

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

BROWN FORMAN CORP
Form 10-Q
December 08, 2008

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended OCTOBER 31, 2008

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
(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)

(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 No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: November 30, 2008

Class A Common Stock (\$.15 par value, voting) 56,609,413

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Class B Common Stock (\$.15 par value, nonvoting)

94,276,716

BROWN-FORMAN CORPORATION Index to Quarterly Report Form 10-Q

PART I - FINANCIAL INFORMATION

Item 1.	Financial Statements (Unaudited)	Page
	Condensed Consolidated Statements of Operations	
	Three months ended October 31, 2007 and 2008	3
	Six months ended October 31, 2007 and 2008	3
	Condensed Consolidated Balance Sheets	
	April 30, 2008 and October 31, 2008	4
	Condensed Consolidated Statements of Cash Flows	
	Six months ended October 31, 2007 and 2008	5
	Notes to the Condensed Consolidated Financial Statements	6 - 12
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13 - 22
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	22
Item 4.	Controls and Procedures	22

PART II - OTHER INFORMATION

Item 1A.	Risk Factors	23
Item 6.	Exhibits	23
	Signatures	24

2

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		Six Months Ended	
October 31,		October 31,	
2007	2008	2007	2008
-----	-----	-----	-----

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Net sales	\$ 893.4	\$ 934.7	\$1,632.5	\$1,724.7
Excise taxes	177.8	196.8	329.8	373.0
Cost of sales	245.6	271.2	441.7	504.2
	-----	-----	-----	-----
Gross profit	470.0	466.7	861.0	847.5
Advertising expenses	112.6	110.0	206.5	207.0
Selling, general, and administrative expenses	146.7	139.9	289.7	284.2
Amortization expense	1.3	1.3	2.6	2.6
Other (income), net	(3.2)	(6.2)	(5.9)	(8.6)
	-----	-----	-----	-----
Operating income	212.6	221.7	368.1	362.3
Interest income	2.2	1.7	4.2	3.4
Interest expense	14.4	9.6	27.6	18.8
	-----	-----	-----	-----
Income from continuing operations before income taxes	200.4	213.8	344.7	346.9
Income taxes	70.9	70.6	119.9	115.5
	-----	-----	-----	-----
Income from continuing operations	129.5	143.2	224.8	231.4
Loss from discontinued operations, net of income taxes	(0.1)	--	(0.2)	--
	-----	-----	-----	-----
Net income	\$ 129.4	\$ 143.2	\$ 224.6	\$ 231.4
	=====	=====	=====	=====
Basic earnings per share:				
Continuing operations	\$ 0.84	\$ 0.95	\$ 1.46	\$ 1.54
Discontinued operations	--	--	--	--
	-----	-----	-----	-----
Total	\$ 0.84	\$ 0.95	\$ 1.46	\$ 1.54
	=====	=====	=====	=====
Diluted earnings per share:				
Continuing operations	\$ 0.83	\$ 0.94	\$ 1.44	\$ 1.52
Discontinued operations	--	--	--	--
	-----	-----	-----	-----
Total	\$ 0.83	\$ 0.94	\$ 1.44	\$ 1.52
	=====	=====	=====	=====
Shares (in thousands) used in the calculation of earnings per share:				
Basic	154,138	150,661	154,068	150,630
Diluted	155,668	151,828	155,594	151,880
Cash dividends per common share:				
Declared	\$0.000	\$0.000	\$0.484	\$0.544
Paid	\$0.242	\$0.272	\$0.484	\$0.544

Share and per share data have been restated to reflect the stock distribution effective in October 2008. See notes to the condensed consolidated financial statements.

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Dollars in millions)

	April 30, 2008	October 31, 2008
	-----	-----
Assets		

Cash and cash equivalents	\$ 118.9	\$ 326.8
Accounts receivable, net	453.2	534.4
Inventories:		
Barreled whiskey	311.2	316.4
Finished goods	154.2	183.3
Work in process	179.2	129.2
Raw materials and supplies	39.9	54.1
	-----	-----
Total inventories	684.5	683.0
Current portion of deferred income taxes	102.3	102.3
Other current assets	97.1	126.5
	-----	-----
Total current assets	1,456.0	1,773.0
Property, plant and equipment, net	501.4	486.1
Goodwill	688.0	671.7
Other intangible assets	698.8	687.6
Prepaid pension cost	22.8	25.7
Other assets	38.0	36.5
	-----	-----
Total assets	\$3,405.0	\$3,680.6
	=====	=====
Liabilities		

Accounts payable and accrued expenses	\$ 379.7	\$ 370.9
Accrued income taxes	14.7	8.3
Short-term borrowings	585.3	783.9
Current portion of long-term debt	4.3	3.2
	-----	-----
Total current liabilities	984.0	1,166.3
Long-term debt	417.0	412.3
Deferred income taxes	88.8	105.6
Accrued pension and other postretirement benefits	121.2	117.9
Other liabilities	68.8	66.3
	-----	-----
Total liabilities	1,679.8	1,868.4
Stockholders' Equity		

Common stock (see Note 10):		
Class A, voting (57,000,000 shares authorized)	8.5	8.5
Class B, nonvoting (100,000,000 shares authorized)	10.4	14.9
Additional paid-in capital	73.8	70.6
Retained earnings	1,931.8	2,072.9
Accumulated other comprehensive income (loss)	5.0	(57.1)
Treasury stock (5,522,000 and 5,441,000 shares at April 30 and October 31, respectively)	(304.3)	(297.6)
	-----	-----
Total stockholders' equity	1,725.2	1,812.2
	-----	-----
Total liabilities and stockholders' equity	\$3,405.0	\$3,680.6

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

=====

Share data has been restated to reflect the stock distribution effective in October 2008. See notes to the condensed consolidated financial statements.

4

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

	Six Months Ended October 31,	
	2007	2008
	-----	-----
Cash flows from operating activities:		
Net income	\$ 224.6	\$ 231.4
Adjustments to reconcile net income to net cash provided by operations:		
Net loss from discontinued operations	0.2	--
Non-cash agave inventory write-down	--	22.4
Depreciation and amortization	25.7	26.6
(Gain) loss on sale of property, plant, and equipment	(2.6)	3.5
Stock-based compensation expense	5.4	4.6
Deferred income taxes	5.1	(3.1)
Changes in assets and liabilities, excluding the effects of businesses acquired or sold	(60.2)	(169.2)
Net cash used for operating activities of discontinued operations	(0.2)	--
	-----	-----
Cash provided by operating activities	198.0	116.2
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	1.6	--
Acquisition of brand name	(12.0)	--
Sale of short-term investments	85.6	--
Additions to property, plant, and equipment	(24.2)	(26.3)
Proceeds from sale of property, plant, and equipment	5.2	--
Computer software expenditures	(8.2)	(1.9)
	-----	-----
Cash provided by (used for) investing activities	48.0	(28.2)
Cash flows from financing activities:		
Net change in short-term borrowings	(57.5)	220.4
Repayment of long-term debt	(3.8)	(2.2)
Net proceeds (payments) from exercise of stock options	14.8	(4.2)
Excess tax benefits from stock options	5.5	3.4
Acquisition of treasury stock	(22.6)	(0.3)
Special distribution to stockholders	(203.7)	--
Dividends paid	(74.7)	(82.2)
	-----	-----
Cash (used for) provided by financing activities	(342.0)	134.9
Effect of exchange rate changes on cash and cash equivalents	5.9	(15.0)

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Net (decrease) increase in cash and cash equivalents	(90.1)	207.9
Cash and cash equivalents, beginning of period	282.8	118.9
Cash and cash equivalents, end of period	\$ 192.7	\$ 326.8

See notes to the condensed consolidated financial statements.

5

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, 2008 (the "2008 Annual Report"), except that effective May 1, 2008, we adopted certain provisions of FASB Statements No. 157 and No. 158 (see Notes 6 and 9). 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 2008 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 \$150.1 million higher than reported as of April 30, 2008, and \$168.9 million higher than reported as of October 31, 2008. Changes in the LIFO valuation reserve for interim periods are based on a proportionate allocation of the estimated change for the entire fiscal year.

During the three months ended July 31, 2008, a portion of our agave fields showed signs of abnormally high levels of mortality and disease, which has significantly reduced the amount of agave we expect to yield from some fields. As a result, we recorded a provision for inventory losses of \$22.4 million during the three months ended July 31, 2008, which is included in cost of sales. This amount was based on management's estimates of the extent of the loss in yield and the effectiveness of the measures we began and plan to continue to undertake to combat the crop diseases and other agricultural factors contributing to the lower yield. Although this provision is based on management's best estimate at this time, it is at least reasonably possible that actual inventory losses could be significantly different, which could have a materially adverse effect on our results of operations and financial condition.

3. Income Taxes

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

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 33.3% for the six months ended October 31, 2008, is based on an expected effective tax rate of 32.7% on ordinary income for the full fiscal year, plus additional interest on previously provided tax contingencies and the tax effect of other events (provision for agave inventory losses) occurring through October 31, 2008. Our expected tax rate from operations includes current fiscal year additions for existing tax contingency items. However, this rate does not include the effect of the expected sale of the Bolla and Fontana Candida Italian wines discussed below.

6

As a result of the expected sale of the Bolla and Fontana Candida Italian wine brands (see Note 12), we estimate that approximately \$21.7 million of our previously reserved capital loss carryforwards will be used to offset the expected gain on the sale. Currently, we are unaware of any specific transactions that would allow us to use our remaining capital loss carryforwards.

We believe it is reasonably possible that the gross unrecognized tax benefits (included in other liabilities on the accompanying condensed consolidated balance sheets) may decrease by approximately \$3.3 million in the next 12 months, although we expect that the statute of limitations on certain gross unrecognized state income tax benefits of \$4.4 million will expire during this period.

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 business. The major jurisdictions and their earliest fiscal years that are currently open for tax examinations are 1998 in the U.S.; 2004 in Ireland and Italy; 2003 in the U.K.; and 2002 in Finland and Poland.

4. Discontinued Operations

Discontinued Operations consisted 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 1,438,000 common shares were excluded from the calculation of diluted earnings per share for the periods ended October 31, 2008, 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 periods ended October 31, 2007.

As discussed in Note 10, all previously reported share and per share amounts have been restated in the accompanying financial statements and related notes to reflect the stock distribution.

7

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

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

(Dollars in millions, except per share amounts)	Three Months Ended October 31,		Six Months Ended October 31,	
	2007	2008	2007	2008
Basic and diluted net income (loss):				
Continuing operations	\$129.5	\$143.2	\$224.8	\$231.1
Discontinued operations	(0.1)	--	(0.2)	--
Total	\$129.4	\$143.2	\$224.6	\$231.1
Share data (in thousands):				
Basic average common shares outstanding	154,138	150,661	154,068	150,661
Dilutive effect of non-vested restricted stock	109	142	105	142
Dilutive effect of stock options and SSARs	1,421	1,025	1,421	1,025
Diluted average common shares outstanding	155,668	151,828	155,594	151,828
Basic earnings per share:				
Continuing operations	\$0.84	\$0.95	\$1.46	\$1.53
Discontinued operations	--	--	--	--
Total	\$0.84	\$0.95	\$1.46	\$1.53
Diluted earnings per share:				
Continuing operations	\$0.83	\$0.94	\$1.44	\$1.52
Discontinued operations	--	--	--	--
Total	\$0.83	\$0.94	\$1.44	\$1.52

6. Pension and Other Postretirement Benefits

On April 30, 2007, we adopted FASB Statement No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158). FAS 158 requires that, beginning in fiscal 2009, the assumptions used to measure our annual pension and other postretirement benefit expenses be determined as of the balance sheet date, and all plan assets and liabilities be reported as of that date. Accordingly, as of the beginning of our 2009 fiscal year, we changed the measurement date for our annual pension and other postretirement benefit expenses and all plan assets and liabilities from January 31 to April 30. As a result of this change in measurement date, we recorded an increase of \$5.6 million (net of tax of \$3.7 million) to stockholders' equity as of May 1, 2008, as follows:

(Dollars in millions)	Pension Benefits	Other Benefits	Total Benefits
Retained earnings	\$(2.8)	\$(0.8)	\$(3.6)
Accumulated other comprehensive income	8.4	0.8	9.2
Total	\$ 5.6	\$ --	\$ 5.6

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

=====

8

The following table shows the components of the pension and other postretirement benefit expense recognized during the periods covered by this report:

(Dollars in millions)	Three Months Ended		Six Months Ended	
	October 31, 2007	October 31, 2008	October 31, 2007	October 31, 2008
	-----	-----	-----	-----
Pension Benefits:				
Service cost	\$3.4	\$3.4	\$ 6.7	\$6.7
Interest cost	6.6	7.5	13.3	15.1
Expected return on plan assets	(8.0)	(8.7)	(16.1)	(17.4)
Amortization of:				
Prior service cost	0.2	0.2	0.4	0.4
Net actuarial loss	3.0	1.6	6.0	3.2
	-----	-----	-----	-----
Net expense	\$5.2	\$4.0	\$10.3	\$8.0
	=====	=====	=====	=====
Other Postretirement Benefits:				
Service cost	\$0.2	\$0.3	\$ 0.5	\$0.6
Interest cost	0.8	0.9	1.5	1.7
Amortization of net actuarial loss	0.1	--	0.2	--
	-----	-----	-----	-----
Net expense	\$1.1	\$1.2	\$ 2.2	\$2.3
	=====	=====	=====	=====

As a result of the recent performance of global capital markets, the market value of our pension plan assets has declined significantly during fiscal 2009, which could require us to make significant contributions to the plans in the near term. Based on the current market value of our pension plan assets, we now expect to contribute approximately \$21.3 million to the plans during the second half of fiscal 2009. However, the U.S. Congress is expected to consider amending the current regulations regarding pension plan funding, which may impact the amount that we ultimately contribute in fiscal 2009.

7. 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.

8. 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:

9

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

(Dollars in millions)	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	2007	2008	2007	2008
	-----	-----	-----	-----
Net income	\$129.4	\$143.2	\$224.6	\$231.4
Other comprehensive income (loss):				
Net (loss) gain on cash flow hedges	(2.6)	24.1	(3.0)	26.1
Net loss on securities	(0.2)	--	(0.3)	--
Postretirement benefits adjustment	2.0	1.1	4.0	11.2
Foreign currency translation adjustment	21.5	(109.1)	22.9	(99.4)
	-----	-----	-----	-----
	20.7	(83.9)	23.6	(62.1)
	-----	-----	-----	-----
Comprehensive income	\$150.1	\$ 59.3	\$248.2	\$169.3
	=====	=====	=====	=====

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

(Dollars in millions)	April 30,	October 31,
	2008	2008
	-----	-----
Postretirement benefits adjustment	\$(87.8)	\$(76.6)
Cumulative translation adjustment	99.1	(0.3)
Unrealized (loss) gain on cash flow hedge contracts	(6.3)	19.8
	-----	-----
	\$ 5.0	\$(57.1)
	=====	=====

9. Fair Value Measurements

In September 2006, the FASB issued 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. FAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. FAS 157 establishes a three-level hierarchy based upon the assumptions (inputs) used to determine fair value. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than those included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be derived from or corroborated by observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity.

In February 2008, the FASB issued FSP 157-2, "Effective Date of FASB Statement No. 157," which permits a one-year deferral for the implementation of FAS 157 as it relates to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), such as goodwill and other indefinite-lived intangible assets. We elected to defer adoption of the provisions of FAS 157 that relate to such items until the beginning of our 2010 fiscal year. We do not expect our adoption to have a material impact on our financial statements. We adopted the other

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

provisions of FAS 157 on May 1, 2008, with no material impact on our financial statements.

10

As of October 31, 2008, the fair values of our financial assets and liabilities are as follows:

(Dollars in millions)	Total	Level 1	Level 2	Level 3
Assets:				
Foreign currency contracts	\$42.0	--	\$42.0	--
Liabilities:				
Commodity contracts	\$4.1	\$4.1	--	--

The fair value of commodity contracts is based on quoted prices in active markets. The fair value of foreign exchange contracts is determined through pricing from brokers who develop values based on inputs observable in active markets.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (FAS 159). FAS 159, which became effective as of May 1, 2008, provides the option to measure at fair value many financial instruments and certain other items for which fair value measurement is not required. We have currently chosen not to elect this option.

10. Stock Distribution

In September 2008, our Board of Directors authorized a stock split, effected as a stock dividend, of one share of Class B common stock for every four shares of either Class A or Class B common stock held by stockholders of record as of the close of business on October 6, 2008, with fractional shares paid in cash. The distribution took place on October 27, 2008.

As a result of the stock distribution, we reclassified approximately \$4.5 million from the company's retained earnings account to its common stock account. The \$4.5 million represents the \$0.15 par value per share of the shares issued in the stock distribution.

The following table shows the change in the company's issued shares:

(Shares in thousands)	Three Months Ended October 31,		Six Months Ended October 31,	
	2007	2008	2007	2008
	-----	-----	-----	-----
Class A (voting) Common Shares:				
Balance at beginning of period	56,925	56,964	56,882	56,
Stock issued under compensation plans	--	--	43	
	-----	-----	-----	-----
Balance at end of period	56,925	56,964	56,925	56,
	=====	=====	=====	=====
Class B (nonvoting) Common Shares:				
Balance at beginning of period	69,188	69,188	69,188	69,
Stock distribution	--	30,176	--	30,
	-----	-----	-----	-----
Balance at end of period	69,188	99,364	69,188	99,

=====

=====

=====

=====

All previously reported share and per share amounts have been restated in the accompanying financial statements and related notes to reflect the stock distribution.

11

11. Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141(R), "Business Combinations" (FAS 141(R)), which establishes accounting principles and disclosure requirements for all transactions in which a company obtains control over another business.

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements" (FAS 160), which prescribes the accounting by a parent company for minority interests held by other parties in a subsidiary of the parent company.

In March 2008, the FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (FAS 161), which requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

FAS 141(R) and FAS 160 become effective as of the beginning of our 2010 fiscal year, while FAS 161 becomes effective as of the end of our 2009 fiscal year. We do not expect our adoption of these pronouncements will have a material impact on our financial statements.

12. Subsequent Events

On November 20, 2008, our Board of Directors increased the quarterly cash dividend on Class A and Class B common stock from \$0.272 to \$0.2875 per share. Stockholders of record on December 8, 2008 will receive the cash dividend on January 2, 2009.

On December 1, 2008, we announced the expected sale of the Bolla and Fontana Candida Italian wine brands to Gruppo Italiano Vini (GIV) during the third quarter of fiscal 2009. In order to facilitate the transition of the brands to GIV, we have also agreed to serve as an agent for these brands in the U.S. from the closing date until the transition is complete, which is expected to occur no later than April 30, 2009. We expect to recognize a net gain from the sale and exit of these brands from our portfolio of approximately \$0.12 per share during fiscal 2009.

On December 4, 2008, we announced that our Board of Directors authorized the repurchase of up to \$250 million of our outstanding Class A and Class B common shares over the next 12 months, subject to market conditions. Under this plan, we can repurchase shares from time to time for cash in open market purchases, block transactions, and privately negotiated transactions in accordance with applicable federal securities laws.

12

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

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 2008 Annual Report. Note that the results of operations for the three-month and six-month periods ended October 31, 2008, 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 report 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:

- continuation of the U.S. or global economic downturn or ongoing turmoil in world financial markets and related credit and capital market instability and illiquidity; decreased consumer and trade spending; higher unemployment; supplier, customer and consumer credit problems, etc.;
- pricing, marketing and other competitive activity focused against our major brands;
- continued or further decline in consumer confidence or spending, whether related to U.S. and global economic conditions, war, natural disasters, terrorist attacks or other factors;
- tax increases, changes in tax rules or rates (e.g., LIFO treatment for inventory), tariff barriers, and/or other restrictions affecting beverage alcohol, whether at the U.S. federal or state level or in other major markets around the world, and the unpredictability or suddenness with which they can occur;
- limitations and restrictions on distribution and marketing of our products, including advertising and promotion, from stricter governmental policies in the U.S. or our other major markets;
- fluctuations in the U.S. Dollar against foreign currencies, especially the British Pound, Euro, Australian Dollar, Polish Zloty and the South African Rand;
- reduced bar, restaurant, hotel and other on-premise business, including consumer shifts to discount stores and other price sensitive purchases and venues;
- changes in consumer preferences, societal attitudes or cultural trends that result in the reduced consumption of our premium spirits brands or our ready-to-drink products;
- changes in distribution or agency arrangements in major markets that temporarily disrupt our business, reduce our sales, limit our ability to market or sell our products, or entail exit costs;
- adverse impacts as a consequence of our acquisitions, acquisition strategies, integration of acquired businesses, or conforming them to the company's trade practice standards, financial controls environment and U.S. public company requirements;
- price increases in energy or raw materials, such as grapes, grain, agave, wood, glass, and plastic;
- changes in climate conditions, agricultural uncertainties, our suppliers' financial hardships or other supply limitations that adversely affect supply,

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

- price, availability, quality, or health of grapes, agave, grain, glass, closures or wood;
- negative media related to our company, brands, personnel, shareholders, operations, business performance or prospects;
- counterfeit production, tampering, or contamination of our products and any resulting negative effect on our sales, intellectual property rights, or brand equity;
- adverse developments stemming from state or federal investigations of beverage alcohol industry marketing or trade practices of suppliers, distributors or retailers; and
- impairment in the recorded value of inventory, fixed assets, goodwill or other acquired intangibles.

13

Results of Operations:

Second Quarter Fiscal 2009 Compared to Second Quarter Fiscal 2008

A summary of our operating performance (dollars expressed in millions, except per share amounts) is presented below. Continuing Operations consist of our beverage business. Discontinued Operations consisted 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.

	Three Months Ended October 31,		
CONTINUING OPERATIONS	2007	2008	Change
	-----	-----	-----
Net sales	\$893.4	\$934.7	5%
Gross profit	470.0	466.7	(1%)
Advertising expenses	112.6	110.0	(2%)
Selling, general, and administrative expenses	146.7	139.9	(5%)
Amortization expense	1.3	1.3	
Other (income), net	(3.2)	(6.2)	
Operating income	212.6	221.7	4%
Interest expense, net	12.2	7.9	
Income before income taxes	200.4	213.8	7%
Income taxes	70.9	70.6	
Net income	129.5	143.2	11%
 Gross margin	 52.6%	 49.9%	
Effective tax rate	35.4%	33.0%	
 Earnings per share(1):			
Basic	\$0.84	\$0.95	13%
Diluted	0.83	0.94	13%

 (1) All per share amounts have been adjusted to reflect the October 27, 2008 Class B common stock distribution. For every four shares of Class A or Class B common stock, one Class B share was issued.

14

Net sales for the three months ended October 31, 2008 grew \$41.3 million, up 5% over the same prior year period. The major factors driving the increase in net

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

sales were an acceleration of growth for Jack Daniel's in the U.S. and continued gains for several developing brands, including Gentleman Jack, Bonterra, and Woodford Reserve in this same market. Higher net sales for Jack Daniel's in a number of international markets, including several Eastern European countries, Mexico, Latin America, Australia, China, Korea, Japan, and South Africa, as well as continued growth for Finlandia in Eastern Europe also contributed to the quarter over quarter growth in sales. Partially offsetting these positive factors were lower volumes in the quarter for Jack Daniel's and Southern Comfort in several of our most developed markets in Western Europe due in part to deteriorating economic conditions and shifts in consumer purchasing patterns from on-premise to off-premise, the loss of sales from exited agency brands, and the significantly stronger U.S. dollar, which appreciated nearly 20% since July 2008 against our two largest currencies, the British pound and the euro.

The components of the 5% increase in net sales for the quarter were:

	Growth vs. Prior Period
Underlying net sales growth	6%
Estimated net change in trade inventories(2)	2%
Australian excise tax increase(3)	1%
Discontinued agency brands(4)	(1%)
Foreign exchange(5)	(3%)

Reported net sales growth	5%
	=====

-
- (2) Refers to the estimated financial impact of changes in wholesale trade inventories for the company's brands. We compute this effect using our estimated depletion trends and separately identify trade inventory changes in the variance analysis for our key measures. Based on the estimated depletions and the fluctuations in trade inventory levels, we then adjust the percentage variances from prior to current periods for our key measures. We believe it is important to separately identify the impact of this item in order for management and investors to understand the results of our business that can arise from varying levels of wholesale inventories.
 - (3) Refers to the impact of the 70% increase in excise tax of ready-to-drink products in Australia, implemented on April 27, 2008. Since net sales are recorded including excise tax, we believe it is important to separately identify the impact of this item to better understand our sales trends.
 - (4) Refers to the impact of certain agency brands, primarily Appleton, Amarula, Durbanville Hills, and Red Bull, distributed in certain geographies, which exited Brown-Forman's portfolio during fiscal 2008.
 - (5) Refers to net gains and losses incurred by the company relating to sales and purchases in currencies other than the U.S. dollar. We use the measure to understand the growth of the business on a constant dollar basis as fluctuations in exchange rates can distort the underlying growth of our business (both positively and negatively). To neutralize the effect of foreign exchange fluctuations, we have historically translated current year results at prior year rates. We believe it is important to separately identify the impact that foreign exchange has on each major line item of our consolidated statement of operations.

Gross profit decreased \$3.3 million, or 1% from the second quarter of last year. The stronger U.S. dollar and higher costs associated with value-added gift packs and an increase in grain and energy costs offset the factors that drove net

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

sales in the quarter, resulting in a lower gross margin for the period.

	Growth vs. Prior Period
Underlying gross profit growth	3%
Estimated net change in trade inventories	2%
Discontinued agency brands	(1%)
Foreign exchange	(5%)

Reported gross profit growth	(1%)
	=====

Advertising expenses decreased \$2.6 million, or 2%, reflecting the absence of spending behind exited agency brands and the effects of a stronger U.S. dollar in the quarter. Investments behind several brands increased in the quarter, including Jack Daniel's, el Jimador (in support of the introduction of the 100% agave product), Herradura, Chambord, Sonoma-Cutrer, and Woodford Reserve. Additionally, we significantly increased the spending behind value-added gift packaging in the quarter, as one of several actions taken to enhance our competitiveness and relevancy to the consumer during the challenging and difficult economic environment. While these packaging costs are classified as cost of sales in our financial statements, we consider these costs to be a form of advertising spend.

Selling, General and Administrative expenses decreased \$6.8 million, or 5%, reflecting a reduction in transition costs related to the fiscal 2007 Casa Herradura acquisition, the benefit of a stronger U.S. dollar on spending, and continued overall tight management of discretionary expenses.

Operating income increased \$9.1 million, up 4% from the same period last year. Reported results for the quarter were adversely impacted by the loss of income from exited agency brands and the significantly stronger U.S. dollar. Estimated trade inventory changes, and lower transition expenses associated with the fiscal 2007 Casa Herradura acquisition increased operating income. As outlined below, underlying operating income was up 5% in the quarter.

	Growth vs. Prior Period
Underlying operating income growth	5%
Estimated net change in trade inventories	3%
Reduced transition expenses from acquisitions	2%
Discontinued agency brands	(1%)
Foreign exchange	(5%)

Reported operating income growth	4%
	=====

Net interest expense decreased \$4.3 million compared to the same prior year period, reflecting a shift in total debt from higher rate fixed debt to lower rate variable debt. Additionally, an overall reduction in debt levels also contributed to this reduction in net interest expense.

The effective tax rate in the quarter was 33.0% compared to 35.4% reported in the second quarter of fiscal 2008. This reduction in tax rate reflects the absence of event-driven items that affected last year's second quarter tax rate.

Reported diluted earnings per share of \$0.94 for the quarter increased 13% from

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

the \$0.83 earned in the same prior year period. The same factors that boosted the increase in operating income also contributed to the gain in earnings per share. In addition, earning per share benefitted from lower net interest expense, a reduction in the effective tax rate, and fewer shares outstanding following the fiscal 2008 share repurchase.

Results of Operations:

Six Months Fiscal 2009 Compared to Six Months Fiscal 2008

	Six Months Ended October 31,		Change
CONTINUING OPERATIONS	2007	2008	
	-----	-----	-----
Net sales	\$1,632.5	\$1,724.7	6%
Gross profit	861.0	847.5	(2%)
Advertising expenses	206.5	207.0	0%
Selling, general, and administrative expenses	289.7	284.2	(2%)
Amortization expense	2.6	2.6	
Other (income), net	(5.9)	(8.6)	
Operating income	368.1	362.3	(2%)
Interest expense, net	23.4	15.4	
Income before income taxes	344.7	346.9	1%
Income taxes	119.9	115.5	
Net income	224.8	231.4	3%
 Gross margin	 52.7%	 49.1%	
 Effective tax rate	 34.8%	 33.3%	
 Earnings per share:			
Basic	\$1.46	\$1.54	5%
Diluted	1.44	1.52	5%

Net sales for the six months ended October 31, 2008 grew \$92.2 million, up 6% over the same prior-year period. The major factors driving the increase in net sales were:

	Growth vs. Prior Period
Underlying net sales growth	5%
Estimated net change in trade inventories	1%
Australian excise tax increase	1%
Discontinued agency brands	(1%)

Reported net sales growth	6%
	=====

The underlying growth in net sales reflects higher volumes of Jack Daniel's in several countries/regions including the U.S., Latin America, Eastern Europe, Australia, Southeast Asia and India. Continued expansion of Finlandia in Eastern Europe and gains for other brands in our portfolio, including Bonterra, Gentleman Jack, Sonoma-Cutrer, Woodford Reserve, Jack Daniel's Single Barrel, and Tuaca, all largely in the U.S., and New Mix in Mexico, also contributed to the growth in net sales for the first six months. More specifically, for the first six months of the fiscal year:

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

- The Jack Daniel's full-strength whiskies (Jack Daniel's Tennessee Whiskey, Gentleman Jack, and Jack Daniel's Single Barrel) grew in the mid-single digits on both a reported and a constant currency basis, reflecting volume growth. Global depletions⁽⁶⁾ increased in the mid-single digits for the first six months driven by gains in the markets noted above; partially offset by declines in some markets in Western Europe, particularly Germany, the U.K., and Spain. Jack Daniel's Tennessee Whiskey reported net sales increased at mid-single digit rates and constant currency net sales grew at low single digit rates for the first half of fiscal 2009. Gentleman Jack's net sales grew at a double-digit rate on both a reported and a constant currency basis for the six month period.
- Jack Daniel's & Cola depletions increased slightly in the second quarter. However, depletions for the first half were down as double-digit gains in Germany were offset by declines in Australia following the substantial increase in ready-to-drink excises taxes in that country implemented on April 27, 2008. Global reported and constant currency net sales grew in the mid-single digits.
- Approaching the 3 million case milestone for the 12 months ended October 2008, Finlandia grew net sales by double digits on both a reported and a constant currency basis, reflecting higher volumes and pricing gains. Global depletions grew in the high single digits.
- Southern Comfort net sales declined in the low single digits on a reported basis and decreased in the mid-single digits on a constant currency basis. Volume declines showed signs of improvement during the second quarter, particularly in the U.S., where depletions increased in the low single digits.
- We continued to experience solid gains on several brands as reported and constant currency net sales for Sonoma-Cutrer, Bonterra, Woodford Reserve, and the Casa Herradura portfolio grew at double-digit rates. Chambord and Tuaca net sales grew at high single digit and mid single digit rates, respectively.

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

18

Our gross profit decreased \$13.5 million, or 2%, due primarily to a first quarter \$22.4 million non-cash inventory write-down included in cost of sales related to agave plants identified as dead or dying. During the three months ended July 31, 2008, a portion of our agave fields showed signs of abnormally high levels of mortality and disease, which has significantly reduced the amount of agave we expect to yield from some fields. The \$22.4 million provision recorded in the first quarter was based on management's estimates of the extent of the loss in yield and the effectiveness of the measures we began and plan to continue to undertake to combat the crop diseases and other agricultural factors contributing to the lower yield. Although this provision is based on management's best estimate at this time, it is at least reasonably possible that actual inventory losses could be significantly different, which could have a materially adverse effect on our results of operations and financial condition.

The following table shows the major factors influencing the change in gross profit for the period:

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

	Growth vs. Prior Period
Underlying gross profit growth	2%
Foreign exchange	(1%)
Non-cash agave inventory write-down(7)	(3%)

Reported gross profit growth	(2%)
	=====

The same factors that drove our underlying net sales growth for the first six months also contributed to our underlying gross profit growth. Cost inflation on grain and energy costs, though the rate of growth has slowed considerably compared to the first quarter, and increased value-added gift packaging costs partially offset volume and price gains.

Our overall gross margin as a percent of net sales declined for the first six months of the fiscal year due in part to the non-cash agave inventory write-down. In addition, an excise tax increase in Australia on ready-to-drink products impacting sales of Jack Daniel's & Cola in this market, increased value-added packaging costs and higher cost of grain and fuel suppressed margins for the period.

Advertising investments were flat for the first half of the year compared to the first half of last year due primarily to the absence of spending behind agency brands that we have ceased selling. This factor was partially offset by our efforts to shift the seasonality of some investments to the holiday season and to reallocate spending to those brands, markets, and channels where we believe the consumer and trade are more responsive to the investments.

Selling, general, and administrative expenses decreased 2% over the first half of last year, reflecting lower transition costs related to the fiscal 2007 Casa Herradura acquisition, continued tight management of discretionary expenses, and the leveraging of investments made in prior years.

(7) Refers to an abnormal number of agave plants identified during the period as dead or dying. Although agricultural uncertainties are inherent in our tequila or any other business including the growth and harvesting of raw materials, we believe that the magnitude of this item in the period distorts the underlying trends of our business.

19

Operating income declined \$5.8 million, or 2%, from the first half of last year. Operating income was impacted by the \$22.4 million pre-tax non-cash charge related to an abnormal number of agave plants identified during the first quarter as dead or dying, as described above. The following table summarizes the major factors influencing the change in operating income for the quarter:

	Growth vs. Prior Period
Underlying operating income growth	4%
Reduced transition expenses from acquisitions	1%
Estimated net change in trade inventories	1%
Foreign exchange	(1%)
Discontinued agency brands	(1%)
Non-cash agave inventory write-down	(6%)

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Reported operating income growth

(2%)
=====

Net interest expense decreased by \$8.0 million, reflecting a shift in total debt from higher rate fixed debt to lower rate variable net debt. Additionally, an overall reduction in debt levels also contributed to this reduction in net interest expense.

The effective tax rate for the first half of the year was 33.3%, compared to 34.8% reported in the first half of fiscal 2008. Our effective tax rate was negatively affected by a lower tax benefit on the provision for agave losses recorded in the first quarter, offset by a shift in the mix of our income from higher to lower tax jurisdictions when compared to last year, and the absence of event-driven items that affected last year's second quarter tax rate.

Reported diluted earnings per share of \$1.52 for the six months increased 5% from the \$1.44 earned in the same prior year period. Underlying growth in operating income, a reduction of net interest expense, a lower effective tax rate, and fewer shares outstanding following the fiscal 2008 share repurchase contributed to the growth in earnings per share for the quarter. The impact of the \$0.11 per share (adjusted to reflect the stock distribution) non-cash write-down of agave inventory recognized in the first quarter only partially offset these benefits.

FULL-YEAR OUTLOOK

Due to an estimated \$0.12 per share net gain from the expected sale of Bolla and Fontana Candida brands, we have increased our fiscal 2009 full year diluted earnings per share guidance to a range of \$3.00 to \$3.20, representing growth of 6% to 13% over prior year diluted earnings per share from continuing operations of \$2.84. This guidance is unchanged from what was provided at the start of the fiscal year when adjusting for the first quarter agave write-off and the anticipated net gain resulting from the sale of Bolla and Fontana Candida brands. The guidance also includes the expectation of maintaining global trends for Jack Daniel's, Southern Comfort, and Finlandia, although we believe a weaker than anticipated consumer and trade response due to the current global economic environment could have a significant effect on our ability to maintain these trends. The outlook also assumes continued tight management of discretionary operating expenses, a lower effective tax rate in the second half of the year as compared to the first half, and the expectation that today's stronger U.S. dollar relative to our major foreign currencies will continue for the balance of the year.

20

LIQUIDITY AND FINANCIAL CONDITION

Cash and cash equivalents increased \$207.9 million during the six months ended October 31, 2008, compared to a decrease of \$90.1 million during the same period last year. Cash provided by operations was \$116.2 million, down from \$198.0 million for the comparable period last year. The decline primarily reflects a higher seasonal increase in working capital and the absence of a refund of value-added taxes related to the acquisition of Casa Herradura received in the first quarter of last year. Cash provided by investing activities declined from last year by \$76.2 million, largely reflecting last year's liquidation of \$85.6 million of short-term investments, partially offset by the \$12.0 million acquisition of the Don Eduardo brand name. Cash used for financing activities decreased by \$476.9 million from last year, primarily reflecting the \$203.7 million special distribution to shareholders in May 2007 and a \$279.5 million increase in net borrowings to provide for an additional liquidity buffer with the uncertain capital market environment.

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

The global credit crisis has imposed exceptional levels of volatility in the capital markets, severely diminished liquidity and credit availability, caused declines in asset values and increased counterparty risk. During this time, we have maintained adequate liquidity to meet current obligations, fund capital expenditures, and maintain dividends, while reserving adequate capacity for acquisition opportunities. During the quarter, we built an additional level of excess cash equivalents as a buffer during these uncertain times. Our short-term commercial paper program supported by our \$800 million undrawn bank credit facility has continued to fund our needs with attractive rates. While our short-term commercial paper has continued to attract investors, if we were to become unable to obtain funding in the short-term commercial paper market, we expect that we could satisfy our liquidity requirements by drawing upon our contractually committed bank credit facility with a network of relationship banks. This facility expires April 30, 2012 and carries favorable terms compared with current market conditions. However, it could carry somewhat higher interest rates compared to our commercial paper program and, under extreme market conditions, there can be no assurance that this agreement would be available or sufficient. We have also endeavored to monitor our counterparty risks with respect to our cash balances and derivative contracts (i.e., foreign currency and commodity hedges). We believe our current liquidity position is strong and sufficient to meet all of our financial commitments for the foreseeable future, absent severe further deterioration of market conditions.

As a result of the recent performance of global capital markets, the market value of our pension plan assets has declined significantly during fiscal 2009, which could require us to make significant contributions to the plans in the near term. Based on the current market value of our pension plan assets, we now expect to contribute approximately \$21.3 million to the plans during the second half of fiscal 2009. However, the U.S. Congress is expected to consider amending the current regulations regarding pension plan funding, which may impact the amount that we ultimately contribute in fiscal 2009.

On November 20, 2008, our Board of Directors increased the quarterly cash dividend on Class A and Class B common stock from \$0.272 to \$0.2875 per share. Stockholders of record on December 8, 2008 will receive the cash dividend on January 2, 2009.

21

On December 4, 2008, we announced that our Board of Directors authorized the repurchase of up to \$250 million of our outstanding Class A and Class B common shares over the next 12 months, subject to market conditions. Under this plan, we can repurchase shares from time to time for cash in open market purchases, block transactions, and privately negotiated transactions in accordance with applicable federal securities laws.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued Statement No. 141(R), "Business Combinations" (FAS 141(R)), which establishes accounting principles and disclosure requirements for all transactions in which a company obtains control over another business.

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements" (FAS 160), which prescribes the accounting by a parent company for minority interests held by other parties in a subsidiary of the parent company.

In March 2008, the FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (FAS 161), which requires qualitative

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

FAS 141(R) and FAS 160 become effective as of the beginning of our 2010 fiscal year, while FAS 161 becomes effective as of the end of our 2009 fiscal year. We do not expect our adoption of these pronouncements will have a material impact on our financial statements.

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.

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.

22

PART II - OTHER INFORMATION

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended April 30, 2008, contains important risk factors that could cause our actual results to differ materially from our historical experience or our present expectations and projections. While except for the item below, which amends and replaces the first factor in the Form 10-K, there are no material changes to those risk factors, they should be viewed in the context of the potential impact on our business of the recent economic downturn in the U.S. and around the world, and global economic, capital and credit market conditions.

ADVERSE MACROECONOMIC AND BUSINESS CONDITIONS MAY SIGNIFICANTLY AND NEGATIVELY AFFECT OUR REVENUES, PROFITABILITY AND RESULTS OF OPERATION.

Global economic conditions and conditions specific to the United States and/or other major markets in which we do business could substantially affect our sales and profitability. Global economic activity has undergone a sudden, sharp economic downturn, on top of the housing downturn and subprime lending collapse

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

during the last year. Global credit and capital markets have experienced unprecedented volatility and disruption. Business credit and liquidity have tightened in much of the world. Consumer credit has also contracted in a number of major markets. U.S. unemployment rates have increased significantly. Some of our suppliers, customers and consumers are facing credit issues, and could experience cash flow problems and other financial hardships. Consumer confidence and spending are down significantly.

Changes in governmental banking, monetary and fiscal policies to restore liquidity and increase credit availability may not be effective. It is difficult to determine the breadth and duration of the economic and financial market problems and the many ways in which they may affect our consumers, suppliers, customers and our business in general. Nonetheless, continuation or further worsening of these difficult financial and macroeconomic conditions could have significant adverse effects on our sales, profitability and results of operations.

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).

23

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: December 8, 2008

By: /s/ Donald C. Berg
Donald C. Berg
Executive Vice President
and Chief Financial Officer
(On behalf of the Registrant and
as Principal Financial Officer)

24

Exhibit 31.1

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

I, Paul C. Varga, certify that:

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

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.

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Date: December 8, 2008

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, Donald C. Berg, 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):

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

- 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: December 8, 2008

By: /s/ Donald C. Berg
Donald C. Berg
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 October 31, 2008, 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: December 8, 2008

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

By: /s/ Donald C. Berg
Donald C. Berg
Executive Vice President
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.