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BROWN FORMAN CORP  
Form 10-Q  
December 07, 2006

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, 2006

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, 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  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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: November 30, 2006

|   |            |
|---|------------|
| Class A Common Stock (\$.15 par value, voting)    | 56,870,114 |
| Class B Common Stock (\$.15 par value, nonvoting) | 66,207,451 |

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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<br>October 31, |          | Six Months Ended<br>October 31, |           |
|---------------|-----------------------------------|----------|---------------------------------|-----------|
|               | 2005                              | 2006     | 2005                            | 2006      |
| Net sales     | \$ 665.8                          | \$ 735.3 | \$1,213.2                       | \$1,375.0 |
| Excise taxes  | 115.4                             | 145.0    | 213.0                           | 273.4     |
| Cost of sales | 193.0                             | 204.9    | 339.8                           | 364.9     |

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|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Gross profit  | 357.4    | 385.4    | 660.4    | 736.7    |
| Advertising expenses  | 87.4     | 92.7     | 159.7    | 174.0    |
| Selling, general, and<br>administrative expenses                                  | 110.2    | 123.8    | 220.5    | 254.7    |
| Other expense (income), net   | (0.4)    | (13.2)   | (14.2)   | (15.3)   |
| Operating income  | 160.2    | 182.1    | 294.4    | 323.3    |
| Interest income   | 3.2      | 3.8      | 5.1      | 8.6      |
| Interest expense  | 4.5      | 5.7      | 9.1      | 11.7     |
| Income from continuing operations<br>before income taxes                          | 158.9    | 180.2    | 290.4    | 320.2    |
| Income taxes  | 47.1     | 55.9     | 91.1     | 102.0    |
| Income from continuing operations   | 111.8    | 124.3    | 199.3    | 218.2    |
| Loss from discontinued operations,<br>net of income taxes                         | (3.0)    | (0.5)    | (77.7)   | (0.6)    |
| Net income  | \$ 108.8 | \$ 123.8 | \$ 121.6 | \$ 217.6 |
| Basic earnings (loss) per share:  |          |          |          |          |
| Continuing operations   | \$ 0.92  | \$ 1.01  | \$ 1.64  | \$ 1.78  |
| Discontinued operations   | (0.03)   | --       | (0.64)   | (0.01)   |
| Total   | \$ 0.89  | \$ 1.01  | \$ 1.00  | \$ 1.77  |
| Diluted earnings (loss) per share:  |          |          |          |          |
| Continuing operations   | \$ 0.91  | \$ 1.00  | \$ 1.62  | \$ 1.76  |
| Discontinued operations   | (0.03)   | --       | (0.63)   | (0.01)   |
| Total   | \$ 0.88  | \$ 1.00  | \$ 0.99  | \$ 1.75  |
| Shares (in thousands) used in<br>the calculation of earnings (loss)<br>per share: |          |          |          |          |
| Basic   | 122,016  | 122,873  | 121,978  | 122,742  |
| Diluted   | 123,242  | 124,291  | 123,199  | 124,178  |
| Cash dividends per common share:  |          |          |          |          |
| Declared  | \$ 0.000 | \$ 0.000 | \$ 0.490 | \$ 0.560 |
| Paid  | \$ 0.245 | \$ 0.280 | \$ 0.490 | \$ 0.560 |

See notes to the condensed consolidated financial statements.

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|   | April 30,<br>2006<br>----- | October 31,<br>2006<br>----- |
|---|----------------------------|------------------------------|
| <b>Assets</b>                                     |                            |                              |
| -----   |                            |                              |
| Cash and cash equivalents                         | \$ 474.8                   | \$ 222.6                     |
| Short-term investments                            | 159.9                      | 190.2                        |
| Accounts receivable, net                          | 328.4                      | 441.7                        |
| Inventories:                                      |                            |                              |
| Barreled whiskey                                  | 274.2                      | 283.7                        |
| Finished goods                                    | 99.5                       | 156.6                        |
| Work in process                                   | 106.8                      | 92.6                         |
| Raw materials and supplies                        | 42.5                       | 60.8                         |
|   | -----                      | -----                        |
| Total inventories                                 | 523.0                      | 593.7                        |
| Current portion of deferred income taxes          | 81.0                       | 81.0                         |
| Current assets held for sale                      | 8.9                        | 6.9                          |
| Other current assets                              | 34.1                       | 19.9                         |
|   | -----                      | -----                        |
| Total current assets                              | 1,610.1                    | 1,556.0                      |
| Property, plant and equipment, net                | 428.5                      | 427.5                        |
| Prepaid pension cost                              | 146.1                      | 140.1                        |
| Trademarks and brand names                        | 324.9                      | 442.1                        |
| Goodwill  | 195.4                      | 324.3                        |
| Noncurrent assets held for sale                   | 1.0                        | 1.0                          |
| Other assets                                      | 22.2                       | 34.2                         |
|   | -----                      | -----                        |
| Total assets                                      | \$2,728.2                  | \$2,925.2                    |
|   | =====                      | =====                        |
| <b>Liabilities</b>                                |                            |                              |
| -----   |                            |                              |
| Accounts payable and accrued expenses             | \$ 292.9                   | \$ 341.9                     |
| Accrued income taxes                              | 48.3                       | 48.5                         |
| Short-term borrowings                             | 225.0                      | 197.2                        |
| Current liabilities held for sale                 | 2.9                        | 2.7                          |
|   | -----                      | -----                        |
| Total current liabilities                         | 569.1                      | 590.3                        |
| Long-term debt                                    | 351.6                      | 353.7                        |
| Deferred income taxes                             | 132.8                      | 131.3                        |
| Accrued pension and other postretirement benefits | 77.9                       | 81.0                         |
| Other liabilities                                 | 33.7                       | 19.3                         |
|   | -----                      | -----                        |
| Total liabilities                                 | 1,165.1                    | 1,175.6                      |
| <b>Stockholders' Equity</b>                       |                            |                              |
| -----   |                            |                              |
| Common stock:                                     |                            |                              |
| Class A, voting                                   |                            |                              |
| (57,000,000 shares authorized;                    |                            |                              |
| 56,882,000 shares issued)                         | 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                        | 44.8                       | 51.1                         |
| Retained earnings                                 | 1,609.1                    | 1,765.5                      |
| Accumulated other comprehensive income            | 18.0                       | 21.1                         |
| Treasury stock                                    |                            |                              |
| (3,565,000 and 3,001,000 shares at                |                            |                              |
| April 30 and October 31, respectively)            | (127.7)                    | (107.0)                      |

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|  |                             |                             |
|--|-----------------------------|-----------------------------|
| Total stockholders' equity                 | -----<br>1,563.1<br>-----   | -----<br>1,749.6<br>-----   |
| Total liabilities and stockholders' equity | -----<br>\$2,728.2<br>===== | -----<br>\$2,925.2<br>===== |

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)

|  | Six Months Ended<br>October 31, |          |
|--|---------------------------------|----------|
|  | 2005                            | 2006     |
|  | -----                           | -----    |
| Cash flows from operating activities:  |                                 |          |
| Net income   | \$ 121.6                        | \$ 217.6 |
| Adjustments to reconcile net income to net cash provided by (used for) operations:       |                                 |          |
| Net loss from discontinued operations  | 77.7                            | 0.6      |
| Depreciation and amortization  | 21.7                            | 20.7     |
| Gain on sale of property, plant, and equipment   | --                              | (11.1)   |
| Stock-based compensation expense   | 3.3                             | 4.3      |
| Deferred income taxes  | (11.5)                          | (1.5)    |
| Changes in assets and liabilities, excluding the effects of businesses acquired or sold: |                                 |          |
| Accounts receivable  | (109.1)                         | (112.4)  |
| Inventories  | (51.9)                          | (66.6)   |
| Other current assets   | 2.4                             | 16.3     |
| Accounts payable and accrued expenses  | 35.5                            | 45.9     |
| Accrued income taxes   | (4.6)                           | 0.1      |
| Noncurrent assets and liabilities  | (1.1)                           | (8.7)    |
| Net cash (used for) provided by operating activities of discontinued operations          | (18.1)                          | 1.6      |
|  | -----                           | -----    |
| Cash provided by operating activities  | 65.9                            | 106.8    |
| Cash flows from investing activities:  |                                 |          |
| Acquisition of business, net of cash acquired  | --                              | (250.6)  |
| Proceeds from sale of discontinued operations  | 196.5                           | --       |
| Purchase of short-term investments   | --                              | (112.8)  |
| Sale of short-term investments   | --                              | 82.5     |
| Additions to property, plant, and equipment  | (21.0)                          | (21.2)   |
| Proceeds from sale of property, plant, and equipment                                     | --                              | 14.6     |
| Computer software expenditures   | (0.2)                           | (3.3)    |
| Net cash used for investing activities of discontinued operations                        | (1.9)                           | --       |
|  | -----                           | -----    |
| Cash provided by (used for) investing activities   | 173.4                           | (290.8)  |
| Cash flows from financing activities:  |                                 |          |
| Net repayment of short-term borrowings   | (30.0)                          | (30.2)   |
| Proceeds from exercise of stock options  | 8.4                             | 24.6     |
| Excess tax benefits from stock options   | 2.3                             | 5.7      |
| Acquisition of treasury stock  | (3.2)                           | --       |

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|   |          |          |
|---|----------|----------|
| Dividends paid  | (59.8)   | (68.8)   |
|   | -----    | -----    |
| Cash used for financing activities                              | (82.3)   | (68.7)   |
| <br>  |          |          |
| Effect of exchange rate changes on<br>cash and cash equivalents | --       | 0.5      |
|   | -----    | -----    |
| <br>  |          |          |
| Net increase (decrease) in<br>cash and cash equivalents         | 157.0    | (252.2)  |
| <br>  |          |          |
| Cash and cash equivalents, beginning of period                  | 294.9    | 474.8    |
|   | -----    | -----    |
| Cash and cash equivalents, end of period                        | \$ 451.9 | \$ 222.6 |
|   | =====    | =====    |

See notes to the condensed consolidated financial statements.

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### 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 2006 annual report on Form 10-K (the "2006 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 generally accepted accounting principles ("GAAP"). You should read these financial statements together with the 2006 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 \$122.4 million higher than reported as of April 30, 2006, and \$125.5 million higher than reported as of October 31, 2006. 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 reserves for tax uncertainties, are recognized in the quarter in which the related event occurs. The effective tax rate of 31.9% for continuing operations for the six months ended October 31, 2006, is based on an expected effective tax rate of 33.0% on ordinary income for the full fiscal year, and was affected by an approximate 3% tax rate on the gain on the sale of a wine production facility

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in September 2006 (see Note 12).

### 4. Discontinued Operations

We sold our wholly-owned subsidiary Lenox, Inc. ("Lenox") during fiscal 2006. In connection with the sale, we recognized a non-cash impairment charge of \$59.5 million in July 2005. The impairment charge represented the excess of the carrying value of the net assets sold over the expected sales proceeds. We also incurred transaction costs related to the sale, including legal, tax and actuarial expenses, transaction success payments, and investment banking fees.

Lenox's results of operations and the impairment charge and other transaction costs have been classified as discontinued operations, net of income taxes, in the accompanying consolidated statements of operations.

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After the sale of Lenox, we retained ownership of Brooks & Bentley, a former subsidiary of Lenox, located in the United Kingdom. We still intend to dispose of Brooks & Bentley, the assets and liabilities of which are classified as held for sale in the accompanying consolidated balance sheets, and the operating results of which are classified as discontinued operations in the accompanying consolidated statements of operations.

A summary of discontinued operations follows:

| (Dollars in millions)                    | Three Months Ended<br>October 31, |          | Six Months Ended<br>October 31, |          |
|--|-----------------------------------|----------|---------------------------------|----------|
|  | 2005                              | 2006     | 2005                            | 2006     |
|  | -----                             | -----    | -----                           | -----    |
| Net sales                                | \$ 39.6                           | \$ 5.5   | \$ 119.0                        | \$ 10.3  |
| Operating expenses                       | (41.5)                            | (5.9)    | (134.2)                         | (10.9)   |
| Impairment charge                        | --                                | --       | (59.5)                          | --       |
| Transaction costs                        | (2.1)                             | --       | (9.6)                           | --       |
|  | -----                             | -----    | -----                           | -----    |
| Loss before income taxes                 | (4.0)                             | (0.4)    | (84.3)                          | (0.6)    |
| Income tax (expense) benefit             | 1.0                               | (0.1)    | 6.6                             | --       |
|  | -----                             | -----    | -----                           | -----    |
| Net loss from<br>discontinued operations | \$ (3.0)                          | \$ (0.5) | \$ (77.7)                       | \$ (0.6) |
|  | =====                             | =====    | =====                           | =====    |

The net assets held for sale consist of the following:

| (Dollars in millions)              | April 30,<br>2006 | October 31,<br>2006 |
|------------------------------------|-------------------|---------------------|
|                                    | -----             | -----               |
| Current assets:                    |                   |                     |
| Accounts receivable, net           | \$ 5.4            | \$ 4.0              |
| Inventories                        | 3.1               | 2.3                 |
| Other                              | 0.4               | 0.6                 |
|                                    | -----             | -----               |
|                                    | 8.9               | 6.9                 |
|                                    | -----             | -----               |
| Noncurrent assets:                 |                   |                     |
| Property, plant and equipment, net | 0.2               | 0.1                 |
| Other                              | 0.8               | 0.9                 |
|                                    | -----             | -----               |

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|                                       |        |        |
|---------------------------------------|--------|--------|
|                                       | 1.0    | 1.0    |
|                                       | -----  | -----  |
| Current liabilities:                  |        |        |
| Accounts payable and accrued expenses | 2.9    | 2.7    |
|                                       | -----  | -----  |
| Net assets held for sale              | \$ 7.0 | \$ 5.2 |
|                                       | =====  | =====  |

5. Earnings Per Share

Basic earnings per share is based upon the weighted average number of 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. No stock-based awards were excluded from the calculation of diluted earnings per share for any of the periods presented in the accompanying financial statements.

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

| (Dollars in millions, except per share amounts) | Three Months Ended<br>October 31, |         | Six Months Ended<br>October 31, |         |
|---|-----------------------------------|---------|---------------------------------|---------|
|   | 2005                              | 2006    | 2005                            | 2006    |
|   | -----                             | -----   | -----                           | -----   |
| Basic and diluted net income (loss):            |                                   |         |                                 |         |
| Continuing operations                           | \$111.8                           | \$124.3 | \$199.3                         | \$211.8 |
| Discontinued operations                         | (3.0)                             | (0.5)   | (77.7)                          | (0.5)   |
|   | -----                             | -----   | -----                           | -----   |
| Total   | \$108.8                           | \$123.8 | \$121.6                         | \$211.3 |
|   | =====                             | =====   | =====                           | =====   |
| Share data (in thousands):                      |                                   |         |                                 |         |
| Basic average common shares outstanding         | 122,016                           | 122,873 | 121,978                         | 122,873 |
| Dilutive effect of non-vested restricted stock  | 28                                | 55      | 25                              | 25      |
| Dilutive effect of stock options and SSARs      | 1,198                             | 1,363   | 1,196                           | 1,363   |
|   | -----                             | -----   | -----                           | -----   |
| Diluted average common shares outstanding       | 123,242                           | 124,291 | 123,199                         | 124,251 |
|   | =====                             | =====   | =====                           | =====   |
| Basic earnings (loss) per share:                |                                   |         |                                 |         |
| Continuing operations                           | \$0.92                            | \$1.01  | \$1.64                          | \$1.72  |
| Discontinued operations                         | (0.03)                            | --      | (0.64)                          | (0.01)  |
|   | -----                             | -----   | -----                           | -----   |
| Total   | \$0.89                            | \$1.01  | \$1.00                          | \$1.71  |
|   | =====                             | =====   | =====                           | =====   |
| Diluted earnings (loss) per share:              |                                   |         |                                 |         |
| Continuing operations                           | \$0.91                            | \$1.00  | \$1.62                          | \$1.71  |
| Discontinued operations                         | (0.03)                            | --      | (0.63)                          | (0.01)  |
|   | -----                             | -----   | -----                           | -----   |
| Total   | \$0.88                            | \$1.00  | \$0.99                          | \$1.70  |
|   | =====                             | =====   | =====                           | =====   |



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### 6. Goodwill and Other Intangible Assets

The following table shows the changes in the amounts recorded as goodwill during the six months ended October 31, 2006:

(Dollars in millions)

|   |         |
|---|---------|
| Balance as of April 30, 2006            | \$195.4 |
| Acquisition of Chambord (Note 11)       | 128.2   |
| Foreign currency translation adjustment | 0.7     |
|   | -----   |
| Balance as of October 31, 2006          | \$324.3 |
|   | =====   |

Our other intangible assets consist of trademarks and brand names. We consider all of our trademarks and brand names to have indefinite useful lives.

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### 7. Pension and Other Postretirement Benefits

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,        |       | October 31,      |        |
|                                       | 2005               | 2006  | 2005             | 2006   |
|                                       | -----              | ----- | -----            | -----  |
| <b>Pension Benefits:</b>              |                    |       |                  |        |
| Service cost                          | \$3.2              | \$3.2 | \$6.3            | \$6.5  |
| Interest cost                         | 5.5                | 6.0   | 11.0             | 12.0   |
| Expected return on plan assets        | (7.8)              | (7.9) | (15.7)           | (15.9) |
| Amortization of:                      |                    |       |                  |        |
| Unrecognized prior service cost       | 0.1                | 0.2   | 0.3              | 0.4    |
| Unrecognized net loss                 | 2.1                | 2.9   | 4.3              | 5.8    |
|                                       | -----              | ----- | -----            | -----  |
| Net expense                           | \$3.1              | \$4.4 | \$6.2            | \$8.8  |
|                                       | =====              | ===== | =====            | =====  |
| <b>Other Postretirement Benefits:</b> |                    |       |                  |        |
| Service cost                          | \$0.3              | \$0.3 | \$0.6            | \$0.6  |
| Interest cost                         | 0.6                | 0.8   | 1.3              | 1.5    |
| Amortization of unrecognized net loss | 0.1                | 0.1   | 0.1              | 0.2    |
|                                       | -----              | ----- | -----            | -----  |
| Net expense                           | \$1.0              | \$1.2 | \$2.0            | \$2.3  |
|                                       | =====              | ===== | =====            | =====  |

### 8. Environmental Matters

We are subject to environmental regulations in connection with the operation of our production facilities and in connection with the transportation of products we manufacture. Violation of these environmental regulations can result in fines or penalties. As of October 31, 2006, we do not consider the exposure from the risks of such fines or penalties to be material.

### 9. Contingencies

We operate in a litigious environment, and we get 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

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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. Brown-Forman is vigorously defending these cases. Six of the suits have been dismissed by trial court and are being appealed. One case remains pending on a motion to dismiss. Two others were voluntarily withdrawn. As we cannot yet predict the outcome of these claims, no amounts have been accrued. However, an unfavorable result in these or similar class action lawsuits could have a material adverse impact on our business.

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### 10. Comprehensive Income

Comprehensive income is a broad measure of the effects of all transactions and events (other than investments by or distributions to shareholders) 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 |         | Six Months Ended |         |
|---|--------------------|---------|------------------|---------|
|   | October 31,        |         | October 31,      |         |
|   | 2005               | 2006    | 2005             | 2006    |
|   | -----              | -----   | -----            | -----   |
| Continuing operations:                  |                    |         |                  |         |
| Net income                              | \$111.8            | \$124.3 | \$199.3          | \$218.2 |
| Other comprehensive income (loss):      |                    |         |                  |         |
| Net gain (loss) on cash flow hedges     | (1.3)              | 0.6     | 2.3              | 0.5     |
| Net gain on securities                  | --                 | --      | 0.1              | --      |
| Foreign currency translation adjustment | (0.8)              | (0.8)   | (12.8)           | 2.1     |
|   | -----              | -----   | -----            | -----   |
|   | (2.1)              | (0.2)   | (10.4)           | 2.6     |
|   | -----              | -----   | -----            | -----   |
| Comprehensive income                    | 109.7              | 124.1   | 188.9            | 220.8   |
|   | -----              | -----   | -----            | -----   |
| Discontinued operations:                |                    |         |                  |         |
| Net loss                                | (3.0)              | (0.5)   | (77.7)           | (0.6)   |
| Other comprehensive income (loss):      |                    |         |                  |         |
| Pension liability adjustment            | 27.6               | --      | 27.6             | --      |
| Foreign currency translation adjustment | 0.1                | 0.2     | (0.9)            | 0.5     |
|   | -----              | -----   | -----            | -----   |
|   | 27.7               | 0.2     | 26.7             | 0.5     |
|   | -----              | -----   | -----            | -----   |
| Comprehensive income (loss)             | 24.7               | (0.3)   | (51.0)           | (0.1)   |
|   | -----              | -----   | -----            | -----   |
| Total comprehensive income              | \$134.4            | \$123.8 | \$137.9          | \$220.7 |
|   | =====              | =====   | =====            | =====   |

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

| (Dollars in millions)                        | April 30,<br>2006 | October 31,<br>2006 |
|--|-------------------|---------------------|
|  | -----             | -----               |
| Pension liability adjustment                 | \$ (4.6)          | \$ (4.6)            |
| Cumulative translation adjustment            | 23.8              | 26.4                |
| Unrealized loss on cash flow hedge contracts | (1.4)             | (0.9)               |
| Unrealized gain on securities                | 0.2               | 0.2                 |
|  | -----             | -----               |
|  | \$ 18.0           | \$21.1              |
|  | =====             | =====               |

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### 11. Acquisition of Chambord Liqueur

Effective May 31, 2006, we completed the acquisition of Chambord Liqueur and all related assets from Chatam International Incorporated and its operating subsidiary, Charles Jacquin et Cie Inc., for \$250.6 million, including transaction costs. We believe that Chambord, which is positioned in the super-premium spirits category, fits well with our approach to brand building. With the close of the transaction, we acquired the Chambord trademark, French manufacturing operations where the brand is produced, and the services of employees who work at the facility.

The acquisition consists primarily of the Chambord brand name and goodwill, to which we have preliminarily allocated \$116.5 million and \$128.2 million of the purchase price, respectively. The entire amount allocated to goodwill is deductible for income tax purposes. The initial allocation of the purchase price was based on preliminary estimates and may be revised as asset valuations are finalized. The operating results of Chambord have been consolidated with our financial statements since the acquisition date. Consolidated pro forma operating results for the three-month and six-month periods ended October 31, 2005 and 2006 would not have been materially different from the actual amounts reported for those periods.

### 12. Other Income

During July 2005, we entered into an agreement with LVMH Moet Hennessey Louis Vuitton for the early termination of our long-term importing and marketing agreements for Glenmorangie products in the United States, Canada, and certain countries in Europe and Asia. We received approximately \$13.5 million for the early termination, which is included in "other income" for the six months ended October 31, 2005, in the accompanying consolidated statements of operations.

During September 2006, we entered into an agreement with Gruppo Italiano Vini (GIV) for the production of Bolla Italian wines. Under the agreement, we also sold our main Bolla wine production facility in Pedemonte, Italy to GIV, which will now begin to produce Bolla Italian Wines for us. We recognized a gain on the sale of \$11.1 million, which is included in "other income" for the periods ended October 31, 2006, in the accompanying consolidated statements of operations. The agreement also names GIV as Bolla's distributor in the Italian domestic market. We will maintain worldwide ownership of the Bolla trademark and continue to sell Bolla Wines in the brand's other markets.

### 13. Recent Accounting Pronouncements

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

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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. The provisions of FIN 48 become effective as of the beginning of our 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact that FIN 48 will have on our financial statements.

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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. 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 September 2006, the FASB issued Statement No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (FAS 158). FAS 158 requires that employers recognize the funded status of their defined benefit pension and other postretirement plans on the balance sheet and recognize as a component of other comprehensive income, net of tax, the plan-related gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. We will prospectively adopt FAS 158 on April 30, 2007. Based on the funded status of our plans as of the date of our most recent actuarial valuation (April 30, 2006), we expect the adoption of FAS 158 to reduce reported stockholders' equity by approximately \$100 million. However, the actual impact of adopting FAS 158 is highly dependent on a number of factors, including the discount rates in effect at April 30, 2007, and the actual rate of return on pension assets during fiscal 2007. These factors could significantly increase or decrease the expected impact of adopting FAS 158.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108), which addresses how to quantify the effect of financial statements errors. The provisions of SAB 108 become effective as of the end of our 2007 fiscal year. We do not expect the adoption of SAB 108 to have a significant impact on our financial statements.

#### 14. Other

On August 25, 2006, we entered into an agreement to acquire substantially all of the assets relating to the tequila business of Grupo Industrial Herradura ("Casa Herradura"), including the Herradura and el Jimador tequilas, the New Mix tequila-based ready-to-drink brand, related production facilities and a sales and distribution organization in Mexico, for an aggregate purchase price of \$876 million in cash and the assumption of selected liabilities. The closing of the acquisition, which is subject to a number of conditions, is expected to occur in December 2006.

#### 15. Subsequent Event

On November 16, 2006, the Board of Directors, after reviewing various strategic alternatives, decided to pursue a possible sale of our wholly-owned subsidiary, Hartmann, Inc. This process has been initiated. Hartmann's operating results and net assets are not material in relation to Brown-Forman.

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### 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 2006 Annual Report. Note that the results of operations for the six months ended October 31, 2006, 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:

- changes in general economic conditions, particularly in the United States where we earn a significant portion of our profits;
- lower consumer confidence or purchasing in the wake of catastrophic events;
- 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 globally;
- 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 Mexican Peso;
- reduced bar, restaurant, hotel and travel business, including travel retail, in the wake of terrorist attacks;
- lower consumer confidence or purchasing associated with rising energy prices;
- 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;
- increases in the price of energy or raw materials, including grapes, grain, wood, glass, and plastic;
- excess wine inventories or a world-wide oversupply of grapes;

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- termination of our rights to distribute and market agency brands included in our portfolio;
- counterfeit production of our products which could adversely affect our intellectual property rights, brand equity and operating results;
- adverse developments as a result of state investigations of beverage alcohol industry trade practices of suppliers, distributors and retailers.

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Results of Operations:

Second Quarter Fiscal 2007 Compared to Second Quarter Fiscal 2006

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

| CONTINUING OPERATIONS                            | Three Months Ended<br>October 31, |         | Change |
|--|-----------------------------------|---------|--------|
|  | 2005                              | 2006    |        |
| Net sales  | \$665.8                           | \$735.3 | 10%    |
| Gross profit                                     | 357.4                             | 385.4   | 8%     |
| Advertising expenses                             | 87.4                              | 92.7    | 6%     |
| Selling, general, and<br>administrative expenses | 110.2                             | 123.8   | 12%    |
| Other expense (income), net                      | (0.4)                             | (13.2)  |        |
| Operating income                                 | 160.2                             | 182.1   | 14%    |
| Interest expense, net                            | 1.3                               | 1.9     |        |
| Income before income taxes                       | 158.9                             | 180.2   | 13%    |
| Income taxes                                     | 47.1                              | 55.9    |        |
| Net income                                       | 111.8                             | 124.3   | 11%    |
| Gross margin                                     | 53.7%                             | 52.4%   |        |
| Effective tax rate                               | 29.7%                             | 31.0%   |        |
| Earnings per share:                              |                                   |         |        |
| Basic  | 0.92                              | 1.01    | 10%    |
| Diluted  | 0.91                              | 1.00    | 10%    |

Diluted earnings from continuing operations for the quarter ended October 31, 2006 of \$1.00 per share improved 10% from the same prior year period. The higher earnings reflect volume and profit growth for the Jack Daniel's family of brands and gross profit gains for Southern Comfort, Finlandia and most of our other super-premium developing brands, including Sonoma-Cutrer, Tuaca and Woodford Reserve. Second quarter earnings benefited from a net \$0.08 per share gain related to the sale of an Italian winery done in conjunction with our ongoing efforts to reduce wine costs and improve the performance of Bolla Italian wines.

Revenues grew 10% and gross profit increased 8% in the quarter. Comparisons to the prior year were, as in the previous quarter, affected by distribution changes in Germany and Australia. We are now responsible for the collection and remittance of excise taxes in these markets. The net effect of these changes reduces our reported gross margin. The gross margin on a stripped net sales basis (gross profit as a percentage of net sales excluding excise tax) was 65.3%, up from 64.9% in the prior-year period. Management believes excluding excise tax from the gross margin calculation provides a more meaningful comparison due to the changes in distribution that have occurred in these two markets.

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(Dollars in millions)

Three Months Ended

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|   | October 31, |         |                      |
|---|-------------|---------|----------------------|
|   | 2005        | 2006    |                      |
|   | -----       | -----   |                      |
| Net sales                               | \$665.8     | \$735.3 |                      |
| Excise taxes (as reported)              | (115.4)     | (145.0) |                      |
|   | -----       | -----   |                      |
| Net sales (stripped of excise taxes)    | \$550.4     | \$590.3 |                      |
|   | =====       | =====   |                      |
| Gross profit (as reported)              | \$357.4     | \$385.4 |                      |
| Gross margin (stripped net sales basis) | 64.9%       | 65.3%   | change<br>0.4 % pts. |

Advertising expenses increased \$5.3 million in the quarter, or 6% in the quarter as a result of additional investments behind our premium global brands. SG&A expenses increased \$13.6 million, or 12%. Approximately \$6.0 million of this growth over the prior-year period was related to the previously mentioned changes in our distribution arrangements in Australia and Germany.

Operating income increased \$21.9 million in the quarter, up 14% over the same prior year period, due in part to the previously mentioned net gain on the sale of the Italian winery, and gross profit gains, which more than offset increases in both SG&A and brand investments.

Jack Daniel's global depletions grew at a mid-single digit rate in the quarter, with U.S. and international volumes both increasing in the mid-single digits. (Depletions are shipments from wholesale distributors to retail customers, and are commonly regarded in the industry as an approximate measure of consumer demand). Solid volume gains in Australia, France, Italy, and Japan offset softness in the quarter for the brand in Germany, Spain, and the UK. Global volumes for Southern Comfort grew at a mid-single digit rate in the quarter, led by continued growth in the U.S. Finlandia volumes grew at a double-digit rate, fueled by continued strong growth in Poland.

DISCONTINUED OPERATIONS

As discussed in Note 4 to the accompanying financial statements, we sold Lenox during fiscal 2006, and we intend to dispose of Brooks & Bentley, a former subsidiary of Lenox, located in the United Kingdom. As a result, we have reported the operations of Lenox and Brooks & Bentley as discontinued operations in the accompanying financial statements.

|                 | Three Months Ended |         |
|-----------------|--------------------|---------|
|                 | October 31,        |         |
|                 | 2005               | 2006    |
|                 | -----              | -----   |
| Net loss        | \$(3.0)            | \$(0.5) |
| Loss per share: |                    |         |
| Basic           | (0.03)             | --      |
| Diluted         | (0.03)             | --      |

For the three months ended October 31, 2006, we reported a net loss from discontinued operations of \$0.5 million versus a net loss of \$3.0 million for the same prior year period. Last year's loss included transaction costs of \$2.1 million associated with the sale of Lenox.

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### Results of Operations:

Six Months Fiscal 2007 Compared to Six Months Fiscal 2006

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

|  | Six Months Ended<br>October 31, |           |        |
|--|---------------------------------|-----------|--------|
| CONTINUING OPERATIONS                            | 2005                            | 2006      | Change |
|  | -----                           | -----     | -----  |
| Net sales  | \$1,213.2                       | \$1,375.0 | 13%    |
| Gross profit                                     | 660.4                           | 736.7     | 12%    |
| Advertising expenses                             | 159.7                           | 174.0     | 9%     |
| Selling, general, and<br>administrative expenses | 220.5                           | 254.7     | 16%    |
| Other expense (income), net                      | (14.2)                          | (15.3)    |        |
| Operating income                                 | 294.4                           | 323.3     | 10%    |
| Interest expense, net                            | 4.0                             | 3.1       |        |
| Income before income taxes                       | 290.4                           | 320.2     | 10%    |
| Income taxes                                     | 91.1                            | 102.0     |        |
| Net income                                       | 199.3                           | 218.2     | 9%     |
| Gross margin                                     | 54.4%                           | 53.6%     |        |
| Effective tax rate                               | 31.4%                           | 31.9%     |        |
| Earnings per share:                              |                                 |           |        |
| Basic  | \$1.64                          | \$1.78    | 9%     |
| Diluted  | 1.62                            | 1.76      | 9%     |

Revenues and gross profit increased 13% and 12%, respectively, reflecting solid growth for Jack Daniel's, Southern Comfort, and improved profits from the Jack Daniel's & Cola ready-to-drink product that is sold primarily in Australia. Also contributing to these gains were positive benefits from foreign exchange and changes in go-to-market strategies in several markets, most notably Germany and Australia.

Advertising expenses were up 9% for the first half of the fiscal year, reflecting incremental investments behind most brands in our portfolio but most notably Jack Daniel's, Finlandia, and several developing super-premium brands, and spending behind Chambord.

SG&A expenses were up 16% on a year-to-date basis. Changes in our go-to-market strategy in Australia and Germany as well as in the U. S. accounted for approximately half of the year-to-year growth in SG&A through October. The remaining increase reflects severance benefits for employees of the Pedemonte facility in Italy, costs associated with changes in our U.S. sales and marketing structure, higher pension and other postretirement costs, and general inflation.

Operating income grew 10% on a year-to-date basis. Volume and margin improvements (on a stripped sales basis) for the majority of our brands, but particularly Jack Daniel's, Southern Comfort, and Jack Daniel's & Cola, partially offset by increased advertising and promotional investments and higher levels of SG&A spending fueled the gain in operating income. Results also



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benefited from a \$10.0 million net gain associated with the sale of the Italian winery.

The increase in the effective tax rate from 31.4% to 31.9% largely reflects the tax benefit achieved last year by offsetting the capital gain associated with the early termination of Glenmorangie marketing and distribution rights against the capital loss resulting from the sale of Lenox.

For the first six months of the fiscal year, diluted earnings per share were \$1.76, up 9% from the \$1.62 earned in the same period last year. Year-to-date results benefited from solid growth for Jack Daniel's, Southern Comfort, and improved volume and profits from the Jack Daniel's & Cola ready-to-drink product that is sold primarily in Australia. Year-over-year comparisons were affected by the following:

- profits associated with the early termination of Glenmorangie marketing and distribution rights recorded last year of approximately \$0.11 per share;
- profits recorded this year from the sale of an Italian winery of approximately \$0.08 per share;
- a \$0.06 per share benefit of favorable foreign currency fluctuations, and;
- the impact of changes in global distributor inventories (which negatively affected comparisons by \$0.02 per share).

### DISCONTINUED OPERATIONS

As discussed earlier, we sold Lenox during fiscal 2006, and we intend to dispose of Brooks & Bentley. As a result, we have reported the operations of Lenox and Brooks & Bentley as discontinued operations in the accompanying financial statements.

|                 | Six Months Ended<br>October 31, |          |
|-----------------|---------------------------------|----------|
|                 | 2005                            | 2006     |
|                 | -----                           | -----    |
| Net loss        | \$ (77.7)                       | \$ (0.6) |
| Loss per share: |                                 |          |
| Basic           | (0.64)                          | (0.01)   |
| Diluted         | (0.63)                          | (0.01)   |

For the six months ended October 31, 2006, we reported a net loss from discontinued operations of \$0.6 million versus a net loss of \$77.7 million for the same prior year period. Last year's loss included a non-cash impairment charge and transaction costs totaling \$69.1 million in addition to a loss from the operations of Lenox incurred during the period prior to the sale.

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### OUTLOOK FOR CONTINUING OPERATIONS

We have narrowed the range of our full-year earnings outlook to \$3.14 to \$3.30 per share, representing forecasted growth of 8% to 14% over adjusted prior-year earnings of \$2.90 per share. This outlook includes the current quarter's \$0.08 per share gain from the sale of the Italian winery and additional benefits from foreign exchange. It also includes expected further reductions in global distributor inventory levels and an expected higher tax rate in the second half of the fiscal year versus the prior-year second half.

This outlook excludes the impact of our pending acquisition of Casa Herradura (see below), which was announced on August 28, 2006. As previously communicated,

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we expect the acquisition to be dilutive to earnings through fiscal 2009. We expect the transaction to dilute fiscal 2007 earnings in the range of \$0.08 to \$0.12 per share.

### LIQUIDITY AND FINANCIAL CONDITION

Cash and cash equivalents decreased by \$252.2 million during the six months ended October 31, 2006, compared to an increase of \$157.0 million during the same period last year. Cash provided by operations grew from \$65.9 million to \$106.8 million, reflecting a \$21.2 million increase in cash from continuing operations, largely attributable to higher earnings, and a \$19.7 million decrease in cash used for discontinued operations. Cash used for investing activities increased by \$464.2 million, largely reflecting the \$250.6 million acquisition of Chambord (discussed below) and a net investment in short-term securities of \$30.3 million during this year, versus the same period last year in which we received cash of \$196.5 million from the sale of Lenox. Cash used for financing activities declined by \$13.6 million, primarily reflecting higher proceeds from the exercise of employee stock options, offset partially by increased dividend payments.

Effective May 31, 2006, we completed the acquisition of Chambord Liqueur and all related assets from Chatam International Incorporated and its operating subsidiary, Charles Jacquin et Cie Inc., for \$250.6 million, including transaction costs. The acquisition consists primarily of the Chambord brand name and goodwill, to which we have preliminarily allocated \$116.5 million and \$128.2 million of the purchase price, respectively.

On August 25, 2006, we entered into an agreement to acquire substantially all of the assets relating to the tequila business of Casa Herradura, including the Herradura and el Jimador tequilas, the New Mix tequila-based ready-to-drink brand, related production facilities and a sales and distribution organization in Mexico, for an aggregate purchase price of \$876 million in cash and the assumption of selected liabilities. The closing of the acquisition, which is subject to a number of conditions, is expected to occur in December 2006. We expect to finance the acquisition with a combination of cash and debt.

On November 16, 2006, the Board of Directors, after reviewing various strategic alternatives, decided to pursue a possible sale of our wholly-owned subsidiary, Hartmann, Inc. This process has been initiated. Hartmann's operating results and net assets are not material in relation to Brown-Forman.

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### RECENT ACCOUNTING PRONOUNCEMENTS

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. The provisions of FIN 48 become effective as of the beginning of our 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact that FIN 48 will have on our financial statements.

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. The provisions of FAS 157 become effective as of the beginning of our 2009 fiscal year. We are

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currently evaluating the impact that FAS 157 will have on our financial statements.

In September 2006, the FASB issued Statement No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (FAS 158). FAS 158 requires that employers recognize the funded status of their defined benefit pension and other postretirement plans on the balance sheet and recognize as a component of other comprehensive income, net of tax, the plan-related gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. We will prospectively adopt FAS 158 on April 30, 2007. Based on the funded status of our plans as of the date of our most recent actuarial valuation (April 30, 2006), we expect the adoption of FAS 158 to reduce reported stockholders' equity by approximately \$100 million. However, the actual impact of adopting FAS 158 is highly dependent on a number of factors, including the discount rates in effect at April 30, 2007, and the actual rate of return on pension assets during fiscal 2007. These factors could significantly increase or decrease the expected impact of adopting FAS 158.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108), which addresses how to quantify the effect of financial statements errors. The provisions of SAB 108 become effective as of the end of our 2007 fiscal year. We do not expect the adoption of SAB 108 to have a significant impact on our financial statements.

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### 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 October 31, 2006, 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

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### 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, in coordination with other defendants, is vigorously defending itself in these cases. 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. Each involuntarily dismissal is being appealed by the respective plaintiffs.

### Item 1A. Risk Factors

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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, 2006 and filed on June 29, 2006. The revision and additions below should be read together with the risk factors and information disclosed in our Annual Report on Form 10-K.

The risk factor entitled "Demand for our products may be adversely affected by changes in consumer preferences and tastes" is amended and restated in its entirety as follows.

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DEMAND FOR OUR PRODUCTS MAY BE ADVERSELY AFFECTED BY CHANGES IN CONSUMER PREFERENCES AND TASTES.

We operate in a highly competitive marketplace. Maintaining our competitive position depends on our continued ability to offer products that have a strong appeal to consumers. Consumer preferences may shift due to a variety of factors, including changes in demographic and social trends, and changes in dining and beverage consumption patterns. In addition, sales of a brand might diminish because of a scare over product contamination or some other negative publicity regarding the brand. If a product recall becomes necessary, that can affect our business.

The following two risk factors constitute additions to the risk factors disclosed in "Item 1A: Risk Factors" of our Annual Report on Form 10-K.

TERMINATION OF OUR RIGHTS TO DISTRIBUTE AND MARKET AGENCY BRANDS INCLUDED IN OUR PORTFOLIO COULD ADVERSELY AFFECT OUR BUSINESS.

In addition to the brands our company owns, we also market and distribute products on behalf of other brand owners in selected markets, including the U.S. Our rights to sell these agency brands are based on contracts with the various brand owners, which have varying lengths, renewal terms, termination, and other provisions. We earn a margin for these sales and also gain distribution cost efficiencies in some instances. Therefore, the termination of our rights to distribute agency brands included in our portfolio could adversely affect our business.

COUNTERFEIT PRODUCTION OF OUR PRODUCTS COULD ADVERSELY AFFECT OUR INTELLECTUAL PROPERTY RIGHTS, BRAND EQUITY AND OPERATING RESULTS.

The beverage alcohol industry is experiencing problems with product counterfeiting and other forms of trademark infringement, especially within the Asian and Eastern European markets. Given our dependence on brand recognition, we devote substantial resources on a worldwide basis to the protection of our intellectual property rights. In addition, we have taken steps to reduce the ability of others to imitate our products. Although we believe that our intellectual property rights are legally supported in the markets in which we do business, the protection of intellectual property rights varies greatly from country to country. Confusingly similar, lower quality or even dangerous counterfeit product could reach the market and adversely affect our intellectual property rights, brand equity and/or operating results.

### 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

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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).

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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 7, 2006

By: /s/ Phoebe A. Wood  
Phoebe A. Wood  
Executive Vice President 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;

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- 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 functions):
- 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 7, 2006

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

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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 functions):
- 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 7, 2006

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 October 31, 2006, as filed with the



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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 7, 2006

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

By: /s/ Phoebe A. Wood  
Phoebe A. Wood  
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.