BROWN FORMAN CORP
Form 10-Q
September 07, 2007

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended JULY 31, 2007

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _______________

Commission File No. 002-26821

BROWN-FORMAN CORPORATION
(Exact name of Registrant as specified in its Charter)

Delaware	61-0143150
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

850 Dixie Highway Louisville, Kentucky	40210
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
(Check one):

Large accelerated filer |X| Accelerated filer |_| Non-accelerated filer |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes | | No |X|

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: August 31, 2007

Class A Common Stock ($.15 par value, voting)	56,753,985
Class B Common Stock ($.15 par value, nonvoting)	66,780,336

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

BROWN-FORMAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in millions, except per share amounts)

Three Months Ended
July 31,

	2006	2007
Net sales	$ 633.4	$ 739.1
Excise taxes	128.4	152.0
Cost of sales	156.1	196.1
Gross profit	348.9	391.0
Advertising expenses	80.7	94.0
Selling, general, and administrative expenses	127.9	143.1
Amortization expense	--	1.3
Other (income), net	(2.0)	(2.8)
Operating income	142.3	155.4
Interest income	4.7	2.0
Interest expense	5.8	13.1
Income from continuing operations before income taxes	141.2	144.3
Income taxes	46.6	48.9
Income from continuing operations	94.6	95.4
Loss from discontinued operations, net of income taxes	(0.9)	(0.1)
Net income	$ 93.7	$ 95.3
Basic earnings (loss) per share:		
Continuing operations	$ 0.77	$ 0.77
Discontinued operations	(0.01)	--
Total	$ 0.76	$ 0.77
Diluted earnings (loss) per share:		
Continuing operations	$ 0.76	$ 0.77
Discontinued operations	(0.01)	--
Total	$ 0.76	$ 0.77
Shares (in thousands) used in the calculation of earnings (loss) per share:		
Basic	122,613	123,217
Diluted	124,066	124,434
Cash dividends per common share:		
Declared	$0.5600	$0.6050
Paid	$0.2800	$0.3025

See notes to the condensed consolidated financial statements.

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

	April 30, 2007	July 31, 2007
Assets		
Cash and cash equivalents	$ 282.8	$ 179.8
Short-term investments	85.6	--
Accounts receivable, net	403.7	393.8
Inventories:		
Barreled whiskey	302.8	308.7
Finished goods	150.6	187.5
Work in process	198.5	175.2
Raw materials and supplies	42.5	53.4
Total inventories	694.4	724.8
Current portion of deferred income taxes	76.1	76.0
Other current assets	92.6	41.0
Total current assets	1,635.2	1,415.4
Property, plant and equipment, net	506.3	504.8
Goodwill	670.2	669.0
Other intangible assets	683.9	695.8
Prepaid pension cost	23.0	23.3
Other assets	32.8	33.9
Total assets	$3,551.4	$3,342.2
Liabilities		
Accounts payable and accrued expenses	$ 361.1	$ 334.3
Accrued income taxes	27.0	7.0
Payable to stockholders	203.7	37.4
Short-term borrowings	401.1	342.8
Current portion of long-term debt	354.0	354.0
Total current liabilities	1,346.9	1,075.5
Long-term debt	421.9	421.4
Deferred income taxes	56.6	53.0
Accrued pension and other postretirement benefits	122.8	124.9
Other liabilities	29.8	60.5
Total liabilities	1,978.0	1,735.3
Stockholders' Equity		
Common stock:		
Class A, voting (57,000,000 shares authorized; 56,882,000 and 56,925,000 shares issued at April 30 and July 31, respectively)	8.5	8.5
Class B, nonvoting (100,000,000 shares authorized; 69,188,000 shares issued)	10.4	10.4
Additional paid-in capital	63.9	73.0

Retained earnings	1,649.6	1,670.2
Accumulated other comprehensive income	(57.2)	(54.3)
Treasury stock (2,833,000 and 2,620,000 shares at April 30 and July 31, respectively)	(101.8)	(100.9)
Total stockholders' equity	1,573.4	1,606.9
Total liabilities and stockholders' equity	$3,551.4	$3,342.2

See notes to the condensed consolidated financial statements.

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

	Three Months Ended July 31, 2006	2007
Cash flows from operating activities:		
Net income	$ 93.7	$ 95.3
Adjustments to reconcile net income to net cash provided by (used for) operations:		
Net loss from discontinued operations	0.9	0.1
Depreciation and amortization	10.0	12.8
Stock-based compensation expense	2.5	2.4
Deferred income taxes	(3.6)	(4.8)
Changes in assets and liabilities, excluding the effects of businesses acquired or sold:		
Accounts receivable	(4.4)	9.9
Inventories	(19.6)	(28.9)
Other current assets	20.5	51.6
Accounts payable and accrued expenses	(47.1)	(26.8)
Accrued income taxes	31.0	(20.0)
Noncurrent assets and liabilities	(10.3)	36.9
Net cash provided by (used for) operating activities of discontinued operations	2.6	(0.1)
Cash provided by operating activities	76.2	128.4
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(250.1)	1.5
Acquisition of brand name	--	(12.0)
Purchase of short-term investments	(43.1)	--
Sale of short-term investments	16.7	85.6
Additions to property, plant, and equipment	(10.5)	(11.4)
Computer software expenditures	(0.9)	(3.3)
Net cash used for investing activities of discontinued operations	(0.1)	--
Cash (used for) provided by investing activities	(288.0)	60.4
Cash flows from financing activities:		
Net repayment of short-term borrowings	(29.3)	(58.9)

Proceeds from exercise of stock options	16.9	11.3
Excess tax benefits from stock options	3.3	3.3
Acquisition of treasury stock	--	(7.0)
Special distribution to stockholders	--	(203.7)
Dividends paid	(34.4)	(37.3)
Cash used for financing activities	(43.5)	(292.3)
Effect of exchange rate changes on cash and cash equivalents	0.4	0.5
Net decrease in cash and cash equivalents	(254.9)	(103.0)
Cash and cash equivalents, beginning of period	474.8	282.8
Cash and cash equivalents, end of period	$ 219.9	$ 179.8

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 statements using our customary accounting practices as set out in our annual report on Form 10-K for the year ended April 30, 2007 (the "2007 Annual Report"). We made all of the adjustments (which include only normal, recurring adjustments, unless otherwise noted) needed for a fair statement of this data.

We condensed or omitted some of the information found in financial statements prepared according to accounting principles generally accepted in the United States of America ("GAAP"). You should read these financial statements together with the 2007 Annual Report, which does conform to GAAP.

2. Inventories

We use the last-in, first-out ("LIFO") method to determine the cost of most of our inventories. If the LIFO method had not been used, inventories at current cost would have been $126.0 million higher than reported as of April 30, 2007, and $130.6 million higher than reported as of July 31, 2007. Changes in the LIFO valuation reserve for interim periods are based on a proportionate allocation of the estimated change for the entire fiscal year.

3. Income Taxes

Our consolidated quarterly effective tax rate is based upon our expected annual operating income, statutory tax rates, and tax laws in the various jurisdictions in which we operate. Significant or unusual items, including adjustments to accruals for tax uncertainties, are recognized in the quarter in which the related event occurs. The effective tax rate of 33.9% for the three months ended

July 31, 2007, is based on an expected effective tax rate of 32.8% on ordinary income for the full fiscal year, plus first quarter additions to existing tax contingencies and additional interest on previously provided tax contingencies.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that we recognize in our financial statements the benefit of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

We adopted the provisions of FIN 48 as of May 1, 2007, and made no adjustment to our unrecognized tax benefits. Upon adoption, we had $43.8 million of gross unrecognized tax benefits and $34.1 million of net uncertain tax benefits that would reduce our effective income tax rate if recognized. We do not believe that our gross liability for unrecognized tax benefits will materially change over the next 12 months although we do expect that the statute of limitations on certain gross unrecognized state income tax benefits of $5.5 million will expire during this period. We do not anticipate that our current fiscal year effective income tax rate will be materially affected by the net changes to our uncertain tax positions during the current fiscal year because we believe current year net additions of tax and interest on existing tax contingencies will be offset by the recognition of previously unrecognized net tax benefits from lapsing statutes of limitation.

It is our continuing practice to record interest and penalties related to unrecognized tax benefits as a component of our income tax provision. As of May 1, 2007, our gross liability for accrued interest and penalties on our unrecognized tax benefits totaled $8.7 million.

We file income tax returns in the U.S., including several state and local jurisdictions, as well as in various other countries throughout the world in which we conduct our business. The major tax jurisdictions and their earliest fiscal years that are currently open for tax examinations are 2003 in the U.S., United Kingdom and Ireland, 2004 in Italy, and 2001 in Finland and Poland.

4. Discontinued Operations

Discontinued Operations consist of Hartmann and Brooks & Bentley, wholly-owned subsidiaries that we sold in fiscal 2007. Those subsidiaries, along with Lenox, Inc., the wholly-owned subsidiary that we sold in fiscal 2006, comprised our former consumer durables business.

5. Earnings Per Share

Basic earnings per share is based upon the weighted average number of all common shares outstanding during the period. Diluted earnings per share includes the dilutive effect of stock-based compensation awards, including stock options, stock-settled stock appreciation rights ("SSARs"), and non-vested restricted stock. Stock-based awards for approximately 326,000 common shares were excluded from the calculation of diluted earnings per share for the period ended July 31, 2007, because the exercise price of the awards was greater than the average market price of the shares. No stock-based awards were excluded from the calculation of diluted earnings per share for the period ended July 31, 2006.

The following table presents information concerning basic and diluted earnings per share:

(Dollars in millions, except per share amounts)	Three Months Ended July 31, 2006	Three Months Ended July 31, 2007
Basic and diluted net income (loss):		
Continuing operations	$94.6	$95.4
Discontinued operations	(0.9)	(0.1)
Total	$93.7	$95.3
Share data (in thousands):		
Basic average common shares outstanding	122,613	123,217
Dilutive effect of non-vested restricted stock	47	80
Dilutive effect of stock options and SSARs	1,406	1,137
Diluted average common shares outstanding	124,066	124,434
Basic earnings (loss) per share:		
Continuing operations	$0.77	$0.77
Discontinued operations	(0.01)	--
Total	$0.76	$0.77
Diluted earnings (loss) per share:		
Continuing operations	$0.76	$0.77
Discontinued operations	(0.01)	--
Total	$0.76	$0.77

6. Payable to Stockholders

On March 22, 2007, our Board of Directors approved the distribution to stockholders of the $203.7 million in cash received (net of transaction fees) from the sale of Lenox and Brooks & Bentley. The distribution of $1.6533 per share was made on May 10, 2007, to stockholders of record on April 5, 2007.

On July 26, 2007, our Board of Directors approved a regular quarterly cash dividend of $0.3025 per share on Class A and Class B Common Stock. Stockholders of record on September 4, 2007 will receive the cash dividend on October 1, 2007.

7. Pension and Other Postretirement Benefits

The following table shows the components of the pension and other postretirement benefit expense recognized during the three months ended July 31:

(Dollars in millions)	Pension Benefits 2006	Pension Benefits 2007	Other Benefits 2006	Other Benefits 2007
Service cost	$ 3.2	$3.4	$0.3	$0.2

Interest cost	6.0	6.6	0.8	0.8
Expected return on plan assets	(7.9)	(8.0)	--	--
Amortization of:				
Unrecognized prior service cost	0.2	0.2	--	--
Unrecognized net loss	2.9	3.0	0.1	0.1
Net expense	$ 4.4	$5.2	$1.2	$1.1

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8. Contingencies

We operate in a litigious environment, and we are sued in the normal course of business. Sometimes plaintiffs seek substantial damages. Significant judgment is required in predicting the outcome of these suits and claims, many of which take years to adjudicate. We accrue estimated costs for a contingency when we believe that a loss is probable and we can make a reasonable estimate of the loss, and adjust the accrual as appropriate to reflect changes in facts and circumstances.

A law firm has sued Brown-Forman and many other manufacturers and marketers of spirits, wines, and beer in a series of nine very similar class action lawsuits seeking damages and injunctive relief from alleged marketing of beverage alcohol to underage consumers. The suits allege that the defendants engage in deceptive and negligent marketing practices targeting underage consumers. They seek to recover on behalf of parents those funds that their children spent on the illegal purchase of alcohol as well as disgorgement of all profits from the alleged illegal sales. We are vigorously defending these cases. Two cases were voluntarily withdrawn. Six of the suits have been dismissed by trial courts, each of which was appealed. Three of those appeals have affirmed the dismissals. One case remains pending on a dismissal motion. We cannot yet predict the outcome of these claims, including whether we will incur related losses or the amount of such losses. Since we cannot estimate the amount of possible loss, no amounts have been accrued. But an unfavorable result in these or similar class-action lawsuits could have a material adverse impact on our business.

9. Comprehensive Income

Comprehensive income is a broad measure of the effects of all transactions and events (other than investments by or distributions to stockholders) that are recognized in stockholders' equity, regardless of whether those transactions and events are included in net income. The following table adjusts the Company's net income for the other items included in the determination of comprehensive income:

(Dollars in millions)	Three Months Ended July 31, 2006	2007
Continuing operations:		
Net income	$94.6	$95.4
Other comprehensive income (loss):		
Net loss on cash flow hedges	(0.1)	(0.4)
Net loss on securities	--	(0.1)
Postretirement benefits adjustment	--	2.0
Foreign currency translation adjustment	2.9	1.4
	2.8	2.9
Comprehensive income	97.4	98.3

Discontinued operations:		
Net loss	(0.9)	(0.1)
Other comprehensive income (loss):		
Foreign currency translation adjustment	0.3	--
Comprehensive loss	(0.6)	(0.1)
Total comprehensive income	$96.8	$98.2

Accumulated other comprehensive loss (income) consisted of the following:

(Dollars in millions)	April 30, 2007	July 31, 2007
Postretirement benefits adjustment	$(99.2)	$(97.2)
Cumulative translation adjustment	45.7	47.1
Unrealized loss on cash flow hedge contracts	(4.0)	(4.4)
Unrealized gain on securities	0.3	0.2
	$(57.2)	$(54.3)

10. Acquisition of Brand Name

In May 2007, we ended our joint ventures in the tequila business with the Orendain family of Mexico. We had shared ownership of the "Don Eduardo" and other "Orendain" trademarks and related intellectual property with the Orendain family since 1999 through two joint venture companies: Tequila Orendain de Jalisco (TOJ) and BFC Tequila Limited (BFCTL). TOJ produced the tequila and held the trademarks in Mexico. BFCTL owned the trademarks for all markets excluding Mexico. Upon ending the joint ventures, we acquired the remaining portion of the global trademark for the Don Eduardo super premium tequila brand that we did not already own. In exchange, we paid $12.0 million to the other shareholders of TOJ and BFCTL and surrendered to them our interest in all other Orendain trademarks previously owned by these two companies.

11. Recent Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements" (FAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of FAS 157 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 157 will have on our financial statements.

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" (FAS 159). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of FAS 159 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 159 will have on our financial statements.

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 2007 Annual Report. Note that the results of operations for the three months ended July 31, 2007, 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.

Important Note on Forward-Looking Statements:
This release contains statements, estimates, or projections that constitute "forward-looking statements" as defined under U.S. federal securities laws. Generally, the words "expect," "believe," "intend," "estimate," "will," "anticipate," and "project," and similar expressions identify a forward-looking statement, which speaks only as of the date the statement is made. Except as required by law, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. We believe that the expectations and assumptions with respect to our forward-looking statements are reasonable. But by their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that in some cases are out of our control. These factors could cause our actual results to differ materially from Brown-Forman's historical experience or our present expectations or projections. Here is a non-exclusive list of such risks and uncertainties:

- changes in general economic conditions, particularly in the United States where we earn about half of our profits, including higher energy prices, declining home prices, deterioration of the sub-prime lending market, or other factors;
- lower consumer confidence or purchasing related to changes in economic conditions, major natural disasters, terrorist attacks or widespread outbreak of infectious diseases;
- tax increases, whether at the federal or state level or in major international markets and/or tariff barriers or other restrictions affecting beverage alcohol;
- limitations and restrictions on distribution of products and alcohol marketing, including advertising and promotion, as a result of stricter governmental policies adopted either in the United States or in international markets;
- adverse developments in the class action lawsuits filed against Brown-Forman and other spirits, beer and wine manufacturers alleging that our industry conspired to promote the consumption of alcohol by those under the legal drinking age;
- a strengthening U.S. dollar against foreign currencies, especially the British Pound, Euro, Australian Dollar, and the South African Rand;
- reduced bar, restaurant, hotel and travel business, including travel retail;
- longer-term, a change in consumer preferences, social trends or cultural trends that results in the reduced consumption of our premium spirits brands;
- changes in distribution arrangements in major markets that limit our ability to market or sell our products;
- adverse impact on performance and reported results as a consequence of integrating acquisitions and ensuring their conformance to the company's trade practice standards, financial controls environment and U.S. public company requirements;
- price increases in energy or raw materials, including grapes, grain, agave, wood, glass, and plastic;
- excess wine inventories or a world-wide oversupply of grapes or agave;
- termination of our rights to distribute and market agency brands in our

portfolio;
- counterfeit production of our products and any resulting negative effect on our intellectual property rights or brand equity; and
- adverse developments as a result of state or federal investigations of beverage alcohol industry trade practices of suppliers, distributors and retailers.

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Results of Operations:
First Quarter Fiscal 2008 Compared to First Quarter Fiscal 2007

A summary of our operating performance (expressed in millions, except percentage and per share amounts) is presented below. Continuing Operations consist of our beverage business. Discontinued Operations consist of Lenox, Brooks & Bentley, and Hartmann, which previously comprised our consumer durables business.

	Three Months Ended July 31,		
CONTINUING OPERATIONS	2006	2007	Change
Net sales	$633.4	$739.1	17%
Gross profit	348.9	391.0	12%
Advertising expenses	80.7	94.0	16%
Selling, general, and administrative expenses	127.9	143.1	12%
Amortization expense	--	1.3	
Other (income), net	(2.0)	(2.8)	
Operating income	142.3	155.4	9%
Interest expense, net	1.1	11.1	
Income before income taxes	141.2	144.3	2%
Income taxes	46.6	48.9	
Net income	94.6	95.4	1%
Gross margin	55.1%	52.9%	
Effective tax rate	33.0%	33.9%	
Earnings per share:			
Basic	$0.77	$0.77	0%
Diluted	0.76	0.77	1%

Net sales for the three months ended July 31, 2007 grew $105.7 million, up 17% over the prior-year period. The major factors driving the increase in net sales were:

	Growth vs. Prior Period
Acquisitions	8%
Foreign exchange	3%
Trade inventory changes	(1%)
Underlying net sales growth	7%
Reported net sales growth	17%

The underlying growth in net sales reflects solid growth in consumer demand behind Jack Daniel's, Southern Comfort, Finlandia, and most of our super-premium developing brands.

Gross profit increased $42.1 million, up 12% from the first quarter of last year. Continuing consumer demand for our premium global brands, the addition of acquired brands, and a weaker U.S. dollar contributed to these strong results.

	Growth vs. Prior Period
Acquisitions	5%
Foreign exchange	3%
Trade inventory changes	(3%)
Underlying gross profit growth	7%
Reported gross profit growth	12%

Our overall gross margin as a percent of net sales declined in the quarter due in part to the addition of Casa Herradura(1) results. While the gross profit margin for Herradura and el Jimador sales in the U.S. are at or above our company's overall margins, gross margins on sales in Mexico, which include agency brands and New Mix, a tequila-based ready-to-drink, are considerably lower. As the mix of our business shifts toward more U.S. tequila revenue, we expect gross margins to improve. Gross margins in the quarter were also suppressed by the higher costs associated with a one-time write-up of certain acquired inventories to estimated fair value in purchase accounting and higher costs associated with tequila inventory purchased in the U.S. from previous distributors.

Advertising expenses in the quarter were up $13.3 million, or 16%, over last year's first quarter due to incremental investments behind our premium global brands, new investments in support of acquired brands (approximately $6 million), and a weaker U.S. dollar (approximately $2 million). SG&A expenses increased $15.2 million, or 12%, compared to the same prior year period, due primarily to infrastructure associated with the addition of acquired brands. Operating income increased $13.1 million, up 9% over the first quarter last year.

Prior to our acquisition of Casa Herradura, the U.S. distribution rights for the Herradura brand had been granted to a third party through December 31, 2011. Upon completing the acquisition of Casa Herradura, we acquired those distribution rights from that third party at a cost of $25.0 million. This amount is being amortized on a straight-line basis over the period ending December 31, 2011. The amortization expense of $1.3 million for the current period reflects three months of amortization of the cost of those distribution rights.

Net interest expense increased by $10.0 million over the prior period due largely to the financing of the Casa Herradura acquisition.

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(1) References to Casa Herradura include all brands (el Jimador, Herradura, New Mix, Antiguo, Suave 35 and other agency brands) and operations acquired in January 2007.

Jack Daniel's global depletions(2) registered mid-single digit gains in the quarter, led by double-digit growth outside of the U.S. The brand's international volume expansion reflected strong growth in the U.K., France, Australia, Asia, and Eastern Europe. In the U.S., Jack Daniel's volume growth rate moderated slightly, increasing at a low-single digit rate for the three-month period. Global volumes for Southern Comfort grew at a mid-single digit rate in the quarter, as double-digit gains in the U.K., South Africa, and Germany offset modest declines in the U.S. Worldwide Finlandia volumes accelerated in the quarter, as double-digit increases reflect continued expansion in Eastern Europe. Depletions for our super-premium developing brands, including Woodford Reserve and Chambord, increased at a double-digit rate in the quarter. Volumes for our mid-priced regional brands were up mid-single digits, as solid growth for Fetzer Valley Oaks, Korbel, and Bonterra more than offset declines for Canadian Mist, Bolla, and Early Times.

Diluted earnings from continuing operations of $0.77 per share for the quarter improved 1% from the $0.76 earned in the prior year period. Reported results for both quarters were affected by the following items:

Quarter ended July 31, 2006

- an increase in trade inventory levels which boosted earnings by approximately $0.07 per share.
- $0.01 per share of interest income earned on proceeds from the sale of Lenox (which were distributed to shareholders in May 2007).

Quarter ended July 31, 2007

- $0.05 per share of dilution associated with acquisitions;
- a $0.04 per share benefit from favorable foreign currency fluctuations;
- an increase in trade inventory levels which boosted earnings by $0.03 per share.

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(2) Depletions are shipments from wholesale distributors to retail customers, and are commonly regarded in the industry as an approximate measure of consumer demand.

FULL-YEAR OUTLOOK

Our full-year earnings outlook remains unchanged at $3.35 to $3.55 per diluted share, representing growth of 7% to 13% over comparable prior-year earnings of $3.14 per share. This outlook includes projected earnings dilution of $0.13 to $0.18 per share associated with the Casa Herradura acquisition, which is also unchanged.

LIQUIDITY AND FINANCIAL CONDITION

Cash and cash equivalents decreased by $103.0 million during the three months ended July 31, 2007, compared to a decrease of $254.9 million during the same period last year. Cash provided by operations increased from $76.2 million to $128.4 million, primarily reflecting a larger reduction in working capital. Cash provided by investing activities increased over last year by $348.4, largely reflecting the $250.1 million acquisition of Chambord last year and the liquidation of $85.6 million in short-term investments during the current period versus a net investment in short-term securities of $26.4 million during the prior year period. Cash used for financing activities increased by $248.8 million over last year, primarily reflecting the $203.7 million special distribution to shareholders in May 2007 and a $29.6 million increase in net debt repayments.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements" (FAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of FAS 157 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 157 will have on our financial statements.

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" (FAS 159). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of FAS 159 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 159 will have on our financial statements.

Our critical accounting policies have not changed since April 30, 2007. However, as discussed in Note 3 to the accompanying financial statements, we adopted FASB Interpretation No. 48 effective May 1, 2007.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We hold debt obligations, foreign currency forward and option contracts, and commodity futures contracts that are exposed to risk from changes in interest rates, foreign currency exchange rates, and commodity prices, respectively. Established procedures and internal processes govern the management of these market risks. As of July 31, 2007, we do not consider the exposure to these market risks to be material.

Item 4. Controls and Procedures

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Brown-Forman (its principal executive and principal financial officers) have evaluated the effectiveness of the company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the CEO and CFO concluded that the company's disclosure controls and procedures: are effective to ensure that information required to be disclosed by the company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms; and include controls and procedures designed to ensure that information required to be disclosed by the company in such reports is accumulated and communicated to the company's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. There has been no change in the company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Brown-Forman Corporation and many other manufacturers of spirits, wine, and beer are defendants in a series of essentially similar class action lawsuits seeking damages and injunctive relief for alleged marketing of beverage alcohol to underage consumers. Nine lawsuits have been filed to date, the first three against eight defendants, including Brown-Forman: "Hakki v. Adolph Coors Company, et.al.," District of Columbia Superior Court No. CD 03-9183 (November 2003); "Kreft v. Zima Beverage Co., et.al.," District Court, Jefferson County, Colorado, No. 04cv1827 (December 2003); and "Wilson v. Zima Company, et.al.," U.S. District Court for the Western District of North Carolina, Charlotte Division, No. 3:04cv141 (January 2004). Two virtually identical suits with allegations similar to those in the first three lawsuits were filed in Cleveland, Ohio, in April and June, 2004, respectively, against the original eight defendants as well as an additional nine manufacturers of spirits and beer, and are now consolidated as "Eisenberg v. Anheuser-Busch," U.S. District Court for the District of Northern Ohio, No. 1:04cv1081. Five similar suits were filed in 2005: "Elizabeth H. Sciocchette v. Advanced Brands," Albany County, New York Supreme Court No. 102205 (February 16, 2005); "Roger and Kathy Bertovich v. Advanced Brands," Hancock County, West Virginia, Circuit Court No. 05-C-42M (February 17, 2005); "Jacquelin Tomberlin v. Adolph Coors," Dane County (Madison, Wisconsin) Circuit Court, (February 23, 2005); "Viola Alston v. Advanced Brands," Wayne County, Michigan, Circuit Court No. 05-509294, (March, 30, 2005), and "Craig Konhauzer v. Adolph Coors Company," Broward County Florida Circuit Court, No. 05004875 (March 30, 2005). In addition, Brown-Forman received in February, 2004, a pre-lawsuit notice under the California Consumer Protection Act indicating that the same lawyers intend to file a lawsuit there against many industry defendants, including Brown-Forman, presumably on the same facts and legal theories.

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The suits allege that the defendants have engaged in deceptive marketing practices and schemes targeted at underage consumers, negligently marketed their products to the underage, and fraudulently concealed their alleged misconduct.

Plaintiffs seek class action certification on behalf of: (a) a guardian class consisting of all persons who were or are parents of children whose funds were used to purchase beverage alcohol marketed by the defendants which were consumed without their prior knowledge by their children under the age of 21 during the period 1982 to present; and (b) an injunctive class consisting of the parents and guardians of all children currently under the age of 21.

The lawsuits seek: (1) a finding that defendants engaged in a deceptive scheme to market alcoholic beverages to underage persons and an injunction against such alleged practices; (2) disgorgement and refund to the guardian class of all proceeds resulting from sales to the underage since 1982; and (3) judgment to each guardian class member for a trebled award of actual damages, punitive damages, and attorneys fees. The lawsuits, either collectively or individually, if ultimately successful, represent significant financial exposure.

Brown-Forman and the other defendants have successfully obtained orders to dismiss six of the pending cases: Kreft (Colorado) in October 2005; Eisenberg (Ohio) in February 2006; Tomberlin (Wisconsin) in March 2006; Hakki (D.C.) in March 2006; Alston (Michigan) in May 2006; and Bertovich (West Virginia) in August 2006. Konhauzer (Florida) and Sciocchette (New York) voluntarily withdrew their respective suits. Wilson (North Carolina) is pending decision on defendants' motion to dismiss. Each involuntarily dismissal has been appealed by the respective plaintiffs. The Hakki dismissal was affirmed by the D.C. Court of Appeals in June 2007. The consolidated Alston and Eisenberg dismissals were affirmed by the Federal Circuit Court of Appeals for the Sixth Circuit in July 2007.

Item 1A. Risk Factors

Other than with respect to the revision and additions below, there have been no changes to "Item 1A: Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2007. The revision and additions below should be read together with the risk factors and information disclosed in our 2007 Annual Report on Form 10-K.

The risk factor entitled "Our business may be adversely affected by unfavorable economic conditions in the United States and abroad" is amended and restated in its entirety as follows.

OUR BUSINESS MAY BE ADVERSELY AFFECTED BY UNFAVORABLE ECONOMIC CONDITIONS IN THE UNITED STATES AND ABROAD.

Our business is subject to changes in global economic conditions. About one-half of our business is in the United States and our business prospects generally depend heavily on the health of the U.S. economy. Earnings could be adversely affected by lower consumer confidence or purchasing, or decreased bar, hotel and travel spending resulting from changes in economic conditions, higher energy prices, declining home prices, deterioration of the sub-prime lending market, major natural disasters, widespread outbreak of infectious diseases such as avian influenza, terrorist attacks and related subsequent events, including the U.S. response, other hostile acts, retaliation, or threats of any of these. Earnings could also be hurt by the United States' current war in Iraq, or if the United States goes to war against another country deemed to be harboring terrorists or otherwise a threat to U.S. interests.

If global economic conditions deteriorate, or if there is an increase in anti-American sentiment in the principal countries to which we export our beverage products, including the United Kingdom, Australia, Poland, Germany, Mexico, South Africa, Spain, France, Canada and Japan, our sales could materially decrease. The long-term outlook for our beverage business anticipates continued success of Jack Daniel's Tennessee Whiskey, Southern Comfort, Finlandia Vodka, Tequila Herradura, el Jimador Tequila, and our other core wine and spirits brands. This assumption is based in part on favorable demographic trends in the United States and many international markets for the sale of wine and spirits. Current expectations for our global beverage business may not be met if these demographic trends do not translate into corresponding sales increases.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about shares of our common stock that we repurchased during the quarter ended July 31, 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	of Y Un
June 1, 2007 - June 30, 2007	39,654	$75.65	--	
July 1, 2007 - July 31, 2007	53,104	$75.32	--	
Total	92,758	$75.47	--	

These shares were purchased in privately negotiated transactions pursuant to a written purchase and sale agreement involving Class A shares held by a trust beneficially owned by a Brown family member. Under this agreement, which was approved by our Board of Directors on May 24, 2007, we may purchase up to $22.0 million of Class A shares over a 22-week period beginning June 22, 2007.

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

At the Annual Meeting of Stockholders of the Company held July 26, 2007, the persons named below were elected to serve as directors until the next annual election of directors, or until a successor has been elected and qualified:

	For	Withheld
Patrick Bousquet-Chavanne	55,821,506	40,116
Barry D. Bramley	50,992,672	4,868,950
Geo. Garvin Brown IV	55,284,635	576,987
Martin S. Brown, Jr.	55,327,797	533,825
Owsley Brown II	50,499,034	5,362,588
Donald G. Calder	50,993,002	4,868,620
Sandra A. Frazier	55,329,526	532,096
Richard P. Mayer	50,986,806	4,874,816
William E. Mitchell	55,557,857	303,765
Matthew R. Simmons	55,570,107	291,515
William M. Street	50,963,844	4,897,778
Dace Brown Stubbs	55,244,594	617,028
Paul C. Varga	55,069,456	792,166
James S. Welch, Jr.	55,061,301	800,321

Item 6. Exhibits

31.1 CEO Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

31.2 CFO Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

32 CEO and CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (not considered to be filed).

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)

Date: September 7, 2007

By: /s/ Phoebe A. Wood
Phoebe A. Wood
Vice Chairman and
Chief Financial Officer
(On behalf of the Registrant and
as Principal Financial Officer)

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Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Paul C. Varga, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Brown-Forman Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 7, 2007

By: /s/ Paul C. Varga
Paul C. Varga
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Phoebe A. Wood, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Brown-Forman Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 7, 2007

By: /s/ Phoebe A. Wood
Phoebe A. Wood
Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Brown-Forman Corporation ("the Company") on Form 10-Q for the period ended July 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in the capacity as an officer of the Company, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 7, 2007

By: /s/ Paul C. Varga
Paul C. Varga
President and Chief Executive Officer

By: /s/ Phoebe A. Wood
Phoebe A. Wood
Vice Chairman and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certificate is being furnished solely for purposes of Section 906 and is not being filed as part of the Periodic Report.