

# BROWN FORMAN CORP

## FORM 10-Q (Quarterly Report)

Filed 12/13/1994 For Period Ending 10/31/1994

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-Q

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

For the quarterly period ended October 31, 1994

*Commission File No. 1-123*

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## 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

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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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable

date: December 1, 1994

Class A Common Stock (voting)	28,988,091
Class B Common Stock (nonvoting)	40,008,147

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**BROWN-FORMAN CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
(Unaudited)

(Expressed in thousands except per share amounts)

	Three Months Ended October 31,		Six Months Ended October 31,	
	1994	1993	1994	1993
Net sales	\$484,711	\$465,725	\$863,484	\$855,380
Excise taxes	69,739	69,739	129,803	136,938
Cost of sales	180,718	165,398	307,943	293,181
Gross profit	234,254	230,588	425,738	425,261
Selling, general, and administrative expenses	98,438	95,539	190,770	188,306
Advertising expenses	48,547	58,874	95,688	112,403
Operating income	87,269	76,175	139,280	124,552
Gain on sale of business before income taxes	--	30,077	--	30,077
Interest income	422	1,143	681	2,056
Interest expense	5,847	3,744	11,344	7,618
Income before income taxes and cumulative effect of accounting changes	81,844	103,651	128,617	149,067
Taxes on income	32,794	41,136	51,441	57,098
Income before cumulative effect of accounting changes	49,050	62,515	77,176	91,969
Cumulative effect of accounting changes	--	--	--	32,542
Net income	49,050	62,515	77,176	59,427
Less preferred stock dividend requirements	118	118	236	236
Net income applicable to common stock	\$ 48,932	\$ 62,397	\$ 76,940	\$ 59,191
	=====	=====	=====	=====
Weighted average number of common shares outstanding in thousands	68,996	82,664	68,996	82,664
Per common share:				
Income before cumulative effect of accounting changes	\$ .71	\$ .76	\$ 1.12	\$ 1.11
Cumulative effect of accounting changes	--	--	--	(.39)
Net income	\$ .71	\$ .76	\$ 1.12	\$ .72
	=====	=====	=====	=====
Cash dividends paid	\$ .2367	\$ .2267	\$ .4734	\$ .4534
	=====	=====	=====	=====

See notes to the condensed consolidated statements

**BROWN-FORMAN CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
(Expressed in thousands)

	October 31, 1994 ----	April 30, 1994 ----
	(Unaudited)	
<b>Assets</b>		
-----		
Cash and cash equivalents	\$ 40,426	\$ 30,540
Accounts receivable, net	299,170	240,580
Inventories:		
Barreled whisky	149,812	143,785
Finished goods	129,791	122,976
Work in process	73,775	59,984
Raw materials and supplies	33,820	31,697
	-----	
Total inventories	387,198	358,442
Other current assets	32,434	20,344
	-----	
Total current assets	759,228	649,906
Property, plant, and equipment, net	243,647	245,978
Intangible assets, net	270,523	276,358
Other assets	69,660	61,607
	-----	
Total assets	\$1,343,058	\$1,233,849
	=====	
<b>Liabilities</b>		
-----		
Commercial paper	\$ 89,833	\$ 54,229
Accounts payable and accrued expenses	231,823	216,175
Current portion of long-term debt	5,414	4,867
Accrued taxes on income	9,923	3,815
Deferred income taxes	2,339	1,970
	-----	
Total current liabilities	339,332	281,056
Long-term debt	292,776	299,061
Deferred income taxes	106,262	102,267
Postretirement benefits	49,064	47,223
Other liabilities and deferred income	46,445	40,555
	-----	
Total liabilities	833,879	770,162
<b>Stockholders' Equity</b>		
-----		
Preferred stock	11,779	11,779
Common stockholders' equity	497,400	451,908
	-----	
Total stockholders' equity	509,179	463,687
	-----	
Total liabilities and stockholders' equity	\$1,343,058	\$1,233,849
	=====	

Note: The balance sheet at April 30, 1994 has been taken from the audited financial statements at that date, and condensed.

See notes to the condensed consolidated statements.

**BROWN-FORMAN CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Unaudited)

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

	Six Months Ended	
	October 31,	
	1994	1993
	----	----
Cash flows from operating activities:		
Net income	\$77,176	\$59,427
Adjustments to reconcile net income to net cash provided by (used for) operations:		
Cumulative effect of changes in accounting principles	--	32,542
Depreciation	18,395	17,963
Amortization of intangible assets	4,457	4,390
Deferred income taxes	4,364	5,060
Gain on sale of business, net of income taxes	--	(18,350)
Other	3,116	1,642
Changes in assets and liabilities:		
Accounts receivable	(58,590)	(87,981)
Inventories	(28,756)	(5,669)
Other current assets	(12,090)	(769)
Accounts payable and accrued expenses	15,648	46,695
Accrued taxes on income	6,108	(9,514)
	-----	-----
Cash provided by operating activities	29,828	45,436
	-----	-----
Cash flows from investing activities:		
Proceeds from sale of business	--	31,837
Additions to property, plant, and equipment, net	(16,064)	(11,308)
Net sales of short-term investments	--	3,005
Other	(847)	964
	-----	-----
Cash provided by (used for) investing activities	(16,911)	24,498
	-----	-----
Cash flows from financing activities:		
Commercial paper	35,605	--
Reduction of long-term debt	(5,738)	(6,620)
Cash dividends paid	(32,898)	(37,710)
	-----	-----
Cash (used for) financing activities	(3,031)	(44,330)
	-----	-----
Net increase in cash and cash equivalents	9,886	25,604
Cash and cash equivalents, beginning of period	30,540	74,912
	-----	-----
Cash and cash equivalents, end of period	\$40,426	\$100,516
	=====	=====

See notes to the condensed consolidated statements.

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

**1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The condensed consolidated statements have been prepared in accordance with the company's customary accounting practices as set forth in the company's 1994 annual report on Form 10-K and have not been audited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of this information have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the company's April 30, 1994 annual report on Form 10-K.

**2. ACCOUNTING CHANGES** On May 1, 1993, the company adopted Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits." In the third quarter of 1994, the company adopted Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made," and restated the first quarter as if adoption had occurred May 1, 1993. Accordingly, the company recorded a liability for charitable contributions unconditionally pledged but not yet paid. The cumulative effect of these changes in accounting principles is as follows (in thousands):

	FAS Statement No.			
	106	112	116	Total
Pretax charge	\$43,684	\$2,817	\$6,721	\$53,222
Income taxes	16,955	1,104	2,621	20,680
Net charge	\$26,729	\$1,713	\$4,100	\$32,542
Net charge per common share	\$ .32	\$ .02	\$ .05	\$ .39

On May 1, 1993, the company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The effect of adopting this standard was immaterial.

**3. SALE OF CREDIT CARD OPERATIONS** On October 15, 1993, the company sold substantially all the assets of its credit card processing operations. The sale resulted in a pretax gain of approximately \$30,077,000 (\$18,350,000 or \$.22 per share after-tax).

4. **INVENTORIES** The company uses the last-in, first-out method for determining the cost for substantially all inventories. If the last-in, first-out method had not been used, inventories would have been \$73,123,000 and \$71,626,000 higher than reported at October 31, 1994, and April 30, 1994, respectively.

5. **INCOME TAXES** Taxes on income for the second quarter of fiscal 1994 include a \$4,220,000 or \$.05 per share charge resulting from an increase in the corporate income tax rate. Included in this amount is a charge of \$3,580,000 or \$.04 per share for the retroactive effect of a higher tax rate on earnings from January 1, 1993 to April 30, 1993, and a noncash charge to restate the deferred tax liability at the new corporate tax rate.

6. **ENVIRONMENTAL** The company, along with other responsible parties, faces environmental claims resulting from the cleanup of several waste deposit sites. The company currently anticipates that the total cost of remediating these sites is approximately \$9,700,000. The company has accrued its estimated portion of these cleanup costs and expects other responsible parties and insurance coverage 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 financial condition or results of operations.

7. **CONTINGENCIES** Various suits and claims (asserted and unasserted) arising in the ordinary course of business are pending or threatened against the company. These include product liability suits against the company that allege injury from the consumption of alcoholic beverages and suits that allege employment discrimination based on the plaintiffs' age. While some of these suits and claims seek significant financial recoveries from the company, based on a considered evaluation of all known and threatened litigation, and on the advice of counsel, management believes that the ultimate resolution of these matters will not have a material adverse effect on the company's reported financial position or results of operations.

## **Item 2. Management's Discussion and Analysis of Financial**

### **Condition and Results of Operations**

The following Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the company's April 30, 1994 annual report to stockholders. The results for the six months ended October 31, 1994 are not necessarily indicative of the operating results for the full year.

#### **Unusual Items**

Net income for fiscal 1994 contains unusual income and expense items. Effective May 1, 1993, the company adopted Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," No. 112, "Employers' Accounting for Postemployment Benefits," and No. 116, "Accounting for Contributions Received and Contributions Made." The adoption of these standards resulted in a pretax charge totaling \$53.2 million (\$32.5 million or \$.39 per share after-tax). The charge to net income from adopting these accounting standards was recorded as the cumulative effect of accounting changes. On October 15, 1993, the company sold substantially all the assets of its credit card processing operations. The sale resulted in a pretax gain of approximately \$30,077,000 (\$18,350,000 or \$.22 per share after-tax). Taxes on income for the second quarter of fiscal 1994 include a \$4,220,000 (or \$.05 per share) charge resulting from an increase in the corporate income tax rate. Included in this amount is an unusual charge of \$3,580,000 (or \$.04 per share) for the retroactive effect of a higher tax rate on earnings from January 1, 1993 to April 30, 1993, and a noncash charge to restate the deferred tax liability at the new corporate tax rate.

#### **Results of Operations**

##### **Second Quarter Fiscal 1995 Compared to Second Quarter Fiscal 1994**

A summary of operating performance follows (expressed in thousands, except percentage and per share amounts):

	THREE MONTHS ENDED		
	OCTOBER 31,		%
	1994	1993	CHANGE
	----	----	-----
Net Sales			
- - - - -			
Wines & Spirits	\$317,664	\$306,902	3.5
Consumer Durables	167,047	154,109	8.4
Other	--	4,714	--
- - - - -			
Total	\$484,711	\$465,725	4.1
Operating Income	\$ 87,269	\$ 76,175	14.6
- - - - -			
Gain on Sale of Business	--	\$ 30,077	--
- - - - -			
Net Income	\$ 49,050	\$ 62,515	(21.5)
- - - - -			
Earnings Per Share	\$ 0.71	\$ 0.76	(6.6)
- - - - -			

Sales of the company's wines and spirits segment were up 4% for the quarter due to higher sales of Jack Daniel's and the company's premium

wine brands. Sales of Brown-Forman's other major beverage brands were generally flat or lower than the same period last year. Consumer durables sales increased 8% compared to last year. Strong sales gains for Lenox China, higher same store sales at the company's retail operations and successful new products contributed to the increase in sales.

Consolidated operating income increased 15%, attributable to improved profitability of the company's consumer durables business, as well as continued growth of Jack Daniel's Tennessee Whiskey and lower advertising in the cocktails category.

The adoption last year of a newly mandated accounting method for direct mail advertising also had a positive impact on second quarter results, adding about \$.04 per share to earnings for the period. The accounting change should correspondingly reduce fourth quarter earnings, with virtually no effect on full year results. Interest costs associated with the company's January 1994 share repurchase lowered second quarter net income by about \$3 million, however, the repurchase had a positive effect on earnings per share, adding a net benefit of \$.09 to second quarter results.

The effective tax rate, before unusual items, increased due to passage of the 1993 tax act which increased the statutory rate and reduced overseas tax benefits, and due to the improvement in consumer durable earnings, which bear relatively higher taxes. Additionally, in fiscal 1994, the effective tax rate benefited from a favorable adjustment of prior years' tax accruals.

Earnings last year were \$.76 per share. Excluding the gain of \$.22 per share from the sale of a business and a charge of \$.04 per share to account for changes in tax legislation affecting prior periods, earnings last year were \$.58 per share.

#### **Six Months Fiscal 1995 Compared to Six Months Fiscal 1994**

A summary of operating performance follows (expressed in thousands, except percentage and per share amounts):

	SIX MONTHS ENDED		
	OCTOBER 31,		%
	1994	1993	CHANGE
	----	----	-----
Net Sales			
- - - - -			
Wines & Spirits	\$583,693	\$586,700	(0.5)
Consumer Durables	279,791	258,627	8.2
Other	--	10,053	--
	-----	-----	
Total	\$863,484	\$855,380	0.9
Operating Income	\$139,280	\$124,552	11.8
- - - - -			
Gain on Sale of Business	--	\$ 30,077	--
- - - - -			
Net Income			
- - - - -			
Income Before Cumulative Effect of Accounting Changes	\$ 77,176	\$ 91,969	(16.1)
Cumulative Effect of Accounting Changes	--	(32,542)	--
	-----	-----	
Net Income	\$ 77,176	\$ 59,427	29.9

	SIX MONTHS ENDED		% CHANGE
	OCTOBER 31, 1994	1993	
	----	----	-----
Earnings Per Share			
-----			
Earnings Before Cumulative Effect of Accounting Changes	\$ 1.12	\$ 1.11	0.9
Cumulative Effect of Accounting Changes	--	(0.39)	--
	-----	-----	
Earnings Per Share	\$ 1.12	\$ 0.72	55.6

Sales of the company's wines and spirits segment were down less than one percent for the first six months reflecting consumption trends in the U.S. market. While the company's most important brand, Jack Daniel's Tennessee Whiskey, achieved worldwide depletion volume gains and sales of premium wine brands increased, sales of other beverage brands generally declined from last year's level. Sales of consumer durables for the first six months were up 8% compared to last year. Double-digit sales gains for Lenox China, same store increases at the company's retail operations, and successful new product introductions all contributed to the sales increase.

Consolidated operating income increased 12% due primarily to strong sales gains and operating efficiencies in the consumer durables business, and lower advertising expense in the cocktails category of the wines and spirits segment.

Interest costs associated with the company's January 1994 share repurchase lowered first half net income by about \$6 million, however, the repurchase had a positive effect on earnings per share, adding \$.12 to first half results.

The effective tax rate, before unusual items, for the first six months increased due to passage of the 1993 tax act which increased the statutory rate and reduced overseas tax benefits, and the improvement in consumer durable earnings, which bear relatively higher taxes. Additionally, in fiscal 1994, the effective tax rate benefited from a favorable adjustment of prior years' tax accruals. The company expects the full year effective tax rate in fiscal 1995 to be approximately 39% to 40%.

Earnings last year were \$.72 per share. Excluding the charge of \$.39 per share for adoption of new accounting standards, the gain of \$.22 per share from the sale of a business, and a charge of \$.04 per share to account for changes in tax legislation affecting prior periods, earnings were \$.93 per share.

The company expects any further growth in earnings per share in the second half to be very modest due to the higher effective tax rate, the reduction in fourth quarter earnings due to the accounting change in direct mail advertising, and overseas investments in the company's beverage business. For the past four quarters, the company's main business experienced positive operating trends which are expected to continue. For the full fiscal year, the company expects to experience good growth in earnings per share, and current trends in operating income indicate a solid basis for additional growth in the future.

**Financial Condition at October 31, 1994 Compared to Financial Condition at April 30, 1994**

The company's cash flow activity in the first half ended October 31, 1994 continued to reflect strength and flexibility. Cash from operating activities together with short-term commercial paper borrowings provided more than adequate cash to fund dividends, long-term debt payments, and normal investments in property, plant, and equipment. These investments were at a slightly higher level than last year. Cash provided by operating activities of \$30 million was \$15 million or 34% lower than last year due primarily to increased inventory in the wines and spirits segment.

**Dividends**

The Board of Directors increased the quarterly cash dividend 4.8% from 23.67 cents to 24.80 cents per share on Class A and Class B common stock payable January 1, 1995. As a result, the indicated annual cash dividend per share rose from 94.68 cents to 99.20 cents.

**Environmental**

The company, along with other responsible parties, faces environmental claims resulting from the cleanup of several waste deposit sites. The company currently anticipates that the total cost of remediating these sites is approximately \$9,700,000. The company has accrued its estimated portion of these cleanup costs and expects other responsible parties and insurance coverage 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 financial condition or results of operations.

## PART II - OTHER INFORMATION

### **Item 1. Legal Proceedings**

Adams, et al. v. Brown-Forman Corporation (U.S. District Court, Middle District of Florida, Tampa Division):

As previously reported, Brown-Forman Corporation terminated approximately 220 employees in a November 1986 reorganization. All terminated employees received special compensation packages and signed complete releases waiving any legal rights against the company they might have as a result of their termination. Nonetheless, the company was named as a defendant in four related lawsuits, filed in 1988 and 1989, alleging violation of the Age Discrimination in Employment Act (the "ADEA") related to this termination process.

Three of the suits, collectively referred to as Adams, et al. v. Brown-Forman Corporation, were filed by or on behalf of the same 44 plaintiffs; the fourth suit was filed by the U.S. Equal Employment Opportunity Commission (the "EEOC") on behalf of 104 individuals, including the Adams plaintiffs. The lawsuits have been consolidated for trial in the U.S. District Court for the Middle District of Florida. During the course of this litigation, the EEOC has ceased representation of 19 individuals, thus reducing the total to 85 individuals.

The 44 Adams plaintiffs have asserted their damages to be approximately \$62 million. The EEOC, using the same expert as that used by the plaintiffs in the private actions, has determined the EEOC's damage claim to be \$43 million for the individuals on whose behalf it has brought suit, bringing the total claimed to \$105 million. The company and its legal counsel consider this figure to exceed by far any liability to which the company might be exposed. The company denies any liability to the plaintiffs or individuals on whose part the EEOC has brought suit in these matters and is vigorously contesting the litigation.

On June 17, 1992, the Eleventh Circuit Court of Appeals reversed a decision of the trial court and ruled in the company's favor that "knowing and voluntary" written releases are valid, even when plaintiffs are making ADEA claims. The company filed a motion for summary judgment on the release and other issues. By order issued August 10, 1994, the District Court accepted a prior report and recommendation of a U.S. Magistrate that the releases were valid and binding as to 11 of the plaintiffs and that their cases should be dismissed. The District Court found there were "genuine issues of material fact" on the release and other issues with respect to the remaining 74 plaintiffs, and denied the motion for summary judgment as to them.

The company is seeking an interlocutory appeal of the District Court's decision to the Eleventh Circuit Court of Appeals for a determination that the written releases executed by all plaintiffs are legally binding as a matter of law. If such a determination were made, all claims against the company would be dismissed.

If the Eleventh Circuit Court of Appeals does not hear the appeal, the case as to the remaining 74 plaintiffs will proceed to trial. No trial date has been set.

**Item 6. Exhibits and Reports on Form 8-K**

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(a) Exhibits:

Exhibit Number -----	Exhibit -----
27	Financial Data Schedule

(b) Reports on Form 8-K:

1.) There were no reports on Form 8-K filed during the quarter ended October 31, 1994.

**SIGNATURES**

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

**BROWN-FORMAN CORPORATION**

(Registrant)

<i>Date:</i> December 12, 1994	<i>/s/ Owsley Brown II</i> <i>By:</i> _____ <i>Owsley Brown II</i> <i>President and Chief</i> <i>Executive Officer</i>
<i>Date:</i> December 12, 1994	<i>/s/ Clifford G. Rompf, Jr.</i> <i>By:</i> _____ <i>Clifford G. Rompf, Jr.</i> <i>Senior Vice President</i> <i>(Principal Accounting Officer)</i>

## ARTICLE 5

This schedule contains summary financial information extracted from the company's October 31, 1994 Quarterly Report Form 10-Q and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	APR 30 1995
PERIOD END	OCT 31 1994
CASH	40,426
SECURITIES	0
RECEIVABLES	299,170 <sup>1</sup>
ALLOWANCES	0 <sup>1</sup>
INVENTORY	387,198
CURRENT ASSETS	759,228
PP&E	517,549
DEPRECIATION	273,902
TOTAL ASSETS	1,343,058
CURRENT LIABILITIES	339,332
BONDS	292,776
COMMON	497,400
PREFERRED MANDATORY	0
PREFERRED	11,779
OTHER SE	0
TOTAL LIABILITY AND EQUITY	1,343,058
SALES	863,484
TOTAL REVENUES	863,484
CGS	437,746 <sup>2</sup>
TOTAL COSTS	437,746 <sup>2</sup>
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	11,344
INCOME PRETAX	128,617
INCOME TAX	51,441
INCOME CONTINUING	77,176
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	77,176
EPS PRIMARY	1.12
EPS DILUTED	1.12

<sup>1</sup> Accounts receivable is shown net of allowance for doubtful accounts. Allowance for doubtful accounts has not changed materially from the April 30, 1994 balance.

<sup>2</sup> Cost of goods sold and total costs include excise taxes of \$129.803 million.

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