CONSTELLATION BRANDS, INC.
Form 10-Q
July 11, 2007

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

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

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________________ to ____________________

Commission File Number 001-08495

CONSTELLATION BRANDS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**16-0716709**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

370 Woodcliff Drive, Suite 300, Fairport, New York	**14450**
(Address of principal executive offices)	(Zip Code)

(585) 218-3600
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer X   Accelerated filer ___   Non-accelerated filer ___

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

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of June 30, 2007, is set forth below:

Class	**Number of Shares Outstanding**
Class A Common Stock, Par Value $.01 Per Share	191,759,160
Class B Common Stock, Par Value $.01 Per Share	23,819,238

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, that could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. For further information regarding such forward-looking statements, risks and uncertainties, please see "Information Regarding Forward-Looking Statements" under Part I - Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share data)
(unaudited)

	May 31, 2007	February 28, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash investments	$ 33.5	$ 33.5
Accounts receivable, net	763.9	881.0
Inventories	1,955.3	1,948.1
Prepaid expenses and other	156.6	160.7
Total current assets	2,909.3	3,023.3
PROPERTY, PLANT AND EQUIPMENT, net	1,744.2	1,750.2
GOODWILL	3,348.9	3,083.9
INTANGIBLE ASSETS, net	1,218.9	1,135.4
OTHER ASSETS, net	604.9	445.4
Total assets	$ 9,826.2	$ 9,438.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable to banks	$ 242.3	$ 153.3
Current maturities of long-term debt	362.8	317.3
Accounts payable	270.6	376.1
Accrued excise taxes	64.9	73.7
Other accrued expenses and liabilities	566.9	670.7
Total current liabilities	1,507.5	1,591.1
LONG-TERM DEBT, less current maturities	4,381.8	3,714.9
DEFERRED INCOME TAXES	490.8	474.1
OTHER LIABILITIES	317.8	240.6
STOCKHOLDERS' EQUITY:		
Class A Common Stock, $.01 par value- Authorized, 300,000,000 shares; Issued, 219,840,821 shares at May 31, 2007, and 219,090,309 shares at February 28, 2007	2.2	2.2
Class B Convertible Common Stock, $.01 par value- Authorized, 30,000,000 shares; Issued, 28,826,638 shares at May 31, 2007,	0.3	0.3

and 28,831,138 shares at February 28, 2007				
Additional paid-in capital		1,292.4		1,271.1
Retained earnings		1,949.1		1,919.3
Accumulated other comprehensive income		508.2		349.1
		3,752.2		3,542.0
Less-Treasury stock-				
Class A Common Stock, 28,324,992 shares at May 31, 2007, and 8,046,370 shares at February 28, 2007, at cost		(621.7)		(122.3)
Class B Convertible Common Stock, 5,005,800 shares at May 31, 2007, and February 28, 2007, at cost		(2.2)		(2.2)
		(623.9)		(124.5)
Total stockholders' equity		3,128.3		3,417.5
Total liabilities and stockholders' equity	$	9,826.2	$	9,438.2

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share data)
(unaudited)

	For the Three Months Ended May 31,	
	2007	2006
SALES	$ 1,175.4	$ 1,430.2
Less - Excise taxes	(274.2)	(274.3)
Net sales	901.2	1,155.9
COST OF PRODUCT SOLD	(633.0)	(837.3)
Gross profit	268.2	318.6
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(197.6)	(172.6)
ACQUISITION-RELATED INTEGRATION COSTS	(2.0)	(0.7)
RESTRUCTURING AND RELATED CHARGES	(0.4)	(2.3)
Operating income	68.2	143.0
EQUITY IN EARNINGS OF EQUITY METHOD INVESTEES	75.8	0.1
INTEREST EXPENSE, net	(79.7)	(48.7)
GAIN ON CHANGE IN FAIR VALUE OF DERIVATIVE INSTRUMENT	-	52.5
Income before income taxes	64.3	146.9
PROVISION FOR INCOME TAXES	(34.5)	(61.4)
NET INCOME	29.8	85.5
Dividends on preferred stock	-	(2.5)
INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 29.8	$ 83.0
SHARE DATA:		
Earnings per common share:		
Basic - Class A Common Stock	$ 0.13	$ 0.38
Basic - Class B Common Stock	$ 0.12	$ 0.34
Diluted - Class A Common Stock	$ 0.13	$ 0.36
Diluted - Class B Common Stock	$ 0.12	$ 0.33
Weighted average common shares outstanding:		
Basic - Class A Common Stock	205.636	199.571
Basic - Class B Common Stock	23.824	23.853
Diluted - Class A Common Stock	233.439	240.100
Diluted - Class B Common Stock	23.824	23.853

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	For the Three Months Ended May 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 29.8	$ 85.5
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation of property, plant and equipment	36.1	26.7
Stock-based compensation expense	9.4	3.6
Loss on disposal of business	6.3	17.3
Deferred tax provision	3.6	15.6
Amortization of intangible and other assets	2.6	2.0
Loss on disposal or impairment of long-lived assets, net	0.8	0.3
Equity in earnings of equity method investees, net of distributed earnings	(46.6)	(0.1)
Gain on change in fair value of derivative instrument	-	(52.5)
Change in operating assets and liabilities, net of effects from purchases and sales of businesses:		
Accounts receivable, net	(38.9)	(66.4)
Inventories	(28.0)	(31.3)
Prepaid expenses and other current assets	(4.7)	(10.9)
Accounts payable	(23.1)	45.4
Accrued excise taxes	1.9	(9.7)
Other accrued expenses and liabilities	(17.6)	(12.2)
Other, net	(17.7)	(7.7)
Total adjustments	(115.9)	(79.9)
Net cash (used in) provided by operating activities	(86.1)	5.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of business, net of cash acquired	(385.5)	-
Purchases of property, plant and equipment	(17.7)	(45.1)
Payment of accrued earn-out amount	(2.9)	(1.1)
Proceeds from formation of joint venture	185.6	-
Proceeds from sales of businesses	3.0	28.0
Proceeds from sales of assets	1.8	0.7
Other investing activities	-	(2.1)
Net cash used in investing activities	(215.7)	(19.6)

CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of long-term debt		716.1		-
Net proceeds from notes payable		89.9		83.9
Exercise of employee stock options		7.0		8.6
Excess tax benefits from share-based payment awards		5.0		2.8
Purchases of treasury stock		(500.0)		-
Principal payments of long-term debt		(9.0)		(52.6)
Payment of financing costs of long-term debt		(5.3)		-
Payment of preferred stock dividends		-		(2.5)
Net cash provided by financing activities		303.7		40.2
Effect of exchange rate changes on cash and cash investments		(1.9)		0.4
NET INCREASE IN CASH AND CASH INVESTMENTS		-		26.6
CASH AND CASH INVESTMENTS, beginning of period		33.5		10.9
CASH AND CASH INVESTMENTS, end of period	$	33.5	$	37.5
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Fair value of assets acquired, including cash acquired	$	427.2	$	-
Liabilities assumed		(39.9)		-
Net assets acquired		387.3		-
Less - cash acquired		(1.6)		-
Less - direct acquisition costs accrued		(0.2)		-
Net cash paid for purchases of businesses	$	385.5	$	-

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2007

1) MANAGEMENT'S REPRESENTATIONS:

The consolidated financial statements included herein have been prepared by Constellation Brands, Inc. and its subsidiaries (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission applicable to quarterly reporting on Form 10-Q and reflect, in the opinion of the Company, all adjustments necessary to present fairly the financial information for the Company. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted as permitted by such rules and regulations. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2007. Results of operations for interim periods are not necessarily indicative of annual results.

2) RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS:

Effective March 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN No. 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition (see Note 9).

3) ACQUISITIONS:

Acquisition of Svedka -
On March 19, 2007, the Company acquired the SVEDKA Vodka brand ("Svedka") in connection with the acquisition of Spirits Marque One LLC and related business (the "Svedka Acquisition"). Svedka is a premium Swedish vodka. The acquisition of Svedka supports the Company's strategy of expanding the Company's premium spirits business. The acquisition provides a foundation from which the Company looks to leverage its existing and future premium spirits portfolio for growth. In addition, Svedka complements the Company's existing portfolio of super-premium and value vodka brands by adding a premium vodka brand.

Total consideration paid in cash for the Svedka Acquisition was $385.4 million. In addition, the Company expects to incur direct acquisition costs of approximately $1.3 million. The purchase price is subject to final closing adjustments which the Company does not expect to be material. The purchase price was financed with revolver borrowings under the Company's 2006 Credit Agreement (as defined in Note 8). In accordance with the purchase method of accounting, the acquired net assets are recorded at fair value at the date of acquisition. The purchase price was based primarily on the estimated future operating results of the Svedka business, including the factors described above.

The results of operations of the Svedka business are reported in the Constellation Spirits segment and have been included in the consolidated results of operations of the Company from the date of acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the Svedka Acquisition at the date of acquisition. The Company is in the process of obtaining third-party valuations of certain assets and liabilities. Accordingly, the allocation of the purchase price is preliminary and subject to change. Estimated fair values at March 19, 2007, are as follows:

(in millions)	
Current assets	$ 20.1
Property, plant and equipment	0.1
Goodwill	349.3
Trademark	36.4
Other assets	20.7
Total assets acquired	426.6
Current liabilities	23.8
Long-term liabilities	16.1
Total liabilities assumed	39.9
Net assets acquired	$ 386.7

The trademark is not subject to amortization. Approximately $85 million of the goodwill is expected to be deductible for tax purposes.

Acquisition of Vincor -

On June 5, 2006, the Company acquired all of the issued and outstanding common shares of Vincor International Inc. ("Vincor"), Canada's premier wine company. Vincor is Canada's largest producer and marketer of wine. At the time of the acquisition, Vincor was the world's eighth largest producer and distributor of wine and related products by revenue and was also one of the largest wine importers, marketers and distributors in the U.K. Through this transaction, the Company acquired various additional winery and vineyard interests used in the production of premium, super-premium and fine wines from Canada, California, Washington State, Western Australia and New Zealand. In addition, as a result of the acquisition, the Company sources, markets and sells premium wines from South Africa. Well-known premium brands acquired in the acquisition of Vincor include Inniskillin, Jackson-Triggs, Sawmill Creek, Sumac Ridge, R.H. Phillips, Toasted Head, Hogue, Kim Crawford and Kumala.

The acquisition of Vincor supports the Company's strategy of strengthening the breadth of its portfolio across price segments and geographic regions to capitalize on the overall growth in the wine industry. In addition to complementing the Company's current operations in the U.S., U.K., Australia and New Zealand, the acquisition of Vincor increases the Company's global presence by adding Canada as another core market and provides the Company with the ability to capitalize on broader geographic distribution in strategic international markets. In addition, the acquisition of Vincor makes the Company the largest wine company in Canada and strengthens the Company's

position as the largest wine company in the world and the largest premium wine company in the U.S.

Total consideration paid in cash to the Vincor shareholders was $1,115.8 million. In addition, the Company incurred direct acquisition costs of $11.4 million. At closing, the Company also assumed outstanding indebtedness of Vincor, net of cash acquired, of $320.2 million. The purchase price was financed with borrowings under the Company’s June 2006 Credit Agreement (as defined in Note 8). In accordance with the purchase method of accounting, the acquired net assets are recorded at fair value at the date of acquisition. The purchase price was based primarily on the estimated future operating results of the Vincor business, including the factors described above, as well as an estimated benefit from operating cost synergies.

In connection with the acquisition of Vincor, the Company entered into a foreign currency forward contract to fix the U.S. dollar cost of the acquisition and the payment of certain outstanding indebtedness in April 2006. During the three months ended May 31, 2006, the Company recorded a gain of $52.5 million in connection with this derivative instrument. Under Statement of Financial Accounting Standards No. 133 (“SFAS No. 133”), “Accounting for Derivative Instruments and Hedging Activities,” as amended, a transaction that involves a business combination is not eligible for hedge accounting treatment. As such, the gain was recognized separately on the Company’s Consolidated Statements of Income.

The results of operations of the Vincor business are reported in the Constellation Wines segment and have been included in the Consolidated Statements of Income since the acquisition date.

The following table summarizes the fair values of the assets acquired and liabilities assumed in the acquisition of Vincor at the date of acquisition:

(in millions)	
Current assets	$ 390.5
Property, plant and equipment	241.4
Goodwill	876.8
Trademarks	224.3
Other assets	49.5
Total assets acquired	1,782.5
Current liabilities	418.3
Long-term liabilities	237.0
Total liabilities assumed	655.3
Net assets acquired	$ 1,127.2

The trademarks are not subject to amortization. None of the goodwill is expected to be deductible for tax purposes.

The following table sets forth the unaudited historical results of operations and the unaudited pro forma results of operations of the Company for the three months ended May 31, 2007, and May 31, 2006, respectively. Unaudited pro forma results of operation of the Company for the three months ended May 31, 2007, are not presented to give effect to the Svedka Acquisition as if it had occurred on March 1, 2006, as they are not significant. The unaudited pro forma results of operations for the three months ended May 31, 2006, give effect to the Svedka Acquisition and the acquisition of Vincor as if they occurred on March 1, 2006. The unaudited pro forma results of operations are presented after giving effect to certain adjustments for depreciation, amortization of certain intangible assets and deferred financing costs, interest expense on the acquisition financing, interest expense associated with adverse grape contracts, and related income tax effects. The unaudited pro forma results of operations are based upon currently available information and certain assumptions that the Company believes are reasonable under the circumstances. The

unaudited pro forma results of operations for the three months ended May 31, 2006, do not reflect total pretax nonrecurring charges of $29.5 million ($0.09 per share on a diluted basis) related to transaction costs, primarily for the acceleration of vesting of stock options, legal fees and investment banker fees, all of which were incurred by Vincor prior to the acquisition. The unaudited pro forma results of operations do not purport to present what the Company's results of operations would actually have been if the aforementioned transactions had in fact occurred on such date or at the beginning of the period indicated, nor do they project the Company's financial position or results of operations at any future date or for any future period.

	For the Three Months Ended May 31,			
	2007		2006	
(in millions, except per share data)				
Net sales	$	901.2	$	1,282.5
Income before income taxes	$	64.3	$	97.1
Net income	$	29.8	$	52.4
Income available to common stockholders	$	29.8	$	49.9
Earnings per common share - basic:				
Class A Common Stock	$	0.13	$	0.23
Class B Common Stock	$	0.12	$	0.21
Earnings per common share - diluted:				
Class A Common Stock	$	0.13	$	0.22
Class B Common Stock	$	0.12	$	0.20
Weighted average common shares outstanding - basic:				
Class A Common Stock		205.636		199.571
Class B Common Stock		23.824		23.853
Weighted average common shares outstanding - diluted:				
Class A Common Stock		233.439		240.100
Class B Common Stock		23.824		23.853

4) INVENTORIES:

Inventories are stated at the lower of cost (computed in accordance with the first-in, first-out method) or market. Elements of cost include materials, labor and overhead and consist of the following:

	May 31, 2007		February 28, 2007	
(in millions)				
Raw materials and supplies	$	108.1	$	106.5
In-process inventories		1,294.5		1,264.4
Finished case goods		552.7		577.2
	$	1,955.3	$	1,948.1

5) GOODWILL:

The changes in the carrying amount of goodwill for the three months ended May 31, 2007, are as follows:

(in millions)	Constellation Wines	Constellation Spirits	Crown Imports	Consolidations and Eliminations	Consolidated
Balance, February 28, 2007	$ 2,939.5	$ 144.4	$ 13.0	$ (13.0)	$ 3,083.9
Purchase accounting allocations	(8.0)	349.3	-	-	341.3
Foreign currency translation adjustments	64.4	1.4	-	-	65.8
Purchase price earn-out	1.3	-	-	-	1.3
Disposal of business	(143.4)	-	-	-	(143.4)
Balance, May 31, 2007	$ 2,853.8	$ 495.1	$ 13.0	$ (13.0)	$ 3,348.9

The Constellation Spirits segment's purchase accounting allocations totaling $349.3 million consist of purchase accounting allocations primarily associated with the Svedka Acquisition. The Constellation Wines segment's purchase accounting allocations totaling ($8.0) million consist primarily of a reduction of $17.0 million in connection with an adjustment to income taxes payable acquired in a prior acquisition, partially offset by final purchase accounting allocations associated with the acquisition of Vincor of $8.7 million. The Constellation Wines segment's disposal of business of $143.4 million consists of the Company reduction of goodwill in connection with the Company's contribution of its U.K. wholesale business associated with the formation of a joint venture with Punch Taverns plc ("Punch") (see Note 7).

6) INTANGIBLE ASSETS:

The major components of intangible assets are as follows:

	May 31, 2007		February 28, 2007	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
(in millions)				
Amortizable intangible assets:				
Customer relationships	$ 55.2	$ 52.7	$ 32.9	$ 31.3
Distribution agreements	19.9	6.7	19.9	6.9
Other	3.4	2.0	2.4	1.1
Total	$ 78.5	61.4	$ 55.2	39.3
Nonamortizable intangible assets:				
Trademarks		1,153.3		1,091.9
Agency relationships		4.2		4.2
Total		1,157.5		1,096.1
Total intangible assets		$ 1,218.9		$ 1,135.4

The difference between the gross carrying amount and net carrying amount for each item presented is attributable to accumulated amortization. Amortization expense for intangible assets was $1.1 million and $0.6 million for the three months ended May 31, 2007, and May 31, 2006, respectively. Estimated amortization expense for the remaining nine months of fiscal 2008 and for each of the five succeeding fiscal years and thereafter is as follows:

(in millions)	
2008	$ 3.5
2009	$ 4.6
2010	$ 4.6
2011	$ 4.5
2012	$ 3.9
2013	$ 3.7
Thereafter	$ 36.6

7) OTHER ASSETS:

Investment in Matthew Clark -
On April 17, 2007, the Company and Punch commenced operations of a joint venture for the U.K. wholesale business ("Matthew Clark"). The U.K. wholesale business was formerly owned entirely by the Company. Under the terms of the arrangement, the Company and Punch, directly or indirectly, each have a 50% voting and economic interest in Matthew Clark. The Company received $185.6 million of cash proceeds from the formation of the joint venture.

Upon formation of the joint venture, the Company discontinued consolidation of the U.K. wholesale business and accounts for the investment in Matthew Clark under the equity method. Accordingly, the results of operations of Matthew Clark are included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income from the date of investment. As of May 31, 2007, the Company's investment in Matthew Clark was $70.3 million.

Investment in Crown Imports -
On January 2, 2007, Barton Beers, Ltd. ("Barton"), an indirect wholly-owned subsidiary of the Company, and Diblo, S.A. de C.V. ("Diblo"), an entity owned 76.75% by Grupo Modelo, S.A. de C.V. ("Modelo") and 23.25% by Anheuser-Busch, Inc., completed the formation of Crown Imports LLC ("Crown Imports"), a joint venture in which Barton and Diblo each have, directly or indirectly, equal interests. Crown Imports has the exclusive right to import, market and sell Modelo's Mexican beer portfolio (the "Modelo Brands") in the 50 states of the U.S., the District of Columbia and Guam. In addition, the owners of the Tsingtao and St. Pauli Girl brands have transferred exclusive importing, marketing and selling rights with respect to those brands in the U.S. to the joint venture. The importer agreement that previously gave Barton the exclusive right to import, market and sell the Modelo Brands primarily west of the Mississippi River was superseded by the transactions consummated by the newly formed joint venture.

Upon commencement of operations of the joint venture, the Company discontinued consolidation of the imported beer business and accounts for the investment in Crown Imports under the equity method. Accordingly, the results of operations of Crown Imports are included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income from the date of investment. As of May 31, 2007, the Company's investment in Crown Imports was $208.8 million. The carrying amount of the investment is greater than the Company's equity in the underlying assets of Crown Imports by $13.6 million due to the difference in the carrying amounts of the indefinite lived intangible assets contributed to Crown Imports by each party.

Summary financial information for Crown Imports for the three months ended May 31, 2007, is presented below. The amounts shown represent 100% of Crown Imports consolidated operating results.

	For the Three Months Ended May 31, 2007
(in millions)	
Net sales	$ 658.1
Gross profit	$ 204.7
	$ 146.4

Net
income

10

8) BORROWINGS:

Senior credit facility -
In connection with the acquisition of Vincor, on June 5, 2006, the Company and certain of its U.S. subsidiaries, JPMorgan Chase Bank, N.A. as a lender and administrative agent, and certain other agents, lenders, and financial institutions entered into a new credit agreement (the “June 2006 Credit Agreement”). On February 23, 2007, the June 2006 Credit Agreement was amended (the “February Amendment”). The June 2006 Credit Agreement together with the February Amendment is referred to as the “2006 Credit Agreement”. The 2006 Credit Agreement provides for aggregate credit facilities of $3.9 billion, consisting of a $1.2 billion tranche A term loan facility due in June 2011, a $1.8 billion tranche B term loan facility due in June 2013, and a $900 million revolving credit facility (including a sub-facility for letters of credit of up to $200 million) which terminates in June 2011. Proceeds of the June 2006 Credit Agreement were used to pay off the Company’s obligations under its prior senior credit facility, to fund the acquisition of Vincor and to repay certain indebtedness of Vincor. The Company uses its revolving credit facility under the 2006 Credit Agreement for general corporate purposes, including working capital, on an as needed basis.

As of May 31, 2007, the required principal repayments of the tranche A term loan and the tranche B term loan for the remaining nine months of fiscal 2008 and for each of the five succeeding fiscal years are as follows:

	Tranche A Term Loan	Tranche B Term Loan	Total
(in millions)			
2008	$ 90.0	$ 7.6	$ 97.6
2009	210.0	15.2	225.2
2010	270.0	15.2	285.2
2011	300.0	15.2	315.2
2012	150.0	15.2	165.2
2013	-	1,431.6	1,431.6
	$ 1,020.0	$ 1,500.0	$ 2,520.0

The rate of interest on borrowings under the 2006 Credit Agreement is a function of LIBOR plus a margin, the federal funds rate plus a margin, or the prime rate plus a margin. The margin is fixed with respect to the tranche B term loan facility and is adjustable based upon the Company’s debt ratio (as defined in the 2006 Credit Agreement) with respect to the tranche A term loan facility and the revolving credit facility. As of May 31, 2007, the LIBOR margin for the revolving credit facility and the tranche A term loan facility is 1.25%, while the LIBOR margin on the tranche B term loan facility is 1.50%.

The February Amendment amended the June 2006 Credit Agreement to, among other things, (i) increase the revolving credit facility from $500.0 million to $900.0 million, which increased the aggregate credit facilities from $3.5 billion to $3.9 billion; (ii) increase the aggregate amount of cash payments the Company is permitted to make in respect or on account of its capital stock; (iii) remove certain limitations on the application of proceeds from the incurrence of senior unsecured indebtedness; (iv) increase the maximum permitted total “Debt Ratio” and decrease the required minimum “Interest Coverage Ratio”; and (v) eliminate the “Senior Debt Ratio” covenant and the “Fixed Charges Ratio” covenant.

The Company’s obligations are guaranteed by certain of its U.S. subsidiaries. These obligations are also secured by a pledge of (i) 100% of the ownership interests in certain of the Company’s U.S. subsidiaries and (ii) 65% of the voting capital stock of certain of the Company’s foreign subsidiaries.

The Company and its subsidiaries are also subject to covenants that are contained in the 2006 Credit Agreement, including those restricting the incurrence of additional indebtedness (including guarantees of indebtedness), additional liens, mergers and consolidations, disposition or acquisition of property, the payment of dividends, transactions with affiliates and the making of certain investments, in each case subject to numerous conditions, exceptions and thresholds. The financial covenants are limited to maximum total debt-coverage ratios and minimum interest coverage ratios.

As of May 31, 2007, under the 2006 Credit Agreement, the Company had outstanding tranche A term loans of $1.0 billion bearing an interest rate of 6.6%, tranche B term loans of $1.5 billion bearing an interest rate of 6.9%, revolving loans of $45.5 million bearing an interest rate of 6.5%, outstanding letters of credit of $34.3 million, and $820.2 million in revolving loans available to be drawn.

As of May 31, 2007, the Company had outstanding interest rate swap agreements which fixed LIBOR interest rates on $1.2 billion of the Company's floating LIBOR rate debt at an average rate of 4.1% through fiscal 2010. For the three months ended May 31, 2007, and May 31, 2006, the Company reclassified $1.8 million, net of tax effect of $1.2 million, and $0.8 million, net of tax effect of $0.5 million, respectively, from AOCI (as defined in Note 14) to the interest expense, net line in the Company's Consolidated Statements of Income. This non-cash operating activity is included on the other, net line in the Company's Consolidated Statements of Cash Flows.

Senior notes -

On May 14, 2007, the Company issued $700.0 million aggregate principal amount of 7 1/4% Senior Notes due May 2017 (the "May 2007 Senior Notes"). The net proceeds of the offering ($694.5 million) were used to reduce a corresponding amount of borrowings under the revolving portion of the Company's 2006 Credit Agreement. Interest on the May 2007 Senior Notes is payable semiannually on May 15 and November 15 of each year, beginning November 15, 2007. The May 2007 Senior Notes are redeemable, in whole or in part, at the option of the Company at any time at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest to the redemption date, plus a make whole payment based on the present value of the future payments at the applicable Treasury Rate plus 50 basis points. The May 2007 Senior Notes are unsecured senior obligations and rank equally in right of payment to all existing and future unsecured senior indebtedness of the Company. Certain of the Company's significant U.S. operating subsidiaries guarantee the May 2007 Senior Notes, on an unsecured senior basis. As of May 31, 2007, the Company had outstanding $700.0 million aggregate principal amount of May 2007 Senior Notes.

S*ubsidiary credit facilities -*

The Company has additional credit arrangements totaling $381.6 million as of May 31, 2007. These arrangements primarily support the financing needs of the Company's domestic and foreign subsidiary operations. Interest rates and other terms of these borrowings vary from country to country, depending on local market conditions. As of May 31, 2007, amounts outstanding under these arrangements were $271.3 million.

9) INCOME TAXES:

As noted in Note 2, effective March 1, 2007, the Company adopted FIN No. 48. The Company did not record any cumulative effect adjustment to retained earnings as a result of the adoption of FIN No. 48. Upon adoption, the liability for income taxes associated with uncertain tax positions was $108.1 million. Unrecognized tax benefits of $62.8 million would affect the Company’s effective tax rate if recognized. The Company reclassified $83.9 million of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date. These non-current liabilities are recorded in the other liabilities line in the Company's Consolidated Balance Sheet. Due to ongoing tax examinations, it is expected that the amount of unrecognized tax benefit will change in the next twelve months; however, the Company does not expect the change to have a material impact on its results of operations or financial position.

In accordance with the Company’s accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. This policy did not change as a result of the adoption of FIN No. 48. As of the date of adoption, $8.5 million, net of tax benefit, was included in the liability for uncertain tax positions for the possible payment of interest and penalties.

The federal income tax returns for the years ended February 28, 2005, and February 29, 2004, are under examination by the Internal Revenue Service. Various state and foreign income tax returns are also under examination by taxing authorities. The Company does not believe that the outcome of any examination will have a material impact on its consolidated financial statements.

The Company’s effective tax rate for the three months ended May 31, 2007, and May 31, 2006, was 53.7% and 41.8%, respectively. The increase in the Company’s effective tax rate for the three months ended May 31, 2007, is primarily due to the recognition of a nondeductible pretax loss of $6.1 million in connection with the Company’s contribution of its U.K. wholesale business to the Matthew Clark joint venture and an additional U.S. tax provision of $7.2 million related to the future repatriation of unremitted earnings. In addition, the provision for income taxes for the three months ended May 31, 2007, included a net $1.4 million benefit consisting of a $4.0 million reduction in deferred income taxes as a result of a prior year legislative change in a certain foreign jurisdiction, partially offset by a $2.6 million provision related to interest on certain prior years’ uncertain tax positions.

10) RETIREMENT SAVINGS PLANS AND POSTRETIREMENT BENEFIT PLANS:

Net periodic benefit costs reported in the Consolidated Statements of Income for the Company’s defined benefit pension plans include the following components:

	For the Three Months Ended May 31,	
	2007	2006
(in millions)		
Service cost	$ 1.4	$ 0.6
Interest cost	6.2	4.8
Expected return on plan assets	(7.6)	(5.4)
Amortization of prior service cost	0.1	-
Recognized net actuarial loss	2.2	0.5
Net periodic benefit cost	$ 2.3	$ 0.5

Net periodic benefit costs reported in the Consolidated Statements of Income for the Company's unfunded postretirement benefit plans include the following components:

	For the Three Months Ended May 31,	
	2007	2006
(in millions)		
Service cost	$ 0.1	$ -
Interest cost	0.1	0.1
Amortization of prior service cost	-	-
Recognized net actuarial loss	-	-
Net periodic benefit cost	$ 0.2	$ 0.1

Contributions of $2.9 million have been made by the Company to fund its defined benefit pension plans for the three months ended May 31, 2007. The Company presently anticipates contributing an additional $8.5 million to fund its defined benefit pension plans during the year ending February 29, 2008, resulting in total employer contributions of $11.4 million for the year ending February 29, 2008.

11) STOCKHOLDERS' EQUITY:

In February 2007, the Company's Board of Directors authorized the repurchase of up to $500.0 million of the Company's Class A Common Stock and Class B Common Stock. During the three months ended May 31, 2007, the Company repurchased 20,399,262 shares of Class A Common Stock pursuant to this authorization at an aggregate cost of $500.0 million, or an average cost of $24.51 per share, through a combination of open market transactions and an accelerated share repurchase ("ASR") transaction that was announced in May 2007. The Company used revolver borrowings under the 2006 Credit Agreement to pay the purchase price for these shares. The repurchased shares have become treasury shares. As of May 31, 2007, the Company has no obligation to make any additional payments or return any shares already received in connection with the ASR transaction. The Company may be entitled to receive additional shares pursuant to the ASR transaction at the end of a calculation period based on the application of a formula. The calculation period is scheduled to end in October 2007 but may be terminated earlier at the option of the counterparty to the ASR transaction.

12) EARNINGS PER COMMON SHARE:

Basic earnings per common share excludes the effect of common stock equivalents and is computed using the two-class computation method. Diluted earnings per common share for Class A Common Stock reflects the potential dilution that could result if securities to issue common stock were exercised or converted into common stock. Diluted earnings per common share for Class A Common Stock assumes the exercise of stock options using the treasury stock method and the conversion of Class B Convertible Common Stock and Preferred Stock using the more dilutive if-converted method. Diluted earnings per common share for Class B Convertible Common Stock is presented without assuming conversion into Class A Common Stock and is computed using the two-class computation method.

The computation of basic and diluted earnings per common share is as follows:

	For the Three Months Ended May 31,	
	2007	2006
(in millions, except per share data)		
Net income	$ 29.8	$ 85.5
Dividends on preferred stock	-	(2.5)
Income available to common stockholders	$ 29.8	$ 83.0
Weighted average common shares outstanding - basic:		
Class A Common Stock	205.636	199.571
Class B Common Stock	23.824	23.853
Total weighted average common shares outstanding - basic	229.460	223.424
Stock options	3.979	6.693
Preferred stock	-	9.983
Weighted average common shares outstanding - diluted	233.439	240.100
Earnings per common share - basic:		
Class A Common Stock	$ 0.13	$ 0.38
Class B Common Stock	$ 0.12	$ 0.34
Earnings per common share - diluted:		
Class A Common Stock	$ 0.13	$ 0.36
Class B Common Stock	$ 0.12	$ 0.33

Stock options to purchase 10.1 million and 8.7 million shares of Class A Common Stock at a weighted average price per share of $25.91 and $26.46 were outstanding during the three months ended May 31, 2007, and May 31, 2006, respectively, but were not included in the computation of the diluted earnings per common share because the stock options' exercise price was greater than the average market price of the Class A Common Stock for the period.

13) STOCK-BASED COMPENSATION:

The Company recorded $9.4 million and $3.6 million of stock-based compensation cost in its Consolidated Statements of Income for the three months ended May 31, 2007, and May 31, 2006, respectively. Of the $9.4 million, $4.2 million is related to the granting of 8.4 million nonqualified stock options under the Company's Long-Term Stock Incentive Plan to employees and nonemployee directors, and $1.0 million is related to the accelerated vesting of 0.1 million nonqualified stock options granted during the year ended February 28, 2007, to employees of the Company's then existing 100% owned U.K. wholesale business. These options were accelerated prior to the Company's formation of the joint venture with Punch in April 2007. The remainder is related primarily to the amortization of employee and nonemployee directors stock options granted during the year ended February 28, 2007.

14) COMPREHENSIVE INCOME:

Comprehensive income (loss) consists of net income, foreign currency translation adjustments, net unrealized gains or losses on derivative instruments and pension/postretirement adjustments. The reconciliation of net income to comprehensive income is as follows:

	For the Three Months Ended May 31,	
	2007	2006
(in millions)		
Net income	$ 29.8	$ 85.5
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments, net of tax benefit (expense) of $1.2 and ($7.6), respectively	156.6	61.4
Cash flow hedges:		