in fiscal 1998 SVA reflects the leverage gained from expanding operating earnings at a faster rate than invested capital.

Return on average invested capital increased from 19.4% to 20.4%, reflecting continued growth in profits and careful management of invested capital.

	1996	1997	1998
	----	----	----
Return on Average Invested Capital	19.7%	19.4%	20.4%

Return on average common stockholders' equity has declined over the past three years, reflecting our use of free cash flow to reduce debt as a percentage of the company's total capital structure.

	1996	1997	1998
	----	----	----
Return on Average Common Stockholders' Equity	27.5%	25.2%	24.3%

## COMPANY OUTLOOK

We believe the outlook for Brown-Forman's growth is very positive. Market conditions for premium wine and spirits brands remain promising and, in order to capitalize on these opportunities, we plan to further increase the marketing investments behind our beverage brands. We will continue to penetrate new markets by expanding our global sales, marketing and distribution resources, as well as develop new products within promising market segments.

The outlook is also positive for our consumer durables business. Lenox dominates the U.S. market for fine china dinnerware, and is creating value for shareholders by capitalizing on its powerful brand name. Continued focus will be placed on developing categories which offer significant growth opportunities, including products designed for casual dining and gift giving.

## WINE AND SPIRITS SEGMENT

### Summary of Operating Performance (Expressed in millions, except percentages)

	1996	1997	1998
	-----	-----	-----
Net Sales	\$1,294	\$1,347	\$1,385
% Change	14%	4%	3%
Gross Profit	\$ 622	\$ 662	\$ 713
% Change	14%	6%	8%
Advertising Expenses	\$ 160	\$ 174	\$ 197
% Change	24%	9%	13%
SG&A Expenses	\$ 200	\$ 215	\$ 227
% Change	15%	8%	5%
Operating Income	\$ 262	\$ 273	\$ 289
% Change	8%	4%	6%
Net Income	\$ 167	\$ 173	\$ 183
% Change	8%	3%	6%
EBITDA	\$ 286	\$ 301	\$ 318
% Change	7%	5%	5%
Gross Margin	48.1%	49.2%	51.5%
Operating Margin	20.2%	20.3%	20.8%

### Fiscal 1998 Compared to 1997

Net sales grew \$38 million, or 3%, driven by record sales for the Jack Daniel's family of brands and Fetzer. Fiscal 1998 results also include the first full year of sales for Finlandia and Michel Picard, brands added to our U.S. portfolio in fiscal 1997. Partially offsetting these gains were a continued decline in frozen cocktail sales and lower volumes for Canadian Mist.

A key growth initiative for Brown-Forman has been to accelerate expansion into international markets. Although tempered by the stronger dollar, beverage sales outside the U.S. grew 5% in fiscal 1998. International sales in both fiscal 1997 and 1998 represented 28% of total wine and spirits sales excluding excise taxes.

**Wine and Spirits Geographic Sales Mix**  
(excluding excise taxes)

Dollars in Millions	1996	1997	1998
	-----	-----	-----
U.S.	\$ 749	\$ 760	\$ 784
International	282	330	347
	-----	-----	-----
Total	\$1,031	\$1,090	\$1,131
	=====	=====	=====

Gross profit expanded at a much stronger pace than sales, growing 8% in fiscal 1998. Price increases, favorable product mix and manufacturing efficiencies combined to improve the gross margin for our wine and spirits segment from 49.2% to 51.5%.

Advertising expenses grew 13%, reflecting a substantial increase in consumer spending to support established brands such as Jack Daniel's and Fetzer, as well as new brands like Finlandia. Selling, general and administrative expenses increased 5%, primarily reflecting further investment in the sales infrastructure for international markets.

Operating income increased 6%, as the operating margin for wine and spirits improved from 20.3% to 20.8%. Net income also increased 6%, reflecting operating growth as well as a reduction in the segment's effective tax rate from 36.8% to 36.5%.

**Fiscal 1997 Compared to 1996**

Net sales grew \$53 million, or 4%, primarily reflecting a strong performance by Jack Daniel's. Also contributing to segment sales growth was a significant increase in revenues from the Fetzer, Bolla and Korbel wine brands, largely as a result of price increases during the year. These positive results were partially offset by significantly lower sales of Tropical Freezes, a line of frozen cocktails introduced in fiscal 1996.

Gross profit margin increased from 48.1% to 49.2%, reflecting price increases, a favorable product mix and lower costs.

Advertising expenses grew 9% as the company increased spending in support of its major brands, principally Jack Daniel's and Southern Comfort. Selling, general and administrative expenses rose 8%, primarily reflecting investments associated with the company's strategy to expand our brands into new international markets.

Operating income increased 4%, largely as a result of higher profits from Jack Daniel's and our premium wine brands. These gains were partially offset by lower sales of frozen cocktails and by investments in international markets. Net income grew 3%, reflecting operating growth, partially offset by an increase in the segment's effective tax rate from 36.3% to 36.8%.

**Business and Social Environment for Spirits and Wines**

The business environment for spirits and wines is strongly influenced by societal attitudes toward drinking and governmental policy reflecting those attitudes. While in most societies the majority of people either consume beverage alcohol or are neutral regarding its use, a minority oppose drinking. Opponents of beverage alcohol typically seek to reduce the number of outlets for sale, to increase the shelf price through higher taxes and to impose restrictions on advertising.

Brown-Forman strongly opposes abusive drinking and contributes significant amounts of money to programs aimed at understanding and curbing alcohol abuse. We also support and abide by voluntary industry marketing and advertising guidelines. Brown-Forman and other beverage alcohol producers are in the forefront of encouraging responsible consumption of their products and in warning against alcohol abuse. The sale of spirits and wines takes place against the backdrop of this debate about the proper role of beverage alcohol in society.

Distillers and vintners, such as Brown-Forman, seek to compete vigorously in the marketplace and to protect the rights of adult consumers to purchase their products. In the U.S. and in international markets, Brown-Forman participates in trade association activity with other distillers and vintners to work for a more favorable political and social environment for the sale of our products. In the U.S., Brown-Forman is a member of the Distilled Spirits Council of the United States and The Wine Institute, organizations which oppose punitive legislation and seek to obtain fair treatment for the company and its consumers. Similarly, Brown-Forman works to secure favorable legislative and regulatory treatment in foreign markets, including open access to foreign markets for U.S.-made spirits and wines.

Beverage alcohol sales are particularly sensitive to higher tax rates. In Brown-Forman's largest market, the U.S., no federal legislation is currently pending to increase federal excise taxes, but a future tax increase cannot be ruled out. Similarly, there are periodic efforts to increase beverage alcohol taxes at a state level. While there has been discussion (and legislation introduced) to ban television advertising of spirits in the U.S., nothing has come of it. However, most TV networks and local affiliated stations currently decline to accept distilled spirits advertising.

Outside the U.S., the beverage alcohol market is also affected by tax rates and advertising restrictions, but the impact of those policies in any one market is not significant to the company's overall business.



The creation of the European Union and the consequent elimination of trading barriers and adoption of a single currency affect Brown-Forman's business in Europe. These changes may transform the spirits and wines distribution system in Europe, which is built on a country basis, by encouraging cross-border sales. Brown-Forman is not a significant owner of European distribution companies, but we may find pressure on the retail sales price of our products because of increased cross-border competition.

In the publicity surrounding the class action tort litigation against the tobacco companies in the U.S. and the U.K. (and accompanying U.S. legislation to implement a proposed tobacco settlement), some commentators have suggested that other industries, such as alcohol, fast foods and automobiles may be next. To our knowledge, no such litigation is pending against Brown-Forman or any other alcohol producer. Our view is that there are very significant differences between tobacco and beverage alcohol that make such litigation, if filed, unlikely to be successful. Beverage alcohol, when used as intended, is not harmful to otherwise healthy consumers. Indeed, scientists and health care experts report that beverage alcohol may have positive cardiovascular health benefits when consumed by otherwise healthy adults. Although Brown-Forman does not recommend that consumers drink beverage alcohol for health reasons, the potential health benefits of responsible beverage alcohol consumption are an important distinction between alcohol and tobacco. The drinking of beverage alcohol for social, ceremonial and religious purposes is deeply interwoven, since Biblical times, into the traditions of many societies. The dangers of alcohol abuse are commonly known and have never been concealed by alcohol producers. Beverage alcohol producers have been in the forefront of encouraging responsible consumption of their products and in warning against alcohol abuse. Lastly, the content, manufacture, marketing and sale of beverage alcohol are subject to stringent regulation by the state and federal governments, including the placement of health warning labels on the container.

The recent merger of Grand Metropolitan and Guinness created United Distillers & Vintners, by far the largest global spirits company. There is speculation about further consolidation of the major spirits companies. Although there is fierce competition among the different major spirits producers, these companies also act as distributors for each other's products in different markets. For instance, United Distillers & Vintners distributes Jack Daniel's and Southern Comfort in the U.K. and Bacardi distributes our spirits products in most of continental Europe. Although the consolidation of spirits producers could theoretically hinder the distribution and marketing of our spirits products, to date that has not happened and it seems unlikely to do so. As Brown-Forman generally does not own major distribution companies, our products are sought after for distribution by other major companies and we expect that to continue.

## CONSUMER DURABLES SEGMENT

### Summary of Operating Performance (Expressed in millions, except percentages)

	1996	1997	1998
	-----	-----	-----
Net Sales	\$ 513	\$ 494	\$ 539
% Change	(5%)	(4%)	9%
Gross Profit	\$ 258	\$ 242	\$ 266
% Change	(7%)	(6%)	10%
Advertising Expenses	\$ 71	\$ 55	\$ 63
% Change	(2%)	(22%)	14%
SG&A Expenses	\$ 160	\$ 157	\$ 168
% Change	(4%)	(2%)	7%
Operating Income	\$ 27	\$ 30	\$ 35
% Change	(29%)	11%	17%
Net Income	\$ 14	\$ 16	\$ 19
% Change	(29%)	16%	23%
EBITDA	\$ 48	\$ 51	\$ 56
% Change	(17%)	6%	11%
Gross Margin	50.3%	48.9%	49.4%
Operating Margin	5.3%	6.1%	6.6%

Our consumer durables segment includes fine china, crystal, silver, pewter and luggage products marketed under the Lenox, Dansk, Gorham, Kirk Stieff and Hartmann brand names.

### Fiscal 1998 Compared to 1997

Net sales grew \$45 million, or 9%, led by strong volume gains in the direct mail and catalog business of Lenox Collections. Sales of fine china to department stores increased modestly during the year, as did sales of tableware and giftware from the company's retail division. Sales of Hartmann Luggage grew at a double-digit rate for the year, attributable to product line innovations and aggressive marketing efforts.

Gross profit increased \$24 million and improved as a percentage of net sales from 48.9% to 49.4%, reflecting a greater mix of sales from Lenox Collections products which carry higher margins.

Advertising expenses grew 14% due primarily to increased spending by Lenox Collections. Selling, general and administrative expenses rose 7%, reflecting a slower rate of growth than sales and gross profit.

Operating income improved 17%, driven largely by profit gains for Lenox Collections and the company's retail stores. Net income grew 23%, reflecting operating growth as well as a reduction in the segment's effective tax rate from 47.5% to 45.0%.



## Fiscal 1997 Compared to 1996

Net sales declined \$19 million, or 4%, in fiscal 1997, primarily reflecting a planned contraction at Lenox Collections, as well as a decline in sales of fine china to department stores. Revenues from our Lenox and Dansk retail stores improved solidly, with same store sales up 10% over fiscal 1996.

Gross profit decreased \$16 million in fiscal 1997, largely attributable to the contraction of Lenox Collections and lower sales of fine china to department stores.

Advertising expenses declined 22% due primarily to the contraction of Lenox Collections. Selling, general and administrative expenses did not change significantly from fiscal 1996.

Operating income increased \$3 million, or 11%, primarily as a result of improved profitability of the scaled-down Lenox Collections business. Segment profits were also enhanced by stronger consumer demand at our retail stores. Net income grew 16%, reflecting the net impact of the factors discussed above as well as a reduction in the segment's effective tax rate from 49.6% to 47.5%.

### LIQUIDITY AND CAPITAL RESOURCES

Our cash flows from operations continue to provide more than adequate capital to meet operating and capital expenditure requirements and pay dividends. We consider our ability to internally generate cash to be a significant financial strength.

Free cash flow is the cash remaining from operations after satisfying business reinvestment opportunities. A consolidated statement of cash flows is summarized as follows:

(Expressed in millions)	1996	1997	1998
	-----	-----	-----
EBITDA	\$ 320	\$ 337	\$ 358
Interest expense, net	(17)	(14)	(11)
Taxes on income	(97)	(104)	(111)
Other	(39)	(43)	(16)
	-----	-----	-----
Cash from operating activities	167	176	220
Cash used for investing activities	(67)	(56)	(46)
	-----	-----	-----
Free cash flow	100	120	174
Dividends	(71)	(73)	(76)
Reduction of debt	(37)	(43)	(61)
Acquisition of treasury stock	--	--	(17)
	-----	-----	-----
Cash used for financing activities	(108)	(116)	(154)
	-----	-----	-----
Increase (decrease) in cash	\$ (8)	\$ 4	\$ 20
	=====	=====	=====

Cash provided by operations increased \$44 million in fiscal 1998, primarily reflecting higher net income and an increase in accounts payable and accrued expenses. Cash used for investing activities declined \$10 million in fiscal 1998, reflecting lower outlays for capital expenditures as well as proceeds received from the sale of manufacturing assets.

During fiscal 1998, Brown-Forman repurchased 310,000 shares of its Class B common stock on the open market at a cost of \$17 million to fund the company's stock option plans. The company intends to continue to acquire its common shares in the open market for this purpose.

Cash provided by operations increased \$9 million in fiscal 1997, mainly attributable to higher net income for the year. Cash used for investing activities in fiscal 1997 primarily reflected capital expenditures to expand manufacturing and office facilities and enhance the company's information systems.

We have a \$300 million revolving credit agreement that expires in fiscal 2003. At April 30, 1998, we had no outstanding borrowings under this agreement. At April 30, 1998, we had \$220 million of unused debt capacity on our \$250 million shelf registration, which was filed with the Securities and Exchange Commission in fiscal 1994.

### CAPITAL EXPENDITURES

We invested \$59 million in property, plant and equipment in fiscal 1996, \$55 million in fiscal 1997, and \$44 million in fiscal 1998. These expenditures primarily reflect the expansion and modernization of company-wide production facilities.

Dollars in Millions

Capital Expenditures

	1996	1997	1998
	----	----	----
Wine and Spirits	\$43	\$40	\$31
Consumer Durables	16	14	13
Corporate	--	1	--
	----	----	----
Total	\$59	\$55	\$44
	====	====	====

Capital expenditures for fiscal 1999 are expected to approximate \$55 million, primarily for expanding and enhancing our production facilities. Fiscal 1999 capital expenditure requirements are expected to be met with internally generated funds.

We have conducted a comprehensive review of our information systems to identify those systems which may be affected by the "Year 2000" issue and we have developed an implementation plan to resolve the issue. In preparing our systems for the year 2000, we expect to incur internal staff costs as well as external consulting and other costs over the next two fiscal years. The cost of new systems software will be capitalized. Other costs of the project will be expensed as incurred.

Because we have replaced or updated many of our information systems in recent years, the costs to be incurred in addressing the Year 2000 issue are not expected to be significant and, thus, are not expected to have a material impact on our financial condition, results of operations or cash flows. This expectation assumes that our existing forecast of costs to be incurred contemplates all significant actions required and that we will not be obligated to incur significant Year 2000 related costs on behalf of our customers or suppliers.

## DIVIDENDS

Quarterly dividends were increased 4% in fiscal 1998 to \$0.28, which results in an indicated annual dividend of \$1.12 per common share. The increase was based on the expectation of continued strong cash flow. Cash dividends paid as a percentage of net income were 41% in fiscal 1998, compared to 44% and 43% for fiscal 1996 and fiscal 1997, respectively.

	1996	1997	1998
Cash Dividends Paid Per Common Share	\$1.02	\$1.06	\$1.10

## DERIVATIVE FINANCIAL INSTRUMENTS

As a result of the growth of our international business in recent years, Brown-Forman's foreign currency receipts exceed the company's foreign currency payments. Accordingly, to the extent this foreign currency exposure is not hedged, the company's results of operations and financial position are negatively impacted by a weakening of foreign currencies against the U.S. dollar and positively impacted by a strengthening of the foreign currencies.

We use foreign currency forward contracts and purchased options, with durations of generally less than one year, as protection against the risk that the eventual U.S. dollar cash flows resulting from the sale and purchase of goods in foreign currencies will be adversely affected by changes in exchange rates. While these hedging instruments are subject to fluctuations in value from movement in the foreign currency exchange rates, such fluctuations are offset by the change in value of the underlying exposures being hedged. We are not a party to leveraged derivatives and do not hold or issue financial instruments for trading purposes.

We had outstanding foreign currency forward and purchased option contracts, hedging primarily German mark, Spanish peseta, British pound and Japanese yen revenues, with notional amounts totaling \$28 million, \$40 million and \$84 million at April 30, 1996, 1997 and 1998, respectively. The company's credit exposure is limited to the fair value of the contracts (which did not exceed \$1 million at April 30, 1996, 1997 and 1998) rather than the notional amounts. The company does not obtain collateral or other security to support the contracts. However, the contracts are entered into with major financial institutions, thereby decreasing the risk of credit loss.

## MARKET RISKS

The company holds debt obligations, foreign currency forward and option contracts, and commodity future contracts which are exposed to risk from changes in interest rates, foreign currency exchange rates and commodity prices, respectively. We have established policies, procedures and internal processes governing the management of these market risks. As of April 30, 1998, the exposure to these market risks is not considered material.

## ENVIRONMENTAL

Along with other responsible parties, we face environmental claims resulting from the cleanup of several waste deposit sites. We have accrued our estimated portion of cleanup costs and expect either the other responsible parties or insurance to cover the remaining costs. We believe that any additional costs incurred to satisfy environmental claims will not have a material adverse effect on the company's financial condition, results of operations or cash flows.

**Brown-Forman Corporation**  
**CONSOLIDATED STATEMENT OF INCOME**

(Expressed in millions, except per share amounts)

Year Ended April 30,	1996	1997	1998
Net sales	\$1,807	\$1,841	\$1,924
Excise taxes	263	257	255
Cost of sales	664	680	690
Gross profit	880	904	979
Advertising expenses	231	229	260
Selling, general and administrative expenses	375	388	412
Operating income	274	287	307
Interest income	3	3	3
Interest expense	20	17	14
Income before income taxes	257	273	296
Taxes on income	97	104	111
Net income	\$ 160	\$ 169	\$ 185
Earnings per share - basic and diluted	\$ 2.31	\$ 2.45	\$ 2.67

The accompanying notes are an integral part of the consolidated financial statements.

**Brown-Forman Corporation**  
**CONSOLIDATED BALANCE SHEET**

(Expressed in millions, except share and per share amounts)

April 30,	1996	1997	1998
<b>Assets</b>			
Cash and cash equivalents	\$ 54	\$ 58	\$ 78
Accounts receivable, less allowance for doubtful accounts of \$13 in 1996, \$10 in 1997 and \$11 in 1998	257	263	265
Inventories:			
Barreled whiskey	167	176	187
Finished goods	169	172	179
Work in process	59	66	88
Raw materials and supplies	38	37	48
Total inventories	433	451	502
Other current assets	24	30	24
<b>Total Current Assets</b>	768	802	869
Property, plant and equipment, net	281	292	281
Intangible assets, less accumulated amortization of \$108 in 1996, \$120 in 1997 and \$130 in 1998	259	254	250
Other assets	73	80	94
<b>Total Assets</b>	\$1,381	\$1,428	\$1,494

The accompanying notes are an integral part of the consolidated financial statements.

April 30,	1996	1997	1998
<b>Liabilities</b>			
Commercial paper	\$ 50	\$ 155	\$ 107
Accounts payable and accrued expenses	223	209	233
Current portion of long-term debt	6	7	7
Accrued taxes on income	3	6	8
Deferred income taxes	21	22	27
<b>Total Current Liabilities</b>	<b>303</b>	<b>399</b>	<b>382</b>
Long-term debt	211	63	50
Deferred income taxes	127	136	150
Accrued postretirement benefits	52	54	55
Other liabilities and deferred income	54	46	40
<b>Total Liabilities</b>	<b>747</b>	<b>698</b>	<b>677</b>
<b>Stockholders' Equity</b>			
<b>Capital Stock:</b>			
Preferred \$0.40 cumulative, \$10 par value, redeemable at company's option at \$10.25 per share plus unpaid accrued dividends; 1,177,948 shares authorized and outstanding	12	12	12
Class A common stock, voting, \$0.15 par value; authorized shares, 30,000,000; issued shares, 28,988,091	4	4	4
Class B common stock, nonvoting, \$0.15 par value; authorized shares, 60,000,000; issued shares, 40,008,147	6	6	6
Retained earnings	616	712	821
Cumulative translation adjustment	(4)	(4)	(9)
Treasury stock, at cost (310,000 Class B common shares in 1998)	--	--	(17)
<b>Common Stockholders' Equity</b>	<b>622</b>	<b>718</b>	<b>805</b>
<b>Total Stockholders' Equity</b>	<b>634</b>	<b>730</b>	<b>817</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$1,381</b>	<b>\$1,428</b>	<b>\$1,494</b>

**Brown-Forman Corporation**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Expressed in millions; amounts in brackets are reductions of cash)

Year Ended April 30,	1996	1997	1998
<b>Cash flows from operating activities:</b>			
Net income	\$ 160	\$ 169	\$ 185
Adjustments to reconcile net income to net cash provided by (used for) operations:			
Depreciation	37	41	42
Amortization	9	9	9
Deferred income taxes	26	10	19
Other	(5)	(7)	(14)
Change in assets and liabilities, excluding the effects of businesses acquired or sold:			
Accounts receivable	(18)	(6)	(2)
Inventories	(40)	(24)	(52)
Other current assets	(2)	(1)	7
Accounts payable and accrued expenses	(8)	(14)	24
Accrued taxes on income	3	4	2
Accrued postretirement benefits	1	2	1
Other liabilities and deferred income	4	(7)	(1)
Cash provided by operating activities	167	176	220
<b>Cash flows from investing activities:</b>			
Additions to property, plant and equipment	(59)	(55)	(44)
Disposals of property, plant and equipment	3	3	13
Investment in affiliate, net of cash acquired	(8)	--	--
Other	(3)	(4)	(15)
Cash (used for) investing activities	(67)	(56)	(46)
<b>Cash flows from financing activities:</b>			
Net change in commercial paper	(60)	(39)	(48)
Proceeds from long-term debt	30	3	1
Reduction of long-term debt	(7)	(7)	(14)
Dividends paid	(71)	(73)	(76)
Acquisition of treasury stock	--	--	(17)
Cash (used for) financing activities	(108)	(116)	(154)
Net increase (decrease) in cash and cash equivalents	(8)	4	20
Cash and cash equivalents, beginning of year	62	54	58
Cash and cash equivalents, end of year	\$ 54	\$ 58	\$ 78

The accompanying notes are an integral part of the consolidated financial statements.

**Brown-Forman Corporation**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

Years Ended April 30, 1996, 1997 and 1998  
(Expressed in millions, except per share amounts)

	Total	Preferred Stock	Common Stock		Retained Earnings	Cumulative Translation Adjustment	Treasury Stock
			Class A	Class B			
Balance, April 30, 1995	\$ 546	\$ 12	\$ 4	\$ 6	\$ 527	\$ (3)	\$ --
Net income	160				160		
Cash dividends							
Preferred, per share \$0.40	(1)				(1)		
Common, per share \$1.02	(70)				(70)		
Foreign currency translation adjustment	(1)					(1)	
Balance, April 30, 1996	634	12	4	6	616	(4)	--
Net income	169				169		
Cash dividends							
Preferred, per share \$0.40	(1)				(1)		
Common, per share \$1.06	(72)				(72)		
Balance, April 30, 1997	730	12	4	6	712	(4)	--
Net income	185				185		
Cash dividends							
Preferred, per share \$0.40	(1)				(1)		
Common, per share \$1.10	(75)				(75)		
Foreign currency translation adjustment	(5)					(5)	
Acquisition of treasury stock (310,000 Class B common shares)	(17)						(17)
Balance, April 30, 1998	\$ 817	\$ 12	\$ 4	\$ 6	\$ 821	\$(9)	\$ (17)

The accompanying notes are an integral part of the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share and per option amounts)

### 1. ACCOUNTING POLICIES

#### Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries. Investments in affiliates in which the company has the ability to exercise significant influence, but not control, are accounted for by the equity method. All other investments in affiliates are carried at cost. Intercompany transactions are eliminated.

#### Cash Equivalents

Cash equivalents include demand deposits with banks and all highly liquid investments with original maturities of three months or less.

#### Inventories

Inventories are stated at the lower of cost or market. Approximately 86% of consolidated inventories are valued using the last-in, first-out (LIFO) method. All remaining inventories are valued using the first-in, first-out and average cost methods.

If the LIFO method had not been used, inventories would have been \$85, \$98 and \$104 higher than reported at April 30, 1996, 1997 and 1998, respectively.

A substantial portion of barreled whiskey will not be sold within one year because of the duration of the aging process. All barreled whiskey is classified as a current asset in accordance with industry practice. Bulk wine inventories are classified as work in process.

Warehousing, insurance, ad valorem taxes and other carrying charges applicable to barreled whiskey are included in inventory costs.

#### Long-Lived Assets

Property, plant and equipment are stated at cost. Provision for depreciation is made on the basis of estimated useful lives of depreciable assets, principally using the straight-line method.

Intangible assets, principally the excess of purchase price over the fair value of identifiable net assets of acquired businesses, are stated at cost less accumulated amortization. These assets are amortized using the straight-line method over their estimated useful lives, not exceeding forty years.

Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," was adopted during 1996. SFAS No. 121 requires long-lived assets and certain identifiable intangibles to be reviewed for impairment value, based upon undiscounted future cash flows, and appropriate losses to be recognized whenever the carrying amount of an asset may not be recovered. The adoption of SFAS No. 121 did not have a material effect on the consolidated financial statements.

#### Revenue Recognition

The company recognizes revenue when goods are shipped.

#### Advertising Costs

Advertising costs are charged to expense as incurred, except for direct-response advertising costs, which are capitalized and amortized over periods not exceeding one year.

#### Foreign Currency Translation

The U.S. dollar is the functional currency for substantially all of the company's consolidated operations. For these operations, all gains and losses from currency transactions are included in income currently. For certain foreign equity investments, the functional currency is the local currency. The cumulative translation effects for the equity investments using functional currencies other than the U.S. dollar are included in the cumulative translation adjustment in stockholders' equity.

#### Earnings Per Share

SFAS No. 128, "Earnings per Share," which establishes standards for computing and presenting earnings per share, was adopted during 1998. The adoption of SFAS No. 128 did not change the company's previously-reported earnings per share.

Basic earnings per share (basic EPS) is calculated using net income reduced by dividend requirements on preferred stock, divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share (diluted EPS) is calculated in the same manner, except that the denominator also includes additional common shares that would have been issued if outstanding stock options had been exercised, as determined by application of the treasury stock method. Preferred stock dividend requirements were \$0.5 in 1996, 1997 and 1998. The weighted average number of shares used to calculate basic EPS was 68,996,238 for both 1996 and 1997 and 68,933,284 for 1998. The weighted average number of shares used to calculate diluted EPS was 68,996,238 for 1996, 69,013,904 for 1997, and 68,987,157 for 1998.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the

financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

**Reclassifications**

Certain prior year amounts have been reclassified to conform with the current year presentation.

## Other

Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities," which was adopted by the company effective May 1, 1997, provides authoritative guidance for the recognition, measurement and disclosure of environmental remediation liabilities in financial statements. The adoption of SOP 96-1 did not have a material effect on the consolidated financial statements. See Note 13 for discussion of the company's environmental commitments and contingencies.

SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," was issued in March 1998 and provides authoritative guidance regarding the recognition of costs incurred for internal-use computer software. SOP 98-1 was retroactively adopted by the company for costs incurred after May 1, 1997, as encouraged by the SOP. The adoption of SOP 98-1 did not have a material effect on the consolidated financial statements.

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income," which is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 requires companies to classify items defined as "other comprehensive income" by their nature in a financial statement, and to display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. The adoption of SFAS No. 130 will not have a material impact on the consolidated financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which is effective for fiscal years beginning after December 15, 1997. SFAS No. 131 establishes standards for reporting information about a company's operating segments and requires certain disclosures about a company's products and services, the geographic areas in which it operates and its major customers. Although the company has not determined the effect that adoption of SFAS No. 131 may have on the format of the consolidated financial statement disclosures, it will have no effect on the company's consolidated financial condition, results of operations or cash flows.

2. CREDIT FACILITIES The company has a \$300 revolving credit agreement with various domestic and international banks that expires in fiscal 2003. The most restrictive of the agreement's covenants requires the company to maintain a minimum level of net worth. At April 30, 1998, net worth exceeded the required level, as defined in the agreement, by \$467. At April 30, 1998, the company had no outstanding borrowings under this agreement. At April 30, 1998, the company also had available for issuance \$220 of debt securities under a shelf registration filing with the Securities and Exchange Commission.

3. DEBT At April 30, the company's long-term debt consisted of the following:

April 30,	1996	1997	1998
Commercial paper	\$ 144	\$ --	\$ --
6.82% to 7.38% medium-term notes, due 2005	30	30	30
11.25% notes, due through 1999	28	22	16
Variable rate industrial revenue bonds, due through 2026	14	17	10
Other	1	1	1
	217	70	57
Less current portion	6	7	7
	\$ 211	\$ 63	\$ 50

At April 30, 1996, commercial paper of \$144 was classified as long-term debt due to the credit available under the long-term credit facilities discussed in Note 2 and the company's intent to refinance those borrowings on a long-term basis. Long-term debt payments of \$7 and \$8 are required during 1999 and 2000, respectively. No additional debt payments are required through 2003. Cash paid for interest was \$21 in 1996, \$18 in 1997 and \$15 in 1998. Excluding the effect of the interest rate agreement discussed below, the weighted average interest rates on commercial paper were 5.4% at April 30, 1996 and 5.6% at April 30, 1997 and 1998. The weighted average interest rates on the variable rate industrial revenue bonds were 4.2%, 4.6% and 4.3% at April 30, 1996, 1997 and 1998, respectively.

The company sold an option in 1990 to swap interest rates that effectively eliminated the call feature on certain 9.375% notes for the period April 1, 1995 to April 1, 1998. This option was exercised April 1, 1995, effectively converting \$100 of commercial paper from floating interest rate obligations to 9.375% fixed rate obligations for the period April 1, 1995 to April 1, 1998. The option on this swap was sold in order to manage the level of fixed and floating rate debt. The premium received on the sale of this option was amortized as a reduction of interest expense through April 1, 1998.

4. COMMITMENTS Rental payments for real estate, vehicles, and office, computer and manufacturing equipment under operating leases amounted to approximately \$25, \$28 and \$28 for 1996, 1997 and 1998, respectively. The company has commitments related primarily to minimum lease payments of \$24 in 1999, \$19 in 2000, \$8 in 2001, \$5 in 2002, \$2 in 2003, and \$3 thereafter.



5. FOREIGN CURRENCY RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS The company uses foreign currency forward contracts and purchased options, with durations of generally less than one year, as protection against the risk that the eventual U.S. dollar cash flows resulting from the sale and purchase of goods in foreign currencies will be adversely affected by changes in exchange rates. While these hedging instruments are subject to fluctuations in value from movement in the foreign currency exchange rates, such fluctuations are offset by the change in value of the underlying exposures being hedged. The company is not a party to leveraged derivatives and does not hold or issue financial instruments for trading purposes.

The company had outstanding foreign currency forward and purchased option contracts, hedging primarily German mark, Spanish peseta, British pound and Japanese yen revenues, with notional amounts totaling \$28, \$40 and \$84 at April 30, 1996, 1997 and 1998, respectively. The company's credit exposure is limited to the fair value of the contracts (see Note 6) rather than the notional amounts. The company does not obtain collateral or other security to support the contracts. However, the contracts are entered into with major financial institutions, thereby decreasing the risk of credit loss.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS The fair value of cash and cash equivalents, short-term investments and commercial paper approximates the carrying amount due to the short maturities of these instruments. The fair value of long-term debt is estimated using discounted cash flows based on the company's incremental borrowing rates for similar types of borrowings. The fair value of foreign currency contracts is based on quoted market prices. A comparison of the fair values and carrying amounts of these instruments is as follows:

	1997		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 58	\$ 58	\$ 78	\$ 78
Foreign currency contracts	--	--	1	1
<b>Liabilities:</b>				
Commercial paper	155	155	107	107
Long-term debt	70	72	57	60

## 7. BALANCE SHEET INFORMATION

April 30,	1996	1997	1998
<b>Property, plant and equipment</b>			
Land	\$ 17	\$ 17	\$ 17
Buildings	173	200	206
Equipment	404	421	423
	594	638	646
Less accumulated depreciation	313	346	365
	\$ 281	\$ 292	\$281
<b>Accounts payable and accrued expenses</b>			
Accounts payable, trade	\$ 74	\$ 83	\$ 90
<b>Accrued expenses:</b>			
Compensation and commissions	40	42	50
Excise and other non-income taxes	17	19	18
Interest	6	5	4
Advertising	29	14	19
Other	57	46	52
	149	126	143
	\$ 223	\$ 209	\$233

8. TAXES ON INCOME Taxes on income are composed of the following:

	1996	1997	1998
<b>Current:</b>			
Federal	\$ 54	\$ 76	\$ 73
Foreign	5	6	5

State and local	12	12	14
	-----		
	71	94	92
	-----		
Deferred:			
Federal	21	7	16
State and local	5	3	3
	-----		
	26	10	19
	-----		
	\$ 97	\$104	\$111
	=====		

United States and foreign components of income before income taxes are as follows:

	1996	1997	1998
United States	\$229	\$237	\$261
Foreign	28	36	35
	\$257	\$273	\$296

The following is a reconciliation of the effective tax rates with the United States' statutory rate:

	Percent of Income Before Taxes		
	1996	1997	1998
Statutory rate	35.0%	35.0%	35.0%
State taxes, net of U.S. Federal tax benefit	4.1	4.0	3.7
Income taxed at other than U.S. Federal statutory rate	(2.2)	(1.5)	(1.7)
Tax benefit of Foreign Sales Corporation	(1.3)	(0.9)	(0.8)
Nondeductible amortization	1.2	1.1	1.0
Other, net	1.0	0.3	0.4
	37.8%	38.0%	37.6%

Deferred tax assets and liabilities are composed of the following:

April 30,	1996	1997	1998
Deferred tax assets:			
Postretirement and other benefits	\$ 36	\$ 38	\$ 40
Accrued liabilities and other	15	20	16
Total deferred tax assets	51	58	56
Deferred tax liabilities:			
Intercompany transactions	141	152	168
Property, plant and equipment	21	24	23
Undistributed foreign earnings	17	17	17
Pension plans	18	20	23
Other	2	3	2
Total deferred tax liabilities	199	216	233
Net deferred tax liability	\$148	\$158	\$177

Deferred income taxes were not provided on certain undistributed earnings (\$59, \$73 and \$91 at April 30, 1996, 1997 and 1998, respectively) of certain foreign subsidiaries because such undistributed earnings are expected to be reinvested indefinitely overseas. If these amounts were not considered permanently reinvested, additional deferred taxes of approximately \$20, \$24 and \$28 would have been provided in 1996, 1997 and 1998, respectively.

Cash paid for income taxes was \$65 in 1996, \$91 in 1997 and \$90 in 1998.

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS The company provides certain health care and life insurance benefits for eligible retirees.

The postretirement benefit expense includes the following components:

	1996	1997	1998
Service cost of benefits earned	\$ 1	\$ 1	\$ 1

Interest cost on accumulated post-retirement benefit obligation	3	3	3
	-----	-----	-----
Postretirement benefit expense	\$ 4	\$ 4	\$ 4
	=====	=====	=====

The postretirement benefit liability includes the following components:

1996 1997 1998

Actuarial present value of accumulated postretirement obligations:

Retirees	\$21	\$22	\$22
Fully eligible active participants	1	1	1
Other active participants	21	17	19
	-----	-----	-----
	43	40	42
Unrecognized net gain	9	14	12
Unrecognized prior service cost	--	--	1
	-----	-----	-----
Accrued postretirement benefits	\$52	\$54	\$55
	=====	=====	=====
Assumptions:			
Discount Rate	7.0%	7.5%	7.0%
Health care cost trend rates:			
Present rate before age 65	7.7%	7.3%	7.0%
Present rate age 65 and after	6.8%	6.6%	6.3%

A 1% increase in the assumed health care cost trend rate would have increased the accumulated postretirement benefit obligation as of April 30, 1998 by \$5 and the postretirement benefit expense for 1998 by \$1. The company expects its health care cost trend rates to gradually decline to 5.0% by 2004 and remain level thereafter.

10. PENSION PLANS The company has defined benefit pension plans covering certain employees. The benefits for these plans are based primarily on years of service and employees' pay near retirement for salaried employees and stated amounts for each year of service for union and hourly employees. The company also has unfunded plans that provide retirement benefits in excess of qualified plan formulas or regulatory limitations for certain employees. Net pension income includes the following components:

	1996	1997	1998
Benefit cost for service during the year	\$(7)	\$(9)	\$(9)
Interest cost on projected benefit obligation	(17)	(16)	(18)
Actual return on plan assets	79	51	72
Net amortization and deferral	(54)	(23)	(41)
Net pension income	\$ 1	\$ 3	\$ 4

The amounts included in the accompanying consolidated balance sheet were based on the funded status of the plans at January 31, 1997 and 1998 and are as follows:

	1997		1998	
	Plan Assets Exceed Obligations	Obligations Exceed Plan Assets	Plan Assets Exceed Obligations	Obligations Exceed Plan Assets
Actuarial present value of benefit obligations:				
Vested benefit obligations	\$178	\$ 21	\$202	\$ 27
Nonvested benefit obligations	11	2	13	2
Accumulated benefit obligations	189	23	215	29
Additional amounts related to assumed pay increases	32	6	35	5
Projected benefit obligations	221	29	250	34
Plan assets at fair value	339	7	398	9
Plan assets in excess of (less than) benefit obligations	118	(22)	148	(25)
Unamortized net (assets) obligations at date of adoption	(21)	2	(17)	2
Unrecognized net (gain) loss resulting from experience different from that assumed and changes in actuarial assumptions	(48)	--	(74)	2
Unrecognized prior service cost	4	5	3	5
Adjustment required to recognize minimum liability	--	(3)	--	(6)
Prepaid (accrued) pension cost	\$ 53	\$(18)	\$ 60	\$(22)

The projected benefit obligation was determined using a weighted average discount rate of 7% for 1996, 7.5% for 1997 and 7% for 1998. The weighted average rate of future compensation increases was 4% for 1996, 4.5% for 1997 and 4% for 1998. The expected rate of return on plan assets was 9.5% for 1996 and 10% for 1997 and 1998. The plans' assets consist primarily of stocks and bonds. The company's policy for funded plans is to make contributions equal to or greater than the requirements prescribed by the Employee Retirement Income Security Act.

11. BUSINESS SEGMENT INFORMATION The company's operations have been classified into two business segments: wine and spirits, and consumer durables. The wine and spirits segment includes the production, importing and marketing of wines and distilled spirits. The consumer durables segment includes the manufacture and sale of china, crystal, ceramic and crystal collectibles, silver, pewter, luggage and leather accessories.

Summarized financial information by business segment for 1996, 1997 and 1998 is as follows:

	1996	1997	1998
-----			
Net sales:			
Wine and Spirits	\$1,294	\$1,347	\$1,385
Consumer Durables	513	494	539
	-----	-----	-----
	\$1,807	\$1,841	\$1,924
	=====	=====	=====
Earnings before interest, taxes, depreciation and amortization (EBITDA):			
Wine and Spirits	\$ 286	\$ 301	\$ 318
Consumer Durables	48	51	56
Corporate	(14)	(15)	(16)
	-----	-----	-----
	\$ 320	\$ 337	\$ 358
	=====	=====	=====
Operating income:			
Wine and Spirits	\$ 262	\$ 273	\$ 289
Consumer Durables	27	30	35
Corporate	(15)	(16)	(17)
	-----	-----	-----
	\$ 274	\$ 287	\$ 307
	=====	=====	=====
Total assets:			
Wine and Spirits	\$ 835	\$ 885	\$ 914
Consumer Durables	480	470	483
Corporate	66	73	97
	-----	-----	-----
	\$1,381	\$1,428	\$1,494
	=====	=====	=====
Depreciation and amortization:			
Wine and Spirits	\$ 24	\$ 28	\$ 29
Consumer Durables	21	21	21
Corporate	1	1	1
	-----	-----	-----
	\$ 46	\$ 50	\$ 51
	=====	=====	=====
Capital expenditures:			
Wine and Spirits	\$ 43	\$ 40	\$ 31
Consumer Durables	16	14	13
Corporate	--	1	--
	-----	-----	-----
	\$ 59	\$ 55	\$ 44
	=====	=====	=====
Sales outside the U.S.:			
Wine and Spirits	\$ 254	\$ 304	\$ 320
Consumer Durables	28	26	27
	-----	-----	-----
	\$ 282	\$ 330	\$ 347
	=====	=====	=====

There were no significant intersegment sales or transfers during 1996, 1997 or 1998. Operating income by business segment excludes interest income, interest expense, and unallocated corporate expenses. Corporate assets consist principally of cash and cash equivalents, certain corporate receivables, and other assets.

12. CONTINGENCIES In the normal course of business, various suits and claims are brought against the company, some of which seek significant damages. Many of these suits and claims take years to adjudicate, and it is difficult to predict their outcome. In the opinion of management, based on advice from legal counsel, none of these suits or claims will have a material adverse effect on the company's consolidated financial position, results of operations or cash flows.

13. ENVIRONMENTAL The company, along with other responsible parties, faces environmental claims resulting from the cleanup of several waste deposit sites. The company has accrued its estimated portion of cleanup costs and expects other responsible parties and insurance to cover the remaining costs. The company believes that any additional costs incurred by the company will not have a material adverse effect on the company's consolidated financial position, results of operations or cash flows.



14. STOCK OPTIONS Under the Brown-Forman Corporation Omnibus Compensation Plan (the Plan), the company may grant stock options and other stock-based incentive awards for a total of 1,500,000 shares of common stock to eligible employees until April 30, 2005. All shares delivered under the Plan will be issued from treasury stock acquired by the company.

Stock options are granted at an exercise price of not less than the fair value of the underlying stock on the date of the grant. Stock options granted under the Plan generally become exercisable after a period of three years from the first day of the fiscal year of grant and expire seven years thereafter. As of April 30, 1998, no other stock-based awards have been granted under the Plan.

The company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for stock options. Accordingly, no compensation expense has been recognized. Had compensation expense for the stock options been determined based on the fair value at the grant dates consistent with the methodology prescribed under SFAS No. 123, "Accounting for Stock-Based Compensation," the company's net income would have been reduced by \$0.3 in 1997 and \$0.9 in 1998. The company's basic and diluted earnings per share would have been reduced by \$0.01 per share in 1997 and 1998.

The fair values of the options granted in 1997 and 1998 were \$8.74 per option and \$12.24 per option, respectively. The fair values were estimated using the Black-Scholes pricing model with the following assumptions: risk-free interest rates of 6.7% in 1997 and 6.2% in 1998; expected volatility of 19.1% in 1997 and 18.1% in 1998; expected dividend yields of 2.9% in 1997 and 2.2% in 1998; and an expected life of 6 years in both 1997 and 1998.

The following table summarizes option activity for the years ended April 30, 1997 and 1998. All options are for an equivalent number of shares of Class B common stock.

	Options Outstanding	Weighted Average Exercise Price
Balance, April 30, 1996	--	--
Granted	157,073	\$ 36.13
Forfeited	(4,589)	36.13
Balance, April 30, 1997	152,484	36.13
Granted	250,277	49.13
Forfeited	(15,677)	42.09
Balance, April 30, 1998	387,084	44.29

The following table summarizes the status of stock options outstanding as of April 30, 1998, by exercise price:

Exercise Price	Options Outstanding	Remaining Contractual Life (Years)
\$ 36.13	144,000	8
49.13	243,084	9
	387,084	

## REPORT OF MANAGEMENT

We are responsible for the presentation of the information contained in the consolidated financial statements and for its integrity and objectivity. Our statements have been prepared in accordance with generally accepted accounting principles and include amounts based on our best estimates and judgments with appropriate consideration given to materiality. We also prepared the related financial information and are responsible for its accuracy and consistency with the financial statements.

The consolidated financial statements have been audited by Coopers & Lybrand L.L.P., independent accountants. We have made available to Coopers & Lybrand L.L.P. all the company's financial records and related data, as well as the minutes of stockholders', directors', and other appropriate meetings. Furthermore, we believe that all representations made to Coopers & Lybrand L.L.P. during the audit were valid and appropriate.

We are responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance at reasonable cost that financial records are reliable for preparing financial statements and that assets are properly accounted for and safeguarded. The company has an internal audit function that is intended to provide a review and monitoring process that allows the company to be reasonably sure that the system of internal control operates effectively. In addition, as part of the audit of the financial statements, Coopers & Lybrand L.L.P. completed a study and evaluation of selected internal accounting controls to establish a basis for reliance thereon in determining the nature, timing and extent of audit tests to be applied. We have considered the internal auditors' and Coopers and Lybrand L.L.P.'s recommendations concerning the system of internal control and have taken actions that we believe are cost-effective in the circumstances to respond appropriately to these recommendations. We believe that as of April 30, 1998, the system of internal control is adequate to accomplish the objectives discussed herein.

We also recognize our responsibility for fostering a strong ethical climate so that the company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the company's Code of Conduct, which is publicized throughout the company. The Code of Conduct addresses, among other things, the necessity of ensuring open communication within the company; the disclosure of potential conflicts of interests; the compliance with all applicable domestic and foreign laws, including those relating to financial disclosure; and the maintenance of the confidentiality of proprietary information. The company has a systematic program to assess compliance with the Code of Conduct.

The Board of Directors, through its Audit Committee, composed solely of directors who are not employees of the company, meets with management, the internal auditors and the independent accountants to ensure that each is properly discharging its respective responsibilities. Both the independent accountants and the internal auditors have free access to the Audit Committee, without management present, to discuss the results of their work, including internal accounting controls and the quality of financial reporting.

*/s/ Owsley Brown II  
Owsley Brown II  
Chairman of the Board  
and Chief Executive Officer*

*/s/ Steven B. Ratoff  
Steven B. Ratoff  
Executive Vice President  
and Chief Financial Officer*

## REPORT OF INDEPENDENT ACCOUNTANTS

### BROWN-FORMAN CORPORATION

We have audited the accompanying consolidated balance sheet of Brown-Forman Corporation and Subsidiaries as of April 30, 1996, 1997 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brown-Forman Corporation and Subsidiaries at April 30, 1996, 1997 and 1998, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

*/s/ Coopers & Lybrand L.L.P.*

Louisville, Kentucky  
May 27, 1998

**Exhibit 21**

**SUBSIDIARIES OF THE REGISTRANT**

Name -----	Percentage of Voting Securities Owned -----	State or Jurisdiction of Incorporation -----
Brown-Forman Beverages Australia Pty. Ltd.	100%	Australia
Brown-Forman International F.S.C., Ltd.	100%	U.S. Virgin Islands
Canadian Mist Distillers, Limited	100%	Ontario, Canada
Early Times Distillers Company	100%	Delaware
Fetzer Vineyards	100%	California
Fratelli Bolla International Wines, Inc.	96%	Kentucky
Hartmann, Incorporated	100%	Delaware
Jack Daniel's Properties, Inc.	100%	Delaware
Lenox, Incorporated	100%	New Jersey
Mt. Eagle Corporation	100%	Delaware
Norfolk Investments, Inc.	100% (1)	Delaware
Dansk International Designs Ltd.	100% (1)	New York
Brooks & Bentley Limited	100% (1)	United Kingdom
Longnorth Limited	100% (2)	Ireland
The Joseph Garneau Co., S.A.	100% (2)	Switzerland
Chissick Limited	100% (2) (3)	Ireland
Clintock Limited	100% (2) (3)	Ireland
Lantone Limited	100% (2) (3)	Channel Islands
Brown-Forman Mauritius, Limited	100% (3)	Mauritius
Brown-Forman - W.S. Karoulias S.A.	75% (3)	Greece
Pitts Bay Trading Limited	75% (3)	Bermuda
Lantone Delaware, Inc.	100% (4)	Delaware
Brown-Forman Beverages Worldwide, Comercio de Bebidas Ltda.	100% (5)	Brazil
Brown-Forman Worldwide, L.L.C.	100% (5)	Delaware
Brown-Forman Beverages Africa, Ltd.	100% (6)	Bermuda
Fratelli Bolla, S.p.A.	97% (7)	Italy
Jack Daniel Distillery, Lem Motlow, Prop., Inc.	100% (8)	Tennessee
Drake Investments, Inc.	100% (8)	Delaware

The above companies are included in the consolidated financial statements. The names of certain subsidiaries have been omitted which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

(1) Owned by Lenox, Incorporated.

(2) Includes qualifying shares assigned to Brown-Forman Corporation.

(3) Owned by Longnorth Limited.

(4) Owned by Lantone Limited.

(5) Owned 99% by Brown-Forman Corporation and 1% by Early Times Distillers Company.

(6) Owned 99% by Clintock Limited and 1% by Longnorth Limited.

(7) Owned 54% by Fratelli Bolla International Wines, Inc. and 43% by The Joseph Garneau Co., S.A.

(8) Owned by Jack Daniel's Properties, Inc.

**Exhibit 23**

**CONSENT OF INDEPENDENT ACCOUNTANTS**

We consent to the incorporation by reference in the registration statements of Brown-Forman Corporation on Form S-3 (File Nos. 33-12413 and 33-52551) and Form S-8 (File Nos. 333-08311 and 333-38649), of our report dated May 27, 1998, on our audits of the consolidated financial statements and financial statement schedule of Brown-Forman Corporation and Subsidiaries as of April 30, 1996, 1997, and 1998, and for the years ended April 30, 1996, 1997, and 1998, which report is included in this Annual Report on Form 10-K.

*/s/ PricewaterhouseCoopers LLP  
Louisville, Kentucky  
July 15, 1998*

## ARTICLE 5

This schedule contains summary financial information extracted from the Company's April 30, 1998 Annual Report and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

PERIOD TYPE	YEAR
FISCAL YEAR END	APR 30 1998
PERIOD START	MAY 01 1997
PERIOD END	APR 30 1998
CASH	78
SECURITIES	0
RECEIVABLES	265
ALLOWANCES	11
INVENTORY	502
CURRENT ASSETS	869
PP&E	646
DEPRECIATION	365
TOTAL ASSETS	1,494
CURRENT LIABILITIES	382
BONDS	50
PREFERRED MANDATORY	0
PREFERRED	12
COMMON	10
OTHER SE	795
TOTAL LIABILITY AND EQUITY	1,494
SALES	1,924
TOTAL REVENUES	1,924
CGS	945 <sup>1</sup>
TOTAL COSTS	945 <sup>1</sup>
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	14
INCOME PRETAX	296
INCOME TAX	111
INCOME CONTINUING	185
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	185
EPS PRIMARY	2.67 <sup>2</sup>
EPS DILUTED	2.67 <sup>3</sup>

<sup>1</sup> Includes excise taxes of \$255 million.

<sup>2</sup> Represents Basic EPS, calculated in accordance with SFAS No. 128.

<sup>3</sup> Represents Diluted EPS, calculated in accordance with SFAS No. 128.

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