

# BROWN FORMAN CORP

## FORM 10-Q (Quarterly Report)

Filed 9/5/1997 For Period Ending 7/31/1997

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 July 31, 1997

*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: September 5, 1997

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

**BROWN-FORMAN CORPORATION**  
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**PART I - FINANCIAL INFORMATION**

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

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

(Expressed in millions except per share amounts)

	Three Months Ended	
	July 31,	
	1997	1996
	-----	-----
Net sales	\$ 428.1	\$ 424.4
Excise taxes	56.3	59.2
Cost of sales	154.3	153.0
	-----	-----
Gross profit	217.5	212.2
Selling, general, and administrative expenses	98.2	93.1
Advertising expenses	60.6	63.4
	-----	-----
Operating income	58.7	55.7
Interest income	.7	.6
Interest expense	3.9	4.1
	-----	-----
Income before income taxes	55.5	52.2
Taxes on income	21.1	19.8
	-----	-----
Net income	34.4	32.4
Less preferred stock dividend requirements	.1	.1
	-----	-----
Net income applicable to common stock	\$ 34.3	\$ 32.3
	=====	=====
Net income per common share	\$ .50	\$ .47
	=====	=====
Cash dividends declared per common share	\$ .27	\$ .26
	=====	=====
Average common shares outstanding used to calculate net income per common share	69.0	69.0
	=====	=====

See notes to the condensed consolidated financial statements.

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

	July 31, 1997 ----- (Unaudited)	April 30, 1997 -----
<b>Assets</b>		
-----		
Cash and cash equivalents	\$ 42.1	\$ 58.2
Accounts receivable, net	223.1	262.8
Inventories:		
Barreled whiskey	179.9	176.3
Finished goods	182.0	172.3
Work in process	55.3	65.8
Raw materials and supplies	43.2	37.0
	-----	-----
Total inventories	460.4	451.4
Other current assets	37.0	29.7
	-----	-----
Total current assets	762.6	802.1
Property, plant and equipment, net	290.9	292.2
Intangible assets, net	251.9	253.9
Other assets	83.3	80.2
	-----	-----
Total assets	\$1,388.7	\$1,428.4
	=====	=====
<b>Liabilities</b>		
-----		
Commercial paper	\$ 101.3	\$ 155.0
Accounts payable and accrued expenses	195.4	208.6
Current portion of long-term debt	6.7	6.7
Accrued taxes on income	15.6	6.4
Deferred income taxes	22.1	22.1
Dividends payable	18.7	--
	-----	-----
Total current liabilities	359.8	398.8
Long-term debt	63.5	63.4
Deferred income taxes	139.9	135.6
Accrued postretirement benefits	55.0	54.5
Other liabilities and deferred income	43.0	45.7
	-----	-----
Total liabilities	661.2	698.0
<b>Stockholders' Equity</b>		
-----		
Preferred stock	11.8	11.8
Common stockholders' equity	715.7	718.6
	-----	-----
Total stockholders' equity	727.5	730.4
	-----	-----
Total liabilities and stockholders' equity	\$1,388.7	\$1,428.4
	=====	=====

Note: The balance sheet at April 30, 1997 has been taken from the audited financial statements at that date, and condensed.

See notes to the condensed consolidated financial statements.

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

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

	Three Months Ended	
	July 31,	
	1997	1996
	-----	-----
Cash flows from operating activities:		
Net income	\$ 34.4	\$ 32.4
Adjustments to reconcile net income to net cash provided by (used for) operations:		
Depreciation	10.3	10.1
Amortization	2.3	2.3
Deferred income taxes	4.3	1.7
Other	(4.7)	(3.6)
Changes in assets and liabilities:		
Accounts receivable	39.7	10.9
Inventories	(9.0)	(6.8)
Other current assets	(7.3)	(6.4)
Accounts payable and accrued expenses	(13.2)	(27.3)
Accrued taxes on income	9.2	11.7
	-----	-----
Cash provided by operating activities	66.0	25.0
Cash flows from investing activities:		
Additions to property, plant and equipment, net	(9.2)	(12.6)
Other	(.5)	(.5)
	-----	-----
Cash used for investing activities	(9.7)	(13.1)
Cash flows from financing activities:		
Net change in commercial paper	(53.7)	(24.9)
Proceeds from long-term debt	--	.2
Dividends paid	(18.7)	(18.1)
	-----	-----
Cash used for financing activities	(72.4)	(42.8)
	-----	-----
Net decrease in cash and cash equivalents	(16.1)	(30.9)
Cash and cash equivalents, beginning of period	58.2	53.9
	-----	-----
Cash and cash equivalents, end of period	\$ 42.1	\$ 23.0
	=====	=====

See notes to the condensed consolidated financial statements.

# BROWN-FORMAN CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

### 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We prepared these unaudited condensed consolidated financial statements using our customary accounting practices as set out in our 1997 annual report on Form 10-K (the "1997 Annual Report"). We made all of the adjustments (which includes only normal, recurring adjustments) needed to present this data fairly.

We condensed or left out some of the information found in financial statements prepared according to generally accepted accounting principles ("GAAP"). You should read these financial statements together with the 1997 Annual Report, which does conform to GAAP.

2. INVENTORIES We use the last-in, first-out method to determine the cost of almost all of our inventories. If the last-in, first-out method had not been used, inventories would have been \$100.3 million higher than reported as of July 31, 1997, and \$98.4 million higher than reported as of April 30, 1997.

3. 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. We expect either the other responsible parties or insurance to cover the remaining costs. We do not believe that any additional costs we incur to satisfy environmental claims will have a material adverse effect on our financial condition or results of operations.

4. CONTINGENCIES We get sued in the ordinary course of business. Some suits and claims seek significant damages. Many of them take years to resolve, which makes it difficult for us to predict their outcomes. We believe, based on our legal counsel's advice, that none of the suits and claims pending against us will have a material adverse effect on our financial condition or results of operations.

**5. NEW ACCOUNTING PRONOUNCEMENTS** In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," which establishes standards for computing and presenting earnings per share. SFAS No. 128 is effective for financial statements for periods ending after December 15, 1997 and requires the restatement (as applicable) of prior-period earnings per share presented in those financial statements. The adoption of SFAS No. 128 will not change our previously-reported earnings per share.

In June 1997, the 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 our 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. The adoption of SFAS No. 131 will have no effect on our financial condition or results of operations. We have not determined the effect that the adoption of SFAS No. 131 will have on our financial statement disclosures.

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

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

You should read the following discussion and analysis along with our 1997 Annual Report. Note that the results of operations for the three months ended July 31, 1997, do not necessarily indicate what our operating results for the full fiscal year will be. In this Item, "we," "us," and "our" refer to Brown-Forman Corporation.

#### **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 which follows, 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.

**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 for 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 to which we export our beverage products, including Germany, the United Kingdom, Japan, and Australia. The wine and spirits business, both in the U.S. 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 business anticipate a continued strengthening of our Lenox business. These projections could be offset by factors such as poor consumer response rates at Lenox Collections, weakened demand for fine china, a soft retail environment at outlet malls, or further department store consolidation.

## Results of Operations

### First Quarter Fiscal 1998 Compared to First Quarter Fiscal 1997

Here is a summary of our operating performance (expressed in millions, except percentage and per share amounts):

	THREE MONTHS ENDED		
	JULY 31,		%
	1997	1996	CHANGE
	----	----	-----
Net Sales			
-----			
Wine & Spirits	\$ 317.4	\$ 324.3	(2)
Consumer Durables	110.7	100.1	11
	-----	-----	
Total	\$ 428.1	\$ 424.4	1
Operating Income	\$ 58.7	\$ 55.7	5
-----			
Net Income	\$ 34.4	\$ 32.4	6
-----			
Net Income per Common Share	\$ .50	\$ .47	6
-----			
Effective Tax Rate	38.0%	38.0%	
-----			

Sales for our wine and spirits segment declined 2%, driven by sharply lower sales of frozen cocktail products in the U.S. and softer volumes experienced in certain overseas markets for our major spirits brands. Solid growth of Jack Daniel's in the U.S. and a significant increase in revenues from our wine brands partially offset these declines.

Revenues from our consumer durables segment were up 11% for the quarter as a result of significantly higher sales volume for Lenox Collections, our direct marketing division. In addition, sales to department stores increased modestly as a result of new product lines and merchandising programs.

Operating income for the quarter increased 5%, driven primarily by further improvement in profitability at Lenox Collections and the growth of Jack Daniel's in the U.S., partially offset by continued investment in international markets and higher levels of advertising related to our wine brands.

Net interest expense declined 9% from last year's first quarter due to lower net debt balances.

As discussed in Note 5 to the accompanying condensed consolidated financial statements, SFAS No. 128 will become effective for us beginning with the quarter ending January 31, 1998. We do not expect SFAS No. 128 to have a material impact on the calculation of our net income per common share.

Based on the results of the first quarter and our current projections, we are optimistic about the opportunities for both the wine and spirits segment and the consumer durables segment for the remainder of fiscal 1998.

**Liquidity and Financial Condition**

Cash and cash equivalents decreased by \$16.1 million during the first quarter, as cash used for investing and financing activities exceeded cash provided by operations. Cash provided by operations totaled \$66.0 million, primarily reflecting net income for the quarter and a decrease in accounts receivable resulting from a lower mix of international sales which generally carry longer credit terms. Cash of \$9.7 million was used for investing activities, consisting mostly of expenditures to expand and modernize our production facilities and enhance our information systems. Cash used for financing activities was \$72.4 million, as we used excess funds to pay down our commercial paper and to pay dividends.

**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. We expect either the other responsible parties or insurance to cover the remaining costs. We do not believe that any additional costs we incur to satisfy environmental claims will have a material adverse effect on our financial condition or results of operations.

## PART II - OTHER INFORMATION

### **Item 1. 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)

As we reported earlier, we bought a start-up credit card processing business in 1988 from Expansion Plus, Inc. ("EPI"). We built up this business substantially, and sold it in 1993 for \$31.2 million. Months after the sale, EPI claimed that we had never acquired full title to the business, that we had to return all or part of it to EPI, and that our sale of the business to a third party represented a conversion of EPI's assets.

In October, 1994, EPI filed a tort action against the buyer and us alleging conversion of property, tortious interference with contractual relationships, misappropriation of trade secrets, and breach of a confidential relationship. EPI sought damages of \$31.2 million plus punitive damages in an amount ten times actual damages.

On January 30, 1997, the trial judge entered summary judgment in our favor, dismissing all of EPI's claims. EPI has appealed to the Federal Appeals Court for the Fifth Circuit.

Our counsel have advised us, and it is our opinion, that the disposition of this suit will not have a material adverse effect on our financial condition or results of operations.

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

At the Annual Meeting of Stockholders of the company held July 24, 1997, the following matter was voted upon:

Election of Barry D. Bramley, Geo. Garvin Brown III, Owsley Brown II, Donald G. Calder, Owsley Brown Frazier, Richard P. Mayer, Stephen E. O'Neil, William M. Street, and James S. Welch to serve as directors until the next annual election of directors, or until a successor has been elected and qualified.

	For	Withheld
	---	-----
Barry D. Bramley	27,481,362	7,770
Geo. Garvin Brown III	27,483,824	5,308
Owsley Brown II	27,483,164	5,968
Donald G. Calder	27,483,821	5,311
Owsley Brown Frazier	27,481,143	7,989
Richard P. Mayer	27,483,344	5,788
Stephen E. O'Neil	27,481,415	7,717
William M. Street	27,483,357	5,775
James S. Welch	27,483,217	5,915

**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: None

**SIGNATURES**

As required by the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned authorized officer.

**BROWN-FORMAN CORPORATION**  
(Registrant)

Date: September 5, 1997

By: /s/ Steven B. Ratoff

\_\_\_\_\_  
Steven B. Ratoff  
Executive Vice President  
and Chief Financial Officer  
(On behalf of the Registrant and  
as Principal Financial Officer)

## ARTICLE 5

This schedule contains summary financial information extracted from the company's July 31, 1997 Quarterly Report Form 10-Q and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	APR 30 1998
PERIOD END	JUL 31 1997
CASH	42
SECURITIES	0
RECEIVABLES	223 <sup>1</sup>
ALLOWANCES	0 <sup>1</sup>
INVENTORY	460
CURRENT ASSETS	763
PP&E	647
DEPRECIATION	356
TOTAL ASSETS	1,389
CURRENT LIABILITIES	360
BONDS	64
PREFERRED MANDATORY	0
PREFERRED	12
COMMON	10
OTHER SE	706
TOTAL LIABILITY AND EQUITY	1,389
SALES	428
TOTAL REVENUES	428
CGS	211 <sup>2</sup>
TOTAL COSTS	211 <sup>2</sup>
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	4
INCOME PRETAX	55
INCOME TAX	21
INCOME CONTINUING	34
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	34
EPS PRIMARY	.50
EPS DILUTED	.50

<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, 1997 balance.

<sup>2</sup> Includes excise taxes of \$56 million.

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**End of Filing**

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