

CONSTELLATION BRANDS, INC.

Form 10-K

April 29, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended February 29, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

**Commission File 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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Class A Common Stock (par value \$.01 per share)

New York Stock Exchange

Class B Common Stock (par value \$.01 per share)

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act. (Check one):

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based upon the closing sales prices of the registrant's Class A and Class B Common Stock as reported on the New York Stock Exchange as of the last business day of the registrant's most recently completed second fiscal quarter was \$4,594,746,812. On that date the registrant had no non-voting common equity.

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of April 17, 2008, is set forth below:

Class	Number of Shares Outstanding
Class A Common Stock, par value \$.01 per share	193,328,783
Class B Common Stock, par value \$.01 per share	23,771,154
Class 1 Common Stock, par value \$.01 per share	None

DOCUMENTS INCORPORATED BY REFERENCE

The proxy statement of Constellation Brands, Inc. to be issued for the Annual Meeting of Stockholders which is expected to be held July 17, 2008 is incorporated by reference in Part III to the extent described therein.

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This Annual Report on Form 10-K 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. All statements other than statements of historical facts included in this Annual Report on Form 10-K, including without limitation the statements under Item 1 Business and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operation regarding (i) the Company's business strategy, future financial position, prospects, plans and objectives of management, (ii) the Company's expected purchase price allocations, restructuring charges, accelerated depreciation, acquisition-related integration costs, and other costs, and (iii) information concerning expected actions of third parties are forward-looking statements. When used in this Annual Report on Form 10-K, the words anticipate, intend, expect, and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Annual Report on Form 10-K. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. In addition to the risks and uncertainties of ordinary business operations, the forward-looking statements of the Company contained in this Annual Report on Form 10-K are also subject to the risk and uncertainty that the Company's purchase price allocations, restructuring charges, accelerated depreciation, acquisition-related integration costs, and other costs may vary materially from current expectations due to, among other reasons, variations in anticipated headcount reductions, contract terminations, equipment relocation or costs of implementation. Additional important factors that could cause actual results to differ materially from those set forth in, or implied, by the Company's forward-looking statements contained in this Annual Report on Form 10-K are those described in Item 1A Risk Factors and elsewhere in this report and in other Company filings with the Securities and Exchange Commission.

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PART I

Item 1. Business

Introduction

Unless the context otherwise requires, the terms Company, we, our, or us refer to Constellation Brands, Inc. and its subsidiaries, and all references to net sales refer to gross sales less promotions, returns and allowances, and excise taxes to conform with the Company's method of classification. All references to Fiscal 2008, Fiscal 2007, and Fiscal 2006 shall refer to the Company's fiscal year ended the last day of February of the indicated year. All references to Fiscal 2009 shall refer to the Company's fiscal year ending February 28, 2009.

Market positions and industry data discussed in this Annual Report on Form 10-K are as of calendar 2007 and have been obtained or derived from industry and government publications and Company estimates and include brands acquired in connection with the December 2007 acquisition of the Fortune Brands U.S. wine business and excludes the Almaden and Inglenook brands which were sold in February 2008. The industry and government publications include: Adams Liquor Handbook; Adams Wine Handbook; Adams Beer Handbook; Adams Handbook Advance; The U.S. Wine Market: Impact Databank Review and Forecast; The U.S. Beer Market: Impact Databank Review and Forecast; The U.S. Spirits Market: Impact Databank Review and Forecast; Euromonitor; Australian Bureau of Statistics; Information Resources, Inc.; ACNielsen; Association for Canadian Distillers; AZTEC; and DISCUS. The Company has not independently verified the data from the industry and government publications. Unless otherwise noted, all references to market positions are based on unit volume.

The Company is a Delaware corporation incorporated on December 4, 1972, as the successor to a business founded in 1945. The Company has approximately 8,200 employees located throughout the world and the corporate headquarters are located in Fairport, New York.

The Company is a leading international producer and marketer of beverage alcohol with a broad portfolio of brands across the wine, spirits and imported beer categories. The Company has the largest wine business in the world and has a leading market position in each of its core markets, which include the United States (U.S.), Canada, United Kingdom (U.K.), Australia and New Zealand.

The Company conducts its business through entities it wholly owns as well as through a variety of joint ventures with various other entities, both within and outside the U.S. On January 2, 2007, the Company participated in establishing and commencing operations of a joint venture with Grupo Modelo, S.A.B. de C.V. (Modelo) pursuant to which Modelo's Mexican beer portfolio (the Modelo Brands) are imported, marketed and sold by the joint venture in the U.S., the District of Columbia and Guam, along with certain other imported beer brands in their respective territories. This imported beers joint venture is referred to hereinafter as Crown Imports . On April 17, 2007, the Company participated in establishing and commencing operations of a joint venture with Punch Taverns plc (Punch) in which Punch acquired a 50% interest in the Company's wholesale business in the U.K. This U.K. wholesale joint venture is referred to hereinafter as Matthew Clark .

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In the U.S., the Company is the largest multi-category (wine, spirits and imported beer) supplier of beverage alcohol. In addition to having a leading position in wine, the Company is also a leading producer and marketer of distilled spirits in the U.S. The Company is the largest marketer of imported beer in the U.S. through its January 2, 2007, investment in Crown Imports (see Recent Acquisitions, Equity Method Investments and Divestiture below and Investment in Crown Imports under Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 of this Annual Report on Form 10-K). Prior to January 2, 2007, the Company was the largest marketer of imported beer in 25 primarily western U.S. states, where it had exclusive rights to import, market and sell the Mexican brands in its portfolio.

With its broad product portfolio, the Company believes it is distinctly positioned to satisfy an array of consumer preferences across all beverage alcohol categories and price points. Many of the Company's products are recognized leaders in their respective categories and geographic markets. The Company's strong market positions make the Company a supplier of choice to its customers, who include wholesale distributors, retailers, on-premise locations and government alcohol beverage control agencies.

Prior to April 17, 2007, the Company owned and operated the leading independent (non-brewery-owned) drinks wholesaler to the on-premise trade in the U.K., providing a full range of beverage alcohol and soft drinks. On April 17, 2007, as discussed above, the Company participated in establishing and commencing operations of the Matthew Clark joint venture (see Recent Acquisitions, Equity Method Investments and Divestiture below and Investment in Matthew Clark under Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 of this Annual Report on Form 10-K). The Company continues to leverage Matthew Clark as a strategic route-to-market for its branded product portfolio.

The Company's net sales by product category are summarized as follows:

	For the Year Ended February 29, 2008	% of Total	For the Year Ended February 28, 2007	% of Total
<i>(in millions)</i>				
Branded wine	\$ 3,016.9	80%	\$ 2,755.7	53%
Wholesale and other	341.9	9%	1,087.7	21%
Spirits	414.2	11%	329.4	6%
Imported beers			1,043.6	20%
Consolidated Net Sales	\$ 3,773.0	100%	\$ 5,216.4	100%

The Company's geographic markets include North America (primarily the U.S. and Canada), Europe (primarily the U.K.) and Australia/New Zealand (primarily Australia and New Zealand). The Company's wholesale and other category net sales are primarily related to the Company's then wholly-owned wholesale business in the U.K. Net sales for the imported beers category occurred in the U.S. while net sales for spirits occurred in the North America market (primarily the U.S.). Branded wine net sales by geographic area (based on the location of the selling company) are summarized as follows:

	For the Year Ended February 29, 2008	% of Total	For the Year Ended February 28, 2007	% of Total

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(in millions)

North America	\$ 2,005.6	67%	\$ 1,933.2	70%
Europe	637.9	21%	495.7	18%
Australia/New Zealand	373.4	12%	326.8	12%
Consolidated Net Sales	\$ 3,016.9	100%	\$ 2,755.7	100%

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There are certain key trends within the beverage alcohol industry, which include:

Consolidation of suppliers, wholesalers and retailers;

An increase in global wine consumption; and

Consumers trading up to premium products within certain categories. On a global basis, within the wine category, premium wines are growing faster than value-priced wines. In the U.S., within the beer category, imported beers are growing faster than domestic beers, and premium spirits are growing faster than value-priced spirits.

To capitalize on these trends, the Company has employed a strategy of growing through a combination of internal growth, acquisitions and investments in joint ventures to become more competitive, with a focus on the faster growing segments of the beverage alcohol industry and developing strong market positions in the wine, spirits and imported beers categories. Key elements of the Company's strategy include:

Leveraging the Company's existing portfolio of leading brands;

Developing new products, new packaging and line extensions;

Diversifying the Company's product portfolio with an emphasis on premium spirits and premium, super-premium and fine wines;

Strengthening its relationships with wholesalers and retailers;

Expanding its distribution and enhancing its production capabilities;

Realizing operating synergies; and

Acquiring additional management, operational, marketing, and product development expertise.

Recent Acquisitions, Equity Method Investments and Divestiture

In February 2008, as part of ongoing efforts to increase focus on premium wine offerings in the U.S., the Company sold its lower margin popular-priced wine brands, Almaden and Inglenook, and certain other assets for cash proceeds of \$133.7 million.

In December 2007, the Company acquired the Fortune Brands U.S. wine business, which includes wineries and vineyards in California and produces, markets and sells super-premium and fine wines including Clos du Bois, Geyser Peak and Wild Horse. The transaction expands the Company's portfolio of super-premium plus wine brands and strengthens its position as the largest premium wine company in the U.S.

In April 2007, the Company along with Punch, the leading pub company in the U.K., commenced operations of Matthew Clark, a joint venture which owns and operates the U.K. wholesale business formerly owned entirely by the Company. The Company and Punch, directly or indirectly, each have a 50% voting and economic interest in Matthew Clark. On April 17, 2007, the Company discontinued consolidation of the U.K. wholesale business and began accounting for its investment in Matthew Clark under the equity method.

In March 2007, the Company acquired the SVEDKA Vodka brand (Svedka) and related business. Svedka is produced in Sweden, and is now the fourth largest imported vodka and fastest growing major imported premium vodka in the U.S. This acquisition increases the Company's mix of premium spirits and provides a foundation from which the Company looks to leverage its premium spirits portfolio for growth.

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In January 2007, the Company completed the formation of Crown Imports. The Company and Modelo indirectly each have equal interest in Crown Imports, which has the exclusive right to import, market and sell the Modelo Brands, which include Corona Extra, Corona Light, Coronita, Modelo Especial, Pacifico, and Negra Modelo, in all 50 states of the U.S., the District of Columbia and Guam. In addition, the owners of the Tsingtao and St. Pauli Girl brands transferred exclusive importing, marketing and selling rights with respect to these brands in the U.S. to Crown Imports. Prior to January 2007, the Company had the exclusive right to import, market and sell Modelo's Mexican beer portfolio in 25 primarily western U.S. states and was the exclusive U.S. national importer, marketer and seller of the Tsingtao and St. Pauli Girl brands. After completing the formation of Crown Imports, the Company discontinued consolidation of the imported beer business and accounts for its investment in Crown Imports under the equity method.

In June 2006, the Company acquired Vincor International Inc. (Vincor), Canada's premier wine company. Vincor is Canada's largest producer and marketer of wines. 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 Vincor acquisition include Inniskillin, Jackson-Triggs, Sawmill Creek, Sumac Ridge, R.H. Phillips, Toasted Head, Hogue, Kim Crawford and Kumala.

For more information about these transactions, see Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 of this Annual Report on Form 10-K.

Business Segments

As a result of the Company's investment in Crown Imports, the Company has changed its internal management financial reporting to consist of three business divisions, Constellation Wines, Constellation Spirits and Crown Imports. Prior to the investment in the joint venture, the Company's internal management financial reporting included the Constellation Beers business division. Consequently, the Company reports its operating results in five segments: Constellation Wines (branded wine, and wholesale and other), Constellation Spirits (distilled spirits), Constellation Beers (imported beer), Corporate Operations and Other and Crown Imports (imported beer). Segment results for Constellation Beers are for the period prior to January 2, 2007, and segment results for Crown Imports are for the period on and after January 2, 2007. The business segments, described more fully below, reflect how the Company's operations are managed, how operating performance within the Company is evaluated by senior management and the structure of its internal financial reporting.

Information regarding net sales, operating income and total assets of each of the Company's business segments and information regarding geographic areas is set forth in Note 21 to the Company's consolidated financial statements located in Item 8 of this Annual Report on Form 10-K.

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Constellation Wines

Constellation Wines is the leading producer and marketer of wine in the world. It sells a large number of wine brands across all categories – table wine, sparkling wine and dessert wine – and across all price points – popular, premium, super-premium and fine wine. The portfolio of super-premium and fine wines is supported by vineyard holdings in the U.S., Canada, Australia and New Zealand. As the largest producer and marketer of wine in the world, Constellation Wines has leading market positions in several countries. It is a leading producer and marketer of wine in the U.S., Canada, Australia and New Zealand and the largest marketer of wine in the U.K. Wine produced by the Company in the U.S. is primarily marketed domestically and in the U.K. and Canada. Wine produced in Australia and New Zealand is primarily marketed domestically and in the U.S. and U.K., while wine produced in Canada is primarily marketed domestically. In addition, Constellation Wines exports its wine products to other major wine consuming markets of the world.

In the U.S., Constellation Wines sells 21 of the top-selling 100 table brands and has the largest portfolio of premium, super-premium and fine wines. In Canada, it has wine across all price points, and has four of the top-selling 25 table wine brands and the leading Icewine brand with Inniskillin. It has five of the top-selling 25 table wine brands in the U.K. and the best-selling brand of fortified British wine. In Australia, it has wine brands across all price points and varieties, including a comprehensive range of premium wine brands, and has six of the top-selling 25 wine brands and is the largest producer of cask (box) wines.

Constellation Wines' well-known wine brands include Robert Mondavi Winery, Inniskillin, Simi, Franciscan Oakville Estate, Wild Horse, Kim Crawford, Estancia, Toasted Head, Clos du Bois, Ravenswood, Jackson-Triggs, Blackstone, Robert Mondavi Private Selection, Ruffino, Nobile, Rex Goliath, Hogue, Woodbridge by Robert Mondavi, Alice White, Hardys, Kumala, Black Box, Banrock Station, Vendange, Arbor Mist and Stowells.

Throughout Fiscal 2007 and prior to April 17, 2007, Constellation Wines owned entirely the leading independent beverage wholesaler to the on-premise trade in the U.K. As previously discussed, on April 17, 2007, the Company along with Punch completed the formation of the Matthew Clark joint venture, which now owns and operates that U.K. wholesale business. Matthew Clark has approximately 20,000 on-premise accounts and distributes wine, distilled spirits, cider, beer, RTDs and soft drinks. Those products include Constellation Wines' branded wine and cider, and products produced by other major drinks companies.

Constellation Wines is also the second largest producer and marketer of cider in the U.K., with leading cider brands Blackthorn and Gaymer's Olde English, and a leading producer and a leading marketer of wine kits and beverage alcohol refreshment coolers in Canada.

In conjunction with its wine production, Constellation Wines produces and sells bulk wine and other related products and services.

Constellation Spirits

Constellation Spirits produces, bottles, imports and markets a diversified line of distilled spirits. Constellation Spirits is a leading producer and marketer of distilled spirits in the U.S. The majority of the segment's distilled spirits unit volume consists of products marketed in the value and mid-premium price category, including Black Velvet, Chi-Chi's prepared cocktails, Barton, Sköl, Fleischmann's, Canadian LTD, Montezuma, Ten High, Mr. Boston and Inver House.

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The segment is continuing efforts to increase its premium spirits mix. These efforts include the Svedka acquisition and increased focus on premium brands such as Black Velvet Reserve, the 99 Schnapps family, Effen Vodka, Ridgemont Reserve 1792 Bourbon, Meukow Cognac, Monte Alban Mezcal, the di Amore cordial family, Caravella, and Old Pulteney and Speyburn single-malt scotches.

Constellation Beers

Prior to January 2, 2007, Constellation Beers was the largest marketer of imported beer in 25 primarily western U.S. states, where it had exclusive rights to import, market and sell the Mexican brands in its portfolio, Corona Extra, Corona Light, Coronita, Modelo Especial, Pacifico, and Negra Modelo. Constellation Beers also had exclusive rights to the entire U.S. to import, market and sell the St. Pauli Girl brand, the number two selling German Beer, and the Tsingtao brand, the number one selling Chinese Beer.

Crown Imports

Effective January 2, 2007, the Constellation Beers operating segment was replaced with the Crown Imports operating segment as the Company completed the formation of the Crown Imports joint venture with Modelo. The Company and Modelo indirectly each have equal interest in Crown Imports, which has the exclusive right to import, market and sell Corona Extra, Corona Light, Coronita, Modelo Especial, Pacifico, Negra Modelo, St. Pauli Girl and Tsingtao brands in all 50 states of the U.S. The Company accounts for its investment in Crown Imports under the equity method. In the U.S., Crown Imports has six of the top-selling 25 imported beer brands. Corona Extra is the best-selling imported beer and the sixth best-selling beer overall and Corona Light is the leading imported light beer.

Corporate Operations and Other

The Corporate Operations and Other segment includes traditional corporate-related items including executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations, global information technology and global strategic sourcing.

Marketing and Distribution

The Company's segments employ full-time, in-house marketing, sales and customer service organizations to maintain a high degree of focus on their respective product categories. The organizations use a range of marketing strategies and tactics to build brand equity and increase sales, including market research, consumer and trade advertising, price promotions, point-of-sale materials, event sponsorship, on-premise promotions and public relations. Where opportunities exist, particularly with national accounts, the Company leverages its sales and marketing skills across the organization and segments.

In North America, the Company's products are primarily distributed by a broad base of wholesale distributors as well as state and provincial alcoholic beverage control agencies. As is the case with all other beverage alcohol companies, products sold through state or provincial alcoholic beverage control agencies are subject to obtaining and maintaining listings to sell the Company's products in that agency's state or province. State and provincial governments can affect prices paid by consumers of the Company's products. This is possible either through the imposition of taxes or, in states and provinces in which the government acts as the distributor of the Company's products through an alcohol beverage control agency, by directly setting retail prices for the Company's products.

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In the U.K., the Company's products are distributed either directly to retailers or through wholesalers and importers. Matthew Clark sells and distributes the Company's branded products and those of other major drinks companies to on-premise locations through a network of depots located throughout the U.K. In Australia, New Zealand and other markets, the Company's products are primarily distributed either directly to retailers or through wholesalers and importers. In the U.K., Australia and New Zealand, the distribution channels are dominated by a small number of industry leaders.

Trademarks and Distribution Agreements

Trademarks are an important aspect of the Company's business. The Company sells its products under a number of trademarks, which the Company owns or uses under license. Throughout its segments, the Company also has various licenses and distribution agreements for the sale, or the production and sale, of its products and products of third parties. These licenses and distribution agreements have varying terms and durations. Agreements include, among others, a long-term license agreement with Hiram Walker & Sons, Inc., which expires in 2116, for the Ten High, Crystal Palace, Northern Light, Lauder's and Imperial Spirits brands, and a long-term license agreement with Chi-Chi's, Inc., which expires in 2117, for the production, marketing and sale of beverage products, alcoholic and non-alcoholic, utilizing the Chi-Chi's brand name. The Company also holds an import and license agreement for the Caravella brands with Sperone SPA, which expires in 2057, under which it owns the Caravella trademarks in the U.S. during the term; a distribution and license agreement with Inver House Distillers Limited, which expires in 2009, for the Old Pulteney and Speyburn brands; and a distribution and license agreement with C.D.G., SA that expires in 2015 for the Meukow brand.

All of the Company's imported beer products are imported, marketed and sold through Crown Imports. Crown Imports has entered into exclusive importation agreements with the suppliers of the imported beer products. These agreements have terms that vary and prohibit Crown Imports from importing beer products from other producers from the same country. Crown Imports' Mexican beer portfolio, the Modelo Brands, currently consists of the Corona Extra, Corona Light, Coronita, Modelo Especial, Negra Modelo and Pacifico brands and is marketed and sold in all 50 states of the U.S., the District of Columbia and Guam. Crown Imports also has entered into license and importation agreements with the owners of the German St. Pauli Girl and the Chinese Tsingtao brands for their importation, marketing and sale within the U.S. With respect to the Modelo Brands, Crown Imports has an exclusive sub-license to use certain trademarks related to Modelo Brands beer products in the U.S. (including the District of Columbia and Guam) pursuant to a sub-license agreement between Crown Imports and Marcas Modelo, S.A. de C.V. This sub-license agreement continues for the duration of the Crown Imports joint venture.

Crown Imports and Extrade II S.A. de C.V. (Extrade II), an affiliate of Modelo, have entered into an Importer Agreement (the Importer Agreement), pursuant to which Extrade II granted to Crown Imports the exclusive right to sell the Modelo Brands in the territories mentioned above. The joint venture and the related importation arrangements provide that, subject to the terms and conditions of those agreements, the joint venture and the related importation arrangements will continue through 2016 for an initial term of 10 years, and renew in 10-year periods unless GModelo Corporation, a Delaware corporation and subsidiary of Diblo, gives notice prior to the end of year seven of any term.

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Competition

The beverage alcohol industry is highly competitive. The Company competes on the basis of quality, price, brand recognition and distribution strength. The Company's beverage alcohol products compete with other alcoholic and non-alcoholic beverages for consumer purchases, as well as shelf space in retail stores, restaurant presence and wholesaler attention. The Company competes with numerous multinational producers and distributors of beverage alcohol products, some of which may have greater resources than the Company.

Constellation Wines' principal wine competitors include: E&J Gallo Winery, The Wine Group, Foster's Group, WJ Deutsch, Diageo and Kendall-Jackson in the U.S.; Andrew Peller, Foster's Group, Maison des Futailles and E&J Gallo Winery in Canada; Foster's Group, E&J Gallo Winery, Diageo, and Pernod Ricard in the U.K.; and Foster's Group and Pernod Ricard in Australia and New Zealand. Constellation Wines' principal cider competitors include Scottish and Newcastle and C&C Group.

Constellation Spirits' principal distilled spirits competitors include: Diageo, Fortune Brands, Bacardi, Pernod Ricard and Brown-Forman.

Crown Imports' principal competitors include: Heineken, Anheuser-Busch, InBev, and Diageo in the imported beer category as well as domestic producers such as Anheuser-Busch, SABMiller and Molson Coors.

Production

In the U.S., the Company operates 26 wineries where wine is produced from many varieties of grapes grown principally in the Napa, Sonoma, Monterey and San Joaquin regions of California. In Australia, the Company operates 11 wineries where wine is produced from many varieties of grapes grown in most of the major viticultural regions. The Company also operates 10 wineries in Canada, four wineries in New Zealand and one winery in South Africa. Grapes are crushed at most of the Company's wineries and stored as wine until packaged for sale under the Company's brand names or sold in bulk. In the U.S. and Canada, the Company's inventories of wine are usually at their highest levels in September through November during and after the crush of each year's grape harvest, and are reduced prior to the subsequent year's crush. Similarly, in Australia and New Zealand, the Company's inventories of wine are usually at their highest levels in March through May during and after the crush of each year's grape harvest, and are reduced prior to the subsequent year's crush.

The Company has five facilities for the production and bottling of its distilled spirits products. The bourbon whiskeys and domestic blended whiskeys marketed by the Company are primarily produced and aged by the Company at its distillery in Bardstown, Kentucky. The Company's primary distilled spirits bottling facility in the U.S. is in Owensboro, Kentucky. The majority of the Company's Canadian whisky requirements are produced and aged at its Canadian distilleries in Lethbridge, Alberta, and Valleyfield, Quebec. The Company's requirements of Scotch whisky, tequila, mezcal and the neutral grain spirits it uses in the production of gin, vodka and other spirits products, are primarily purchased from various suppliers.

The Company operates two facilities in the U.K. that produce, bottle and package wine and cider. To produce Stowells, wine is imported in bulk from various countries and packaged at the Company's facility at Bristol, England. The Bristol facility also produces fortified British wine and wine style drinks. All cider production takes place at the Company's facility at Shepton Mallet, England.

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Sources and Availability of Production Materials

The principal components in the production of the Company's branded beverage alcohol products are agricultural products, such as grapes and grain, and packaging materials (primarily glass).

Most of the Company's annual grape requirements are satisfied by purchases from each year's harvest which normally begins in August and runs through October in the U.S. and Canada, and begins in February and runs through May in Australia and New Zealand. The Company believes that it has adequate sources of grape supplies to meet its sales expectations. However, in the event that demand for certain wine products exceed expectations, the Company would seek to source the extra requirements from the bulk wine markets, but could experience shortages.

The Company receives grapes from approximately 1,175 independent growers in the U.S., approximately 1,350 independent growers in Australia, approximately 140 independent growers in New Zealand and approximately 100 independent growers in Canada. The Company enters into written purchase agreements with a majority of these growers and pricing generally varies year-to-year and is generally based on then-current market prices. In Australia, approximately 725 of the 1,350 growers belong to a grape growers' cooperative. The Company purchases the majority of its Australian grape requirements from this cooperative under a long-term arrangement. In the U.K., the Company produces wine from materials purchased either on a contract basis or on the open market.

At February 29, 2008, the Company owned or leased approximately 26,000 acres of land and vineyards, either fully bearing or under development, in California (U.S.), New York (U.S.), Canada, Australia and New Zealand. This acreage supplies only a small percentage of the Company's overall total wine needs. However, most of this acreage is used to supply a large portion of the grapes used for the production of the Company's super-premium and fine wines. The Company continues to consider the purchase or lease of additional vineyards, and additional land for vineyard plantings, to supplement its grape supply.

The distilled spirits manufactured by the Company require various agricultural products, neutral grain spirits and bulk spirits. The Company fulfills its requirements through purchases from various sources by contractual arrangement and through purchases on the open market. The Company believes that adequate supplies of the aforementioned products are available at the present time.

In the U.K., the Company sources apples for cider production primarily through long-term supply arrangements with owners of apple orchards. The Company believes there are adequate supplies of apples at this particular time.

The Company utilizes glass and polyethylene terephthalate (PET) bottles and other materials such as caps, corks, capsules, labels, wine bags and cardboard cartons in the bottling and packaging of its products. Glass bottle costs are one of the largest components of the Company's cost of product sold. In the U.S., Canada and Australia, the glass bottle industry is highly concentrated with only a small number of producers. The Company has traditionally obtained, and continues to obtain, its glass requirements from a limited number of producers under long-term supply arrangements. Currently, one producer supplies most of the Company's glass container requirements for its U.S. operations and another producer supplies substantially all of the Company's glass container requirements for its Australian operations and an affiliate of that producer supplies a majority of the Company's glass container requirements for its Canadian operations. The Company has been able to satisfy its requirements with respect to the foregoing and considers its sources of supply to be adequate at this time. However, the inability of any of the Company's glass bottle suppliers to satisfy the Company's requirements could adversely affect the Company's operations.

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Government Regulation

The Company is subject to a range of regulations in the countries in which it operates. Where it produces products, the Company is subject to environmental laws and regulations and may be required to obtain permits and licenses to operate its facilities. Where it markets and sells products, it may be subject to laws and regulations on trademark and brand registration, packaging and labeling, distribution methods and relationships, pricing and price changes, sales promotions, advertising and public relations. The Company is also subject to rules and regulations relating to changes in officers or directors, ownership or control.

The Company believes it is in compliance in all material respects with all applicable governmental laws and regulations in the countries in which it operates. The Company also believes that the cost of administration and compliance with, and liability under, such laws and regulations does not have, and is not expected to have, a material adverse impact on its financial condition, results of operations or cash flows.

Seasonality

The beverage alcohol industry is subject to seasonality in each major category. As a result, in response to wholesaler and retailer demand which precedes consumer purchases, the Company's wine and spirits sales are typically highest during the third quarter of its fiscal year, primarily due to seasonal holiday buying. Crown Imports' imported beer sales are typically highest during the first and second quarters of the Company's fiscal year, which correspond to the Spring and Summer periods in the U.S.

Employees

As of the end of March 2008, the Company had approximately 8,200 full-time employees throughout the world. Approximately 3,900 full-time employees were in the U.S. and approximately 4,300 full-time employees were outside of the U.S., in countries including Australia, the U.K., Canada and New Zealand. Additional workers may be employed by the Company during the peak and grape crushing seasons. The Company considers its employee relations generally to be good.

Company Information

The Company's internet address is <http://www.cbrands.com>. The Company's filings with the Securities and Exchange Commission (SEC), including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are accessible free of charge at <http://www.cbrands.com> as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, such as the Company, that file electronically with the SEC. The internet address of the SEC's site is <http://www.sec.gov>. Also, the public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The Company has adopted a Chief Executive Officer and Senior Financial Executive Code of Ethics that specifically applies to its chief executive officer, its principal financial officer, and controller. This Chief Executive Officer and Senior Financial Executive Code of Ethics meets the requirements as set forth in the Securities Exchange Act of 1934, Item 406 of Regulation S-K. The Company has posted on its internet website a copy of the Chief Executive Officer and Senior Financial Officer Code of Ethics. It is accessible at <http://www.cbrands.com/CBI/constellationbrands/Investors/CorporateGovernance>.

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The Company also has adopted a Code of Business Conduct and Ethics that applies to all employees, directors and officers, including each person who is subject to the Chief Executive Officer and Senior Financial Executive Code of Ethics. The Code of Business Conduct and Ethics is available on the Company's internet website, together with the Company's Global Code of Responsible Practices for Beverage Alcohol Advertising and Marketing, its Board of Directors Corporate Governance Guidelines and the Charters of the Board's Audit Committee, Human Resources Committee (which serves as the Board's compensation committee) and Corporate Governance Committee (which serves as the Board's nominating committee). All of these materials are accessible on the Company's Internet site at <http://www.cbrands.com/CBI/constellationbrands/Investors/CorporateGovernance>. Amendments to, and waivers granted to the Company's directors and executive officers under the Company's codes of ethics, if any, will be posted in this area of the Company's website. A copy of the Code of Business Conduct and Ethics, Global Code of Responsible Practices for Beverage Alcohol Advertising and Marketing, Chief Executive Officer and Senior Financial Executive Code of Ethics, and/or the Board of Directors Corporate Governance Guidelines and committee charters are available in print to any shareholder who requests it. Shareholders should direct such requests in writing to Investor Relations Department, Constellation Brands, Inc., 370 Woodcliff Drive, Suite 300, Fairport, New York 14450, or by telephoning the Company's Investor Center at 1-888-922-2150.

The foregoing information regarding the Company's website and its content is for your convenience only. The content of the Company's website is not deemed to be incorporated by reference in this report or filed with the SEC.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition or results of operations. The risks described below are not the only risks we face. Additional factors not presently known to us or that we currently deem to be immaterial also may materially adversely affect our business operations.

Our indebtedness could have a material adverse effect on our financial health.

We have incurred substantial indebtedness to finance our acquisitions. In the future, we may incur substantial additional indebtedness to finance further acquisitions or for other purposes. Our ability to satisfy our debt obligations outstanding from time to time will depend upon our future operating performance. We do not have complete control over our future operating performance because it is subject to prevailing economic conditions, levels of interest rates and financial, business and other factors. We cannot assure you that our business will generate sufficient cash flow from operations to meet all of our debt service requirements and to fund our capital expenditure requirements.

Our current and future debt service obligations and covenants could have important consequences to you. These consequences include, or may include, the following:

Our ability to obtain financing for future working capital needs or acquisitions or other purposes may be limited;

Our funds available for operations, expansion or distributions will be reduced because we will dedicate a significant portion of our cash flow from operations to the payment of principal and interest on our indebtedness;

Our ability to conduct our business could be limited by restrictive covenants; and

Our vulnerability to adverse economic conditions may be greater than less leveraged competitors and, thus, our ability to withstand competitive pressures may be limited.

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Our senior credit facility and the indentures under which our debt securities have been issued contain restrictive covenants and provisions. These covenants and provisions affect our ability to grant additional liens, engage in changes of control and engage in certain other fundamental changes. Certain of our existing indentures under which debt securities have been issued contain additional covenants and provisions that affect our ability to incur additional debt, sell assets, pay dividends, enter into transactions with affiliates, make investments and engage in certain other additional fundamental changes. Our senior credit facility also contains restrictions on our ability to make acquisitions and certain financial ratio tests, including a debt coverage ratio and an interest coverage ratio. These restrictions could limit our ability to conduct business. If we fail to comply with the obligations contained in the senior credit facility, our existing or future indentures or other loan agreements, we could be in default under such agreements, which could require us to immediately repay the related debt and also debt under other agreements that may contain cross-acceleration or cross-default provisions.

Our acquisition and joint venture strategies may not be successful.

We have made a number of acquisitions, including our recent acquisition of the Fortune Brands, Inc. U.S. wine business, our Svedka acquisition and our Vincor acquisition and we anticipate that we may, from time to time, acquire additional businesses, assets or securities of companies that we believe would provide a strategic fit with our business. We will need to integrate acquired businesses with our existing operations. We cannot assure you that we will effectively assimilate the business or product offerings of acquired companies into our business or product offerings or realize anticipated operational synergies. Integrating the operations and personnel of acquired companies into our existing operations may result in difficulties, significant expense and accounting charges, disrupt our business or divert management's time and attention. In connection with the integration of acquired operations, we may periodically restructure our businesses and/or sell assets. We may not achieve expected cost savings from restructuring activities or realize the expected proceeds from asset sales, and actual charges, costs and adjustments due to restructuring activities may vary materially from our estimates. Additionally, our final determinations and appraisals of the fair value of assets acquired and liabilities assumed in our acquisitions may vary materially from earlier estimates. We cannot assure you that the fair value of acquired businesses will remain constant.

Acquisitions involve numerous other risks, including potential exposure to unknown liabilities of acquired companies and the possible loss of key employees and customers of the acquired business. In connection with acquisitions or joint venture investments outside the U.S., we may enter into derivative contracts to purchase foreign currency in order to hedge against the risk of foreign currency fluctuations in connection with such acquisitions or joint venture investments, which subjects us to the risk of foreign currency fluctuations associated with such derivative contracts.

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We have entered into joint ventures, including our joint venture with Modelo and our joint venture with Punch, and we may enter into additional joint ventures. We share control of our joint ventures. Our joint venture partners may at any time have economic, business or legal interests or goals that are inconsistent with our goals or the goals of the joint venture. Our joint venture arrangements may require us to pay certain costs or to make certain capital investments and we may have little control over the amount or the timing of these payments and investments. In addition, our joint venture partners may be unable to meet their economic or other obligations and we may be required to fulfill those obligations alone. Our failure or the failure of an entity in which we have a joint venture interest to adequately manage the risks associated with any acquisitions or joint ventures could have a material adverse effect on our financial condition or results of operations. We cannot assure you that any of our acquisitions or joint ventures will be profitable or that forecasts regarding joint venture activities will be accurate. In particular, risks and uncertainties associated with our joint ventures include, among others, the joint venture's ability to operate its business successfully, the joint venture's ability to develop appropriate standards, controls, procedures and policies for the growth and management of the joint venture and the strength of the joint venture's relationships with its employees, suppliers and customers.

Competition could have a material adverse effect on our business.

We are in a highly competitive industry and the dollar amount and unit volume of our sales could be negatively affected by our inability to maintain or increase prices, changes in geographic or product mix, a general decline in beverage alcohol consumption or the decision of wholesalers, retailers or consumers to purchase competitive products instead of our products. Wholesaler, retailer and consumer purchasing decisions are influenced by, among other things, the perceived absolute or relative overall value of our products, including their quality or pricing, compared to competitive products. Unit volume and dollar sales could also be affected by pricing, purchasing, financing, operational, advertising or promotional decisions made by wholesalers, state and provincial agencies, and retailers which could affect their supply of, or consumer demand for, our products. We could also experience higher than expected selling, general and administrative expenses if we find it necessary to increase the number of our personnel or our advertising or promotional expenditures to maintain our competitive position or for other reasons.

An increase in import and excise duties or other taxes or government regulations could have a material adverse effect on our business.

The U.S., the U.K., Canada, Australia and other countries in which we operate impose import and excise duties and other taxes on beverage alcohol products in varying amounts which have been subject to change. Significant increases in import and excise duties or other taxes on beverage alcohol products could materially and adversely affect our financial condition or results of operations. Many U.S. states have considered proposals to increase, and some of these states have increased, state alcohol excise taxes. In addition, federal, state, local and foreign governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade and pricing practices, permitted and required labeling, advertising and relations with wholesalers and retailers. Certain federal and state or provincial regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements or taxes could also have a material adverse effect on our financial condition or results of operations.

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We rely on the performance of wholesale distributors, major retailers and chains for the success of our business.

In the U.S., we sell our products principally to wholesalers for resale to retail outlets including grocery stores, package liquor stores, club and discount stores and restaurants. In the U.K., Canada and Australia, we sell our products principally to wholesalers and directly to major retailers and chains. The replacement or poor performance of our major wholesalers, retailers or chains could materially and adversely affect our results of operations and financial condition. Our inability to collect accounts receivable from our major wholesalers, retailers or chains could also materially and adversely affect our results of operations and financial condition.

The industry is being affected by the trend toward consolidation in the wholesale and retail distribution channels, particularly in Europe and the U.S. If we are unable to successfully adapt to this changing environment, our net income, share of sales and volume growth could be negatively affected. In addition, wholesalers and retailers of our products offer products which compete directly with our products for retail shelf space and consumer purchases. Accordingly, wholesalers or retailers may give higher priority to products of our competitors. In the future, our wholesalers and retailers may not continue to purchase our products or provide our products with adequate levels of promotional support.

Our business could be adversely affected by a decline in the consumption of products we sell.

Since 1995, there have been modest increases in consumption of beverage alcohol in most of our product categories and geographic markets. There have been periods in the past, however, in which there were substantial declines in the overall per capita consumption of beverage alcohol products in the U.S. and other markets in which we participate. A limited or general decline in consumption in one or more of our product categories could occur in the future due to a variety of factors, including:

A general decline in economic or geo-political conditions;

Increased concern about the health consequences of consuming beverage alcohol products and about drinking and driving;

A general decline in the consumption of beverage alcohol products in on-premise establishments, such as may result from smoking bans;

A trend toward a healthier diet including lighter, lower calorie beverages such as diet soft drinks, juices and water products;

The increased activity of anti-alcohol groups;

Increased federal, state or foreign excise or other taxes on beverage alcohol products; and

Increased regulation placing restrictions on the purchase or consumption of beverage alcohol products.

In addition, our continued success depends, in part, on our ability to develop new products. The launch and ongoing success of new products are inherently uncertain especially with regard to their appeal to consumers. The launch of a new product can give rise to a variety of costs and an unsuccessful launch, among other things, can affect consumer perception of existing brands.

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We generally purchase raw materials under short-term supply contracts, and we are subject to substantial price fluctuations for grapes and grape-related materials, and we have a limited group of suppliers of glass bottles.

Our business is heavily dependent upon raw materials, such as grapes, grape juice concentrate, grains, alcohol and packaging materials from third-party suppliers. We could experience raw material supply, production or shipment difficulties that could adversely affect our ability to supply goods to our customers. Increases in the costs of raw materials also directly affect us. In the past, we have experienced dramatic increases in the cost of grapes. Although we believe we have adequate sources of grape supplies, in the event demand for certain wine products exceed expectations, we could experience shortages.

The wine industry swings between cycles of grape oversupply and undersupply. In a severe oversupply environment, the ability of wine producers, including ourselves, to raise prices is limited, and, in certain situations, the competitive environment may put pressure on producers to lower prices. Further, although an oversupply may enhance opportunities to purchase grapes at lower costs, a producer's selling and promotional expenses associated with the sale of its wine products can rise in such an environment.

Glass bottle costs are one of our largest components of cost of product sold. In the U.S., Canada and Australia, glass bottles have only a small number of producers. Currently, one producer supplies most of our glass container requirements for our U.S. operations and another producer supplies substantially all of our glass container requirements for our Australian operations and one of its affiliates supplies a majority of our glass container requirements for our Canadian operations. The inability of any of our glass bottle suppliers to satisfy our requirements could adversely affect our business.

Our operations subject us to risks relating to currency rate fluctuations, interest rate fluctuations and geopolitical uncertainty which could have a material adverse effect on our business.

We have operations in different countries throughout the world and, therefore, are subject to risks associated with currency fluctuations. As a result of our international acquisitions, we have significant exposure to foreign currency risk as a result of having international operations in Australia, New Zealand and the U.K. Following the Vincor acquisition, our exposure to foreign currency risk increased significantly in Canada and also further increased in Australia, New Zealand and the U.K. We are also exposed to risks associated with interest rate fluctuations. We manage our exposure to foreign currency and interest rate risks utilizing derivative instruments and other means to reduce those risks. We, however, could experience changes in our ability to hedge against or manage fluctuations in foreign currency exchange rates or interest rates and, accordingly, there can be no assurance that we will be successful in reducing those risks. We could also be affected by nationalizations or unstable governments or legal systems or intergovernmental disputes. These currency, economic and political uncertainties may have a material adverse effect on our results of operations, especially to the extent these matters, or the decisions, policies or economic strength of our suppliers, affect our global operations.

We have a material amount of intangible assets, such as goodwill and trademarks, and if we are required to write-down any of these intangible assets, it would reduce our net income, which in turn could have a material adverse effect on our results of operations.

We have a significant amount of intangible assets, such as goodwill and trademarks. We adopted the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, in its entirety, on March 1, 2002. Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized, but instead are subject to a periodic impairment evaluation. Reductions in our net income caused by the write-down of any of these intangible assets could materially and adversely affect our results of operations.

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The termination of our joint venture with Modelo relating to importing, marketing and selling imported beer could have a material adverse effect on our business.

On January 2, 2007, we participated in establishing and commencing operations of a joint venture with Modelo, pursuant to which Corona Extra and the other Modelo Brands are imported, marketed and sold by the joint venture in the U.S. (including the District of Columbia) and Guam along with certain other imported beer brands in their respective territories. Pursuant to the joint venture and related importation arrangements, the joint venture will continue for an initial term of 10 years, and renew in 10-year periods unless GModelo Corporation, a Delaware corporation and subsidiary of Dablo, gives notice prior to the end of year seven of any term of its intention to purchase our interest we hold through our subsidiary, Barton Beers, Ltd. (Barton). The joint venture may also terminate under other circumstances involving action by governmental authorities, certain changes in control of us or Barton as well as in connection with certain breaches of the importation and related sub-license agreements, after notice and cure periods.

The termination of the joint venture by acquisition of Barton s interest or for other reasons noted above could have a material adverse effect on our business, financial condition or results of operations.

Class action or other litigation relating to alcohol abuse or the misuse of alcohol could adversely affect our business.

There has been increased public attention directed at the beverage alcohol industry, which we believe is due to concern over problems related to alcohol abuse, including drinking and driving, underage drinking and health consequences from the misuse of alcohol. Several beverage alcohol producers have been sued in several courts regarding alleged advertising practices relating to underage consumers. Adverse developments in these or similar lawsuits or a significant decline in the social acceptability of beverage alcohol products that results from these lawsuits could materially adversely affect our business.

We depend upon our trademarks and proprietary rights, and any failure to protect our intellectual property rights or any claims that we are infringing upon the rights of others may adversely affect our competitive position and brand equity.

Our future success depends significantly on our ability to protect our current and future brands and products and to defend our intellectual property rights. We have been granted numerous trademark registrations covering our brands and products and have filed, and expect to continue to file, trademark applications seeking to protect newly-developed brands and products. We cannot be sure that trademark registrations will be issued with respect to any of our trademark applications. There is also a risk that we could, by omission, fail to timely renew or protect a trademark or that our competitors will challenge, invalidate or circumvent any existing or future trademarks issued to, or licensed by, us.

Contamination could harm the integrity or customer support for our brands and adversely affect the sales of our products.

The success of our brands depends upon the positive image that consumers have of those brands. Contamination, whether arising accidentally or through deliberate third-party action, or other events that harm the integrity or consumer support for those brands, could adversely affect their sales. Contaminants in raw materials purchased from third parties and used in the production of our wine and spirits products or defects in the distillation or fermentation process could lead to low beverage quality as well as illness among, or injury to, consumers of our products and may result in reduced sales of the affected brand or all of our brands.

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An increase in the cost of energy or the cost of environmental regulatory compliance could affect our profitability.

We have experienced significant increases in energy costs, and energy costs could continue to rise, which would result in higher transportation, freight and other operating costs. We may experience significant future increases in the costs associated with environmental regulatory compliance. Our future operating expenses and margins will be dependent on our ability to manage the impact of cost increases. We cannot guarantee that we will be able to pass along increased energy costs or increased costs associated with environmental regulatory compliance to our customers through increased prices.

Our reliance upon complex information systems distributed worldwide and our reliance upon third party global networks means we could experience interruptions to our business services.

We depend on information technology to enable us to operate efficiently and interface with customers, as well as maintain financial accuracy and efficiency. If we do not allocate, and effectively manage, the resources necessary to build and sustain the proper technology infrastructure, we could be subject to transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through security breach. As with all large systems, our information systems could be penetrated by outside parties intent on extracting information, corrupting information or disrupting business processes. Such unauthorized access could disrupt our business and could result in the loss of assets.

Changes in accounting standards and taxation requirements could affect our financial results.

New accounting standards or pronouncements that may become applicable to us from time to time, or changes in the interpretation of existing standards and pronouncements, could have a significant effect on our reported results for the affected periods. We are also subject to income tax in the numerous jurisdictions in which we generate revenues. In addition, our products are subject to import and excise duties and/or sales or value-added taxes in many jurisdictions in which we operate. Increases in income tax rates could reduce our after-tax income from affected jurisdictions, while increases in indirect taxes could affect our products' affordability and therefore reduce our sales.

Various diseases, pests and certain weather conditions could affect quality and quantity of grapes or other agricultural raw materials.

Various diseases, pests, fungi, viruses, drought, frosts and certain other weather conditions could affect the quality and quantity of grapes and other agricultural raw materials available, decreasing the supply of our products and negatively impacting profitability. We cannot guarantee that our grape suppliers or suppliers of other agricultural raw materials will succeed in preventing contamination in existing vineyards or fields or that we will succeed in preventing contamination in our existing vineyards or future vineyards we may acquire. Future government restrictions regarding the use of certain materials used in grape growing may increase vineyard costs and/or reduce production. Growing agricultural raw materials also requires adequate water supplies. A substantial reduction in water supplies could result in material losses of grape crops and vines or other crops, which could lead to a shortage of our product supply.

Item 1B. Unresolved Staff Comments

Not Applicable.

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Item 2. Properties

Through its business segments, the Company operates wineries, distilling plants, bottling plants, and cider producing facilities, most of which include warehousing and distribution facilities on the premises. Through Matthew Clark, the Company also operates separate distribution centers serving the Constellation Wines segment's wholesaling business in the U.K. In addition to the Company's properties described below, certain of the Company's businesses maintain office space for sales and similar activities and offsite warehouse and distribution facilities in a variety of geographic locations.

The Company believes that its facilities, taken as a whole, are in good condition and working order and have adequate capacity to meet its needs for the foreseeable future.

The following discussion details the properties associated with the Company's five business segments.

Constellation Wines

Through the Constellation Wines segment, the Company maintains facilities in the U.S., Australia, New Zealand, the U.K., the Republic of Ireland, South Africa and Canada. These facilities include wineries, bottling plants, cider producing facilities, warehousing and distribution facilities, distribution centers and office facilities. The segment maintains owned and/or leased division offices in Canandaigua, New York; St. Helena, California; Gonzales, California; San Francisco, California; Healdsburg, California; Reynella, South Australia; Bristol, England; Guildford, England; and Mississauga, Ontario.

United States

In the U.S., the Company through its Constellation Wines segment operates two wineries in New York, located in Canandaigua and Naples; 20 wineries in California, located in Acampo, Esparto, Gonzales, Healdsburg, Kenwood, Napa, Oakville, Soledad, Rutherford, Templeton, Ukiah, two in Geyserville, two in Lodi, two in Madera and three in Sonoma; three wineries in Washington, located in Prosser, Woodinville and Sunnyside; and one winery in Caldwell, Idaho. All of these wineries are owned, except for the wineries in Caldwell (Idaho) and Woodinville (Washington), which are leased. The Constellation Wines segment considers its principal wineries in the U.S. to be the Mission Bell winery in Madera (California), the Canandaigua winery in Canandaigua (New York), the Ravenswood wineries in Sonoma (California), the Franciscan Vineyards winery in Rutherford (California), the Woodbridge Winery in Acampo (California), the Turner Road Vintners Winery in Lodi (California), the Robert Mondavi Winery in Oakville (California) and the Blackstone Winery in Gonzales (California). The Mission Bell winery crushes grapes, produces, bottles and distributes wine and produces specialty concentrates and Mega Colors for sale. The Canandaigua winery crushes grapes and produces, bottles and distributes wine. The other principal wineries crush grapes, vinify, cellar and bottle wine. In California, the Constellation Wines segment also operates a distribution center and four warehouses.

Through the Constellation Wines segment, as of February 29, 2008, the Company owned or leased approximately 13,800 acres of vineyards, either fully bearing or under development, in California and New York to supply a portion of the grapes used in the production of wine.

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Australia/New Zealand

Through the Constellation Wines segment, the Company owns and operates 11 Australian wineries, five of which are in South Australia, three in Western Australia and the other three in New South Wales, Victoria and Tasmania. Additionally, through this segment the Company also owns four wineries in New Zealand. All but one of these Australia/New Zealand wineries crush grapes, vinify and cellar wine. Five include bottling and/or packaging operations. The facility in Reynella, South Australia bottles a significant portion of the wine produced in Australia, produces all Australian sparkling wines and cellars wines. The Company considers the segment's principal facilities in Australia/New Zealand to be the Berri Estates winery located in Glossop and the bottling facility located in Reynella, both in South Australia.

Through the Constellation Wines segment, the Company owns or has interests in approximately 6,800 acres of vineyards in South Australia, Western Australia, Victoria, and Tasmania, and approximately 3,700 acres of vineyards, either fully bearing or under development, in New Zealand.

Europe

Through the Constellation Wines segment, in the U.K. the Company operates two facilities in England, located in Bristol and Shepton Mallet. The Bristol facility, which is leased, is considered a principal facility and produces, bottles and packages wine; and the Shepton Mallet facility, which is owned, produces, bottles and packages cider.

Through this segment, the Company operates a National Distribution Centre, located at a leased facility in Severnside, Bristol, England, together with two leased satellite facilities within the same region, to distribute the Company's products that are produced at the Bristol and Shepton Mallet facilities as well as products imported from other wine suppliers. To support its wholesaling business, through Matthew Clark the Company operates 11 physical distribution centers located throughout the U.K., 10 of which are leased, as well as two virtual depots and two satellite depots. These distribution centers and depots are used to distribute products produced by the Company, as well as by third parties.

Additionally, through the Constellation Wines segment, the Company leases warehouse and office facilities in Dublin in support of the Company's business of marketing, storing and distributing alcoholic beverages in the Republic of Ireland.

Canada

Through the Constellation Wines segment, the Company owns and operates 10 Canadian wineries, four of which are in British Columbia, four in Ontario, one in Quebec and one in New Brunswick. The British Columbia and Ontario operations all harvest a domestic crop and all locations vinify and cellar wines. Four wineries include bottling and/or packaging operations. The Company also operates a distribution center in Mississauga, Ontario. In addition, through the segment the Company operates facilities in Vancouver, British Columbia and Kitchener, Ontario in connection with its beer and wine making kit business. The Company considers the segment's principal facilities in Canada to be Niagara Cellars located in Niagara Falls (Ontario), the Vincor Quebec Division located in Rougemont (Quebec), the Vincor Production Facility located in Oliver (British Columbia) and the distribution center located in Mississauga (Ontario).

Through the Constellation Wines segment, as of February 29, 2008, the Company owned or leased approximately 1,700 acres of vineyards, either fully bearing or under development, in Ontario and British Columbia to supply a portion of the grapes used in the production of wine.

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South Africa

Through the Constellation Wines segment, the Company operates a leased winery facility in South Africa.

Constellation Spirits

Through the Constellation Spirits segment, the Company maintains leased division offices in Chicago, Illinois.

Through this segment, the Company owns and operates three distilling plants, one in the U.S. and two in Canada. The distilling plant in the U.S. is located in Bardstown, Kentucky. The Company previously owned and operated a distilling plant in Albany, Georgia, which is in the process of being sold to a third party in the Company's first quarter of fiscal 2009. The Company has moved the operations previously conducted at the Albany, Georgia plant to other Company facilities. The two distilling plants in Canada are located in Valleyfield, Quebec and Lethbridge, Alberta. The Company considers this segment's principal distilling plants to be the facilities located in Bardstown (Kentucky), Valleyfield (Quebec) and Lethbridge (Alberta). The Bardstown facility distills, bottles and warehouses distilled spirits products for the Company and, on a contractual basis, for other industry members. The two Canadian facilities distill, bottle and store Canadian whisky for the segment, and distill and/or bottle and store Canadian whisky, vodka, rum, gin and liqueurs for third parties.

In the U.S., the Company through its Constellation Spirits segment also operates two bottling plants, located in Owensboro, Kentucky and Carson, California. The facility located in Owensboro (Kentucky) is owned, while the facility in Carson (California) is leased. During the fourth quarter of fiscal 2008, the Company closed its bottling plant located in Atlanta, Georgia and moved that plant's bottling operations to other Company facilities. The Company considers this segment's bottling plant located in Owensboro to be one of the segment's principal facilities. The Owensboro facility bottles and warehouses distilled spirits products for the segment and is also utilized for contract bottling.

Constellation Beers and Crown Imports

Through the Constellation Beers segment, the Company maintained leased division offices in Chicago, Illinois and contracted with five providers of warehouse space and services in eight locations throughout the U.S. Coincident with the formation of Crown Imports on January 2, 2007, these warehouse space and services contracts were transferred to the joint venture, and Crown Imports has entered into additional arrangements to satisfy its warehouse requirements in the U.S. and Guam. It currently has contracted with 17 providers of warehouse space and services in various locations throughout the U.S., District of Columbia and Guam. Crown Imports maintains leased offices in Chicago, Illinois as well as in eight other locations throughout the U.S.

Corporate Operations and Other

The Company's corporate headquarters are located in leased offices in Fairport, New York.

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Item 3. Legal Proceedings

In the ordinary course of their business, the Company and its subsidiaries are subject to lawsuits, arbitrations, claims and other legal proceedings in connection with their business. Some of the legal actions include claims for substantial or unspecified compensatory and/or punitive damages. A substantial adverse judgment or other unfavorable resolution of these matters could have a material adverse effect on the Company's financial condition, results of operations and cash flows. Management believes that the Company has adequate legal defenses with respect to the legal proceedings to which it is a defendant or respondent and that the outcome of these pending proceedings is not likely to have a material adverse effect on the financial condition, results of operations or cash flows of the Company. However, the Company is unable to predict the outcome of these matters.

Regulatory Matters The Company and its subsidiaries are in discussions with various governmental agencies concerning matters raised during regulatory examinations or otherwise subject to such agencies' inquiry. These matters could result in censures, fines or other sanctions. Management believes the outcome of any pending regulatory matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows. However, the Company is unable to predict the outcome of these matters.

Western Wines Limited ("Western Wines"), an entity that the Company acquired in June 2006 as part of its Vincor acquisition, was a party to a proceeding in the Crown Court in the U.K. that was resolved on January 22, 2008. The proceeding was based on claims made by the Environment Agency in the U.K. that Western Wines failed to comply with certain U.K. recovery and recycling regulations in each of the three years 2003, 2004 and 2005 inclusive. The Environment Agency had asserted that if Western Wines had complied with its obligations it would have paid the Environment Agency assessments totaling £187,545 with respect to the three year period. Western Wines had not disputed that the violation occurred or its responsibility for the violation. The matter was heard by the Crown Court on January 22, 2008, where the Crown Court imposed a fine of £225,000 (representing primarily the £187,545 that Western Wines would have paid had it registered) and awarded the Environment Agency compensation and costs of approximately £6,000. Western Wines did not appeal the decision and has paid the amounts ordered by the Crown Court.

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

At a Special Meeting of Stockholders of Constellation Brands, Inc. held on December 6, 2007 (the Special Meeting), the holders of the Company's Class A Common Stock (the Class A Stock) and the holders of the Company's Class B Common Stock (the Class B Stock), voting together as a single class with holders of Class A Stock having one (1) vote per share and holders of Class B Stock having ten (10) votes per share, approved a proposal to approve the amendment and restatement of the Company's Certificate of Incorporation and also approved a proposal to approve the amendment and restatement of the Company's Long-Term Stock Incentive Plan.

Set forth below is the number of votes cast for, against or withheld, as well as the number of abstentions and broker nonvotes, as applicable, as to each of the foregoing matters.

- I. The amendment and restatement of the Company's Certificate of Incorporation was approved with the following votes:

For:	373,612,800
Against:	2,472,339
Abstain:	1,775,961
Broker Nonvotes:	0

- II. The amendment and restatement of the Company's Long-Term Stock Incentive Plan was approved with the following votes:

For:	356,547,130
Against:	12,976,003
Abstain:	1,859,439
Broker Nonvotes:	6,478,528

Executive Officers of the Company

Information with respect to the current executive officers of the Company is as follows:

NAME	AGE	OFFICE OR POSITION HELD
Richard Sands	57	Chairman of the Board
Robert Sands	49	President and Chief Executive Officer
Alexander L. Berk	58	Chief Executive Officer, Constellation Beers and Spirits, and President and Chief Executive Officer, Barton Incorporated
Jose F. Fernandez	52	Chief Executive Officer, Constellation Wines North America
F. Paul Hetterich	45	Executive Vice President, Business Development and Corporate Strategy
Jon Moramarco	51	Chief Executive Officer, Constellation International
Thomas J. Mullin	56	Executive Vice President and General Counsel
Robert Ryder	48	Executive Vice President and Chief Financial Officer
W. Keith Wilson	57	Executive Vice President and Chief Administrative Officer

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Richard Sands, Ph.D., is the Chairman of the Board of the Company. He has been employed by the Company in various capacities since 1979. He has served as a director since 1982. In September 1999, Mr. Sands was elected Chairman of the Board. He served as Chief Executive Officer from October 1993 to July 2007, as Executive Vice President from 1982 to May 1986, as President from May 1986 to December 2002 and as Chief Operating Officer from May 1986 to October 1993. He is the brother of Robert Sands.

Robert Sands is President and Chief Executive Officer of the Company. He was appointed Chief Executive Officer in July 2007 and appointed as President in December 2002. He has served as a director since January 1990. Mr. Sands also served as Chief Operating Officer from December 2002 to July 2007, as Group President from April 2000 through December 2002, as Chief Executive Officer, International from December 1998 through April 2000, as Executive Vice President from October 1993 through April 2000, as General Counsel from June 1986 through May 2000, and as Vice President from June 1990 through October 1993. He is the brother of Richard Sands.

Alexander L. Berk is the Chief Executive Officer of Constellation Beers and Spirits and the President and Chief Executive Officer of Barton Incorporated. Since 1990 and prior to becoming Chief Executive Officer of Barton Incorporated in March 1998, Mr. Berk was President and Chief Operating Officer of Barton Incorporated and from 1988 to 1990, he was the President and Chief Executive Officer of Schenley Industries. Mr. Berk has been in the beverage alcohol industry for most of his career, serving in various positions.

Jose F. Fernandez is the Chief Executive Officer, Constellation Wines North America and the President and Chief Executive Officer of Constellation Wines U.S., Inc. Mr. Fernandez has held various positions with the Company since 2000. He was appointed Chief Executive Officer of Constellation Wines North America in July 2007 and has served as President and Chief Executive Officer of Constellation Wines U.S., Inc. since December 2003. Mr. Fernandez also served as President and Chief Executive Officer of Pacific Wine Partners (a previous joint venture between the Company and Hardy Wine Company Limited) from August 2001 until November 2003 and as Chief Executive Officer of BRL Hardy North America (previously an affiliate of Hardy Wine Company Limited) from October 2000 to August 2001. The Company acquired Hardy Wine Company Limited in calendar 2003. It is now known as Constellation Australia Limited. Mr. Fernandez has been in the beverage alcohol industry for most of his career, serving in various positions with other beverage alcohol companies.

F. Paul Hetterich has been the Company's Executive Vice President, Business Development and Corporate Strategy since June 2003. From April 2001 to June 2003, Mr. Hetterich served as the Company's Senior Vice President, Corporate Development. Prior to that, Mr. Hetterich held several increasingly senior positions in the Company's marketing and business development groups. Mr. Hetterich has been with the Company since 1986.

Jon Moramarco is the Chief Executive Officer, Constellation International, having served in that role since March 2007. From February 2006 through February 2007, he was the President and Chief Executive Officer of Constellation Europe, and from December 2003 through January 2006 he was President and Chief Executive Officer, Icon Estates. He served as President and Chief Executive Officer, Canandaigua Wine Company, Inc. (now named Constellation Wines U.S., Inc.) from October 1999 through November 2003. Mr. Moramarco has more than 20 years of diverse experience in the wine industry.

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Thomas J. Mullin joined the Company as Executive Vice President and General Counsel in May 2000. Prior to joining the Company, Mr. Mullin served as President and Chief Executive Officer of TD Waterhouse Bank, NA, a national banking association, since February 2000, of CT USA, F.S.B. since September 1998, and of CT USA, Inc. since March 1997. He also served as Executive Vice President, Business Development and Corporate Strategy of C.T. Financial Services, Inc. from March 1997 through February 2000. From 1985 through 1997, Mr. Mullin served as Vice Chairman and Senior Executive Vice President of First Federal Savings and Loan Association of Rochester, New York and from 1982 through 1985, he was a partner in the law firm of Phillips, Lytle, Hitchcock, Blaine & Huber.

Robert Ryder joined the Company in May 2007 as Executive Vice President and Chief Financial Officer. Mr. Ryder previously served from 2005 to 2006 as Executive Vice President and Chief Financial and Administrative Officer of IMG, a sports marketing and media company. From 2002 to 2005, he was Senior Vice President and Chief Financial Officer of American Greetings Corporation, a publicly traded, multi-national consumer products company. From 1989 to 2002, he held several management positions of increasing responsibility with PepsiCo, Inc. These included control, strategic planning, mergers and acquisitions and CFO and Controller positions serving at PepsiCo's corporate headquarters and at its Frito-Lay International and Frito-Lay North America divisions. Mr. Ryder is a certified public accountant.

W. Keith Wilson joined the Company in January 2002 as Senior Vice President, Human Resources. In September 2002, he was elected Chief Human Resources Officer and in April 2003 he was elected Executive Vice President. In July 2007 was appointed Chief Administrative Officer while retaining the position of Executive Vice President. From 1999 to 2001, Mr. Wilson served as Senior Vice President, Global Human Resources of Xerox Engineering Systems, a subsidiary of Xerox Corporation, which engineers, manufactures and sells hi-tech reprographics equipment and software worldwide. From 1990 to 1999, he served in various senior human resource positions with the banking, marketing and real estate and relocation businesses of Prudential Life Insurance of America, an insurance company that also provides other financial products.

Executive officers of the Company are generally chosen or elected to their positions annually and hold office until the earlier of their removal or resignation or until their successors are chosen and qualified.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's Class A Common Stock (the Class A Stock) and Class B Common Stock (the Class B Stock) trade on the New York Stock Exchange (NYSE) under the symbols STZ and STZ.B, respectively. There is no public trading market for the Company's Class 1 Common Stock. The following tables set forth for the periods indicated the high and low sales prices of the Class A Stock and the Class B Stock as reported on the NYSE.

CLASS A STOCK

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2007				
High	\$28.02	\$27.29	\$29.09	\$29.17
Low	\$23.32	\$24.13	\$26.90	\$23.01
Fiscal 2008				
High	\$24.61	\$25.79	\$26.46	\$24.97
Low	\$18.83	\$21.23	\$22.39	\$19.01

CLASS B STOCK

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2007				
High	\$27.73	\$27.29	\$29.00	\$29.14
Low	\$24.00	\$23.85	\$26.85	\$23.15
Fiscal 2008				
High	\$24.42	\$25.60	\$26.34	\$24.91
Low	\$19.00	\$21.40	\$22.54	\$19.20

At April 17, 2008, the number of holders of record of Class A Stock and Class B Stock of the Company were 998 and 211, respectively. There were no holders of record of Class 1 Common Stock.

With respect to its common stock, the Company's policy is to retain all of its earnings to finance the development and expansion of its business, and the Company has not paid any cash dividends on its common stock since its initial public offering in 1973. In addition, under the terms of the Company's senior credit facility, the Company is currently constrained from paying cash dividends on its common stock. Also, certain of the indentures for the Company's outstanding senior notes and senior subordinated notes may restrict the payment of cash dividends on its common stock under certain circumstances. Any indentures for debt securities issued in the future, the terms of any preferred stock issued in the future and any credit agreements entered into in the future may also restrict or prohibit the payment of cash dividends on common stock.

Table of Contents**Item 6. Selected Financial Data**

	For the Years Ended				
	February 29, 2008	February 28, 2007	February 28, 2006	February 28, 2005	February 29, 2004
<i>(in millions, except per share data)</i>					
Sales	\$ 4,885.1	\$ 6,401.8	\$ 5,707.0	\$ 5,139.8	\$ 4,469.3
Less-excise taxes	(1,112.1)	(1,185.4)	(1,103.5)	(1,052.2)	(916.9)
Net sales	3,773.0	5,216.4	4,603.5	4,087.6	3,552.4
Cost of product sold	(2,491.5)	(3,692.5)	(3,278.9)	(2,947.0)	(2,576.6)
Gross profit	1,281.5	1,523.9	1,324.6	1,140.6	975.8
Selling, general and administrative expenses	(807.3)	(768.8)	(612.4)	(555.7)	(457.3)
Impairment of goodwill and intangible assets ⁽¹⁾	(812.2)				
Acquisition-related integration costs ⁽²⁾	(11.8)	(23.6)	(16.8)	(9.4)	
Restructuring and related charges ⁽³⁾	(6.9)	(32.5)	(29.3)	(7.6)	(31.1)
Operating (loss) income	(356.7)	699.0	666.1	567.9	487.4
Equity in earnings of equity method investees	257.9	49.9	0.8	1.8	0.5
Interest expense, net	(341.8)	(268.7)	(189.6)	(137.7)	(144.7)
Gain on change in fair value of derivative instruments		55.1			1.2
(Loss) income before income taxes	(440.6)	535.3	477.3	432.0	344.4
Provision for income taxes	(172.7)	(203.4)	(152.0)	(155.5)	(124.0)
Net (loss) income	(613.3)	331.9	325.3	276.5	220.4
Dividends on preferred stock		(4.9)	(9.8)	(9.8)	(5.7)
(Loss) income available to common stockholders	\$ (613.3)	\$ 327.0	\$ 315.5	\$ 266.7	\$ 214.7
(Loss) earnings per common share:					
Basic Class A Common Stock	\$ (2.83)	\$ 1.44	\$ 1.44	\$ 1.25	\$ 1.08
Basic Class B Common Stock	\$ (2.57)	\$ 1.31	\$ 1.31	\$ 1.14	\$ 0.98
Diluted Class A Common Stock	\$ (2.83)	\$ 1.38	\$ 1.36	\$ 1.19	\$ 1.03
Diluted Class B Common Stock	\$ (2.57)	\$ 1.27	\$ 1.25	\$ 1.09	\$ 0.95
Total assets	\$ 10,052.8	\$ 9,438.2	\$ 7,400.6	\$ 7,804.2	\$ 5,558.7

Long-term debt, including current maturities	\$ 4,878.0	\$ 4,032.2	\$ 2,729.9	\$ 3,272.8	\$ 2,046.1
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(1) For a detailed discussion of impairment of goodwill and intangible assets for the year ended February 29, 2008, see Management's Discussion and Analysis of Financial Condition and Results of Operation under Item 7 of this Annual Report on Form 10-K under the caption "Fiscal 2008 Compared to Fiscal 2007 Impairment of Goodwill and Intangible Assets."

(2) For a detailed discussion of acquisition-related integration costs for the years ended February 29, 2008, February 28, 2007, and February 28, 2006, see Management's Discussion and Analysis of Financial Condition and Results of Operation under Item 7 of this Annual Report on Form 10-K under the caption "Fiscal 2008 Compared to Fiscal 2007 Acquisition-Related Integration Costs"

and Fiscal 2007
Compared to Fiscal
2006
Acquisition-Related
Integration Costs,
respectively.

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- (3) For a detailed discussion of restructuring and related charges for the years ended February 29, 2008, February 28, 2007, and February 28, 2006, see Management's Discussion and Analysis of Financial Condition and Results of Operation under Item 7 of this Annual Report on Form 10-K under the captions Fiscal 2008 Compared to Fiscal 2007 Restructuring and Related Charges and Fiscal 2007 Compared to Fiscal 2006 Restructuring and Related Charges, respectively.

For the years ended February 29, 2008, and February 28, 2007, see Management's Discussion and Analysis of Financial Condition and Results of Operation under Item 7 of this Annual Report on Form 10-K and the Consolidated Financial Statements and notes thereto under Item 8 of this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation Overview

The Company is a leading international producer and marketer of beverage alcohol brands with a broad portfolio across the wine, spirits and imported beer categories. The Company continues to supply imported beer in the United States (U.S.) through its investment in Crown Imports (as defined in Equity Method Investments in Fiscal 2008 and Fiscal 2007 below). The Company has the largest wine business in the world and is the largest multi-category (wine, spirits and imported beer) supplier of beverage alcohol in the U.S.; a leading producer and exporter of wine from Australia and New Zealand; the largest producer and marketer of wine in Canada; and both a major supplier of beverage alcohol and, through its investment in Matthew Clark (see Equity Method Investments in Fiscal 2008 and Fiscal 2007 below), a major independent drinks wholesaler in the United Kingdom (U.K.).

Through January 1, 2007, the Company reported its operating results in three segments: Constellation Wines (branded wines, and U.K. wholesale and other), Constellation Beers and Spirits (imported beers and distilled spirits) and Corporate Operations and Other. As a result of the Company's investment in Crown Imports, the Company changed its internal management financial reporting to consist of three business divisions, Constellation Wines, Constellation Spirits and Crown Imports. Prior to the investment in Crown Imports, the Company's internal management financial reporting included the Constellation Beers business division. Consequently, the Company reports its operating results in five segments: Constellation Wines (branded wine, and wholesale and other), Constellation Spirits (distilled spirits), Constellation Beers (imported beer), Corporate Operations and Other and Crown Imports (imported beer). Segment results for Constellation Beers are for the period prior to January 2, 2007, and segment results for Crown Imports are for the period on and after January 2, 2007. Amounts included in the Corporate Operations and Other segment consist of general corporate administration and finance expenses. These amounts include costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations, global information technology and global strategic sourcing. Any costs incurred at the corporate office that are applicable to the segments are allocated to the appropriate segment. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other operating segments.

The business segments reflect how the Company's operations are managed, how operating performance within the Company is evaluated by senior management and the structure of its internal financial reporting.

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In addition, the Company excludes acquisition-related integration costs, restructuring and related charges and unusual items that affect comparability from its definition of operating income for segment purposes as these items are not reflective of normal continuing operations of the segments. The Company excludes these items as segment operating performance and segment management compensation is evaluated based upon a normalized segment operating income. As such, the performance measures for incentive compensation purposes for segment management do not include the impact of these items.

The Company's business strategy is to remain focused across the beverage alcohol industry by offering a broad range of products in each of the Company's three major categories: wine, spirits and, through Crown Imports, imported beer. The Company intends to keep its portfolio positioned for top-line growth while maximizing the profitability of its brands. In addition, the Company seeks to increase its relative importance to key customers in major markets by increasing its share of their overall purchasing, which is increasingly important in a consolidating industry. The Company's strategy of breadth across categories and geographies is designed to deliver long-term profitable growth. This strategy allows the Company more investment choices, provides flexibility to address changing market conditions and creates stronger routes-to-market.

Marketing, sales and distribution of the Company's products, particularly the Constellation Wines segment's products, are managed on a geographic basis in order to fully leverage leading market positions within each core market. Market dynamics and consumer trends vary significantly across the Company's five core markets (U.S., Canada, U.K., Australia and New Zealand) within the Company's three geographic regions (North America, Europe and Australia/New Zealand). Within North America, the Company offers a wide range of beverage alcohol products across the branded wine and spirits and, through Crown Imports, imported beer categories in the U.S. and is the largest producer and marketer of branded wines in Canada. In Europe, the Company leverages its position as the largest wine supplier in the U.K. In addition, the Company leverages its investment in Matthew Clark both as a strategic route-to-market for its imported wine portfolio and as a key supplier of a full range of beverage alcohol products primarily to the on-premise business. Within Australia/New Zealand, where consumer trends favor domestic wine products, the Company leverages its position as one of the largest producers and marketers of wine in Australia and New Zealand.

The Company remains committed to its long-term financial model of growing sales (both organically and through acquisitions), expanding margins and increasing cash flow to achieve earnings per share growth and improve return on invested capital.

The environment for the Company's products is competitive in each of the Company's core markets, due, in part, to industry and retail consolidation. In particular, the U.K. and Australian markets are highly competitive, as further described below. Competition in the U.S. beer and spirits markets is normally intense, with domestic and imported beer producers increasing brand spending in an effort to gain market share.

The U.K. wine market is primarily an import market with Australian wines comprising approximately one-quarter of all wine sales in the U.K. off-premise business. The Australian wine market is primarily a domestic market. The Company has leading share positions in the Australian wine category in both the U.K. and Australian markets.

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Due to competitive conditions in the U.K. and Australia, it has been difficult for the Company in recent fiscal periods to recover certain cost increases, in particular, the duty increases in the U.K. which have been imposed annually for the past several years. In the U.K., significant consolidation at the retail level has resulted in a limited number of large retailers controlling a significant portion of the off-premise wine business. The recent surplus of Australian wine made very low cost bulk wine available to these U.K. retailers which allowed certain of these large retailers to create and build private label brands in the Australian wine category. However, the Australian bulk wine supply is now declining. In January 2008, the Company implemented a price increase in the U.K. to cover certain cost increases. In March 2008, the U.K. announced a significant increase in duty as well as the expectation for future annual increases to approximate two percentage points above the rate of inflation. The Company immediately implemented an additional price increase in an effort to offset the impact of this March 2008 duty increase. In addition, the Company also implemented a price increase in Australia during the first quarter of calendar 2008 to cover certain cost increases.

The calendar years 2004, 2005 and 2006 were years of record Australian grape harvests that contributed to a surplus of Australian bulk wine. However, the calendar 2007 Australian grape harvest was significantly lower than the calendar 2006 Australian grape harvest as a result of an ongoing drought and late spring frosts in several regions. As a result of the significant reduction in the calendar 2007 Australian grape harvest, the Company has begun to see a reduction in the current surplus and an increase in pricing for Australian bulk wine. Continuing drought conditions throughout most of calendar 2007 were expected to impact the size of the calendar 2008 Australian grape harvest as well. However, precipitation during the Company's fourth quarter has alleviated some of the drought conditions in key wine producing regions of Australia resulting in the expectation for the calendar 2008 Australian grape harvest to be higher than the calendar 2007 Australian grape harvest. The Company expects the supply to continue to move into balance with demand as a result of two consecutive years of lower than recent average Australian grape harvests; however, the highly competitive conditions in the U.K. and Australian markets are expected to persist. In the U.S., while the calendar 2007 U.S. grape harvest yielded lower levels than the calendar 2006 U.S. grape harvest, the Company expects that the overall supply should remain generally in balance with demand.

In the fourth quarter of fiscal 2008, pursuant to the Company's accounting policy, the Company performed its annual goodwill impairment analysis. As a result of this analysis, the Company concluded that the carrying amounts of goodwill assigned to the Constellation Wines segment's Australian and U.K. reporting units exceeded their implied fair values and recorded impairment losses of \$599.9 million, which is included in impairment of goodwill and intangible assets on the Company's Consolidated Statement of Operations. The impairment losses were determined by comparing the carrying value of goodwill assigned to specific reporting units within the segment as of December 31, 2007, with the implied fair value of the goodwill. In determining the implied fair value of the goodwill, the Company considered estimates of future operating results and cash flows of each of the reporting units discounted using estimated discount rates. The estimates of future operating results and cash flows were principally derived from the Company's updated long-term financial forecast, which was developed as part of the Company's strategic planning cycle conducted during the Company's fourth quarter. The decline in the implied fair value of the goodwill and resulting impairment losses were primarily driven by the updated long-term financial forecasts, which showed lower estimated future operating results primarily due to changes in market conditions in Australia and the U.K. in the fourth quarter of fiscal 2008.

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In addition, during the fourth quarter of fiscal 2008, the Company performed its review of indefinite lived intangible assets for impairment. The Company determined that certain intangible assets associated with the Constellation Wines segment's Australian and U.K. reporting units, primarily trademarks, were impaired primarily due to the revised lower revenue and profit forecasts associated with products incorporating these assets. The Company measured the amount of impairment by calculating the amount by which the carrying value of these assets exceeded their estimated fair values, which were based on projected discounted future net cash flows. As a result of this review, the Company recorded additional impairment losses of \$204.9 million, which is included in impairment of goodwill and intangible assets on the Company's Consolidated Statement of Operations. Lastly, in connection with the Company's Fiscal 2008 Plan (as defined below in Restructuring and Related Charges), the Company recorded asset impairment losses of \$7.4 million associated primarily with certain definite lived trademarks of brands to be discontinued.

For the year ended February 29, 2008 (Fiscal 2008), the Company's net sales decreased 28% over the year ended February 28, 2007 (Fiscal 2007), primarily due to accounting for the Crown Imports and Matthew Clark investments under the equity method of accounting, partially offset by net sales of products acquired in the Vincor Acquisition, Svedka Acquisition and BWE Acquisition (as defined below) and a favorable foreign currency impact. Operating (loss) income decreased over the comparable prior year period resulting primarily from (i) impairment losses, (ii) the decreased imported beer and U.K. wholesale sales discussed above and (iii) the Company's Constellation Wines segment's program to reduce distributor wine inventory levels in the U.S. during the first half of fiscal 2008 (as discussed below) without a corresponding decrease in promotional, advertising, selling and general and administrative spend within the Constellation Wines segment, partially offset by the incremental benefit from the Vincor Acquisition, Svedka Acquisition and BWE Acquisition. Net (loss) income decreased over the comparable prior year period primarily due to the factors discussed above combined with income tax provision and increased interest expense, partially offset by an increase in equity in earnings of equity method investees in connection primarily with Crown Imports.

The Company's Constellation Wines segment implemented a program to reduce distributor wine inventory levels in the U.S. during the first half of fiscal 2008, in response to the consolidation of distributors over the past few years and supply chain technology improvements. As distributors are looking to operate with lower levels of inventory while maintaining appropriate service levels to retailers, the Company has worked closely with its distributors on supply-chain efficiencies, ultimately making the Company's brands more competitive in the marketplace. The Company substantially completed its reduction of distributor inventory levels during the second quarter of fiscal 2008. This initiative had a significant impact on the Company's Fiscal 2008 financial performance, including a reduction of net sales of approximately \$110 million and a reduction in diluted earnings per share of approximately \$0.15 per share.

The following discussion and analysis summarizes the significant factors affecting (i) consolidated results of operations of the Company for Fiscal 2008 compared to Fiscal 2007, and Fiscal 2007 compared to the year ended February 28, 2006 (Fiscal 2006), and (ii) financial liquidity and capital resources for Fiscal 2008. This discussion and analysis also identifies certain acquisition-related integration costs, restructuring and related charges and net unusual costs expected to affect consolidated results of operations of the Company for Fiscal 2009. References to base branded wine net sales, base branded wine gross profit and base branded wine business exclude the impact of branded wine acquired in the Vincor Acquisition and/or the BWE Acquisition, as appropriate. References to base branded spirits net sales and base branded spirits gross profit exclude the impact of branded spirits acquired in the Svedka Acquisition. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein.

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Acquisitions in Fiscal 2008 and Fiscal 2007

Acquisition of BWE

On December 17, 2007, the Company acquired all of the issued and outstanding capital stock of Beam Wine Estates, Inc. (*BWE*), an indirect wholly-owned subsidiary of Fortune Brands, Inc., together with *BWE*'s subsidiaries: Atlas Peak Vineyards, Inc., Buena Vista Winery, Inc., Clos du Bois, Inc., Gary Farrell Wines, Inc. and Peak Wines International, Inc. (the *BWE Acquisition*). As a result of the *BWE Acquisition*, the Company has acquired the U.S. wine portfolio of Fortune Brands, Inc., including certain wineries, vineyards or interests therein in the State of California, as well as various super-premium and fine California wine brands including Clos du Bois, Wild Horse and Geysler Peak.

The *BWE Acquisition* supports the Company's strategy of strengthening its portfolio with fast-growing super-premium and above wines. The *BWE Acquisition* 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 was \$888.6 million, subject to certain purchase price adjustments. In addition, the Company expects to incur direct acquisition costs of approximately \$1.3 million. The purchase price was financed with the net proceeds from the Company's December 2007 Senior Notes and revolver borrowings under the Company's 2006 Credit Agreement (as defined below). 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 allocation, including the third-party appraisal, is in process.

The results of operations of the *BWE* business are reported in the Constellation Wines segment and are included in the consolidated results of operations of the Company from the date of acquisition. The Company expects the *BWE Acquisition* to have a material impact on the Company's future results of operations, financial position and cash flows. In particular, the Company expects its future results of operations to be significantly impacted by, among other things, the flow through of anticipated inventory step-up, restructuring, integration and related charges, and interest expense associated with borrowings to finance the purchase price. The restructuring, integration and related charges relate to the Company's January 2008 announcement of its plans to streamline certain of its operations in the U.S., primarily in connection with the restructuring and integration of the operations of *BWE* (the *U.S. Initiative*).

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 and is the fastest growing major imported premium vodka in the U.S. At the time of the acquisition, *Svedka* was the fifth largest imported vodka in the U.S. The *Svedka Acquisition* 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 that has experienced rapid growth.

Total consideration paid in cash for the *Svedka Acquisition* was \$385.8 million. In addition, the Company incurred direct acquisition costs of \$1.3 million. The purchase price was financed with revolver borrowings under the Company's June 2006 Credit Agreement (as defined below) as amended in February 2007.

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The results of operations of the Svedka business are reported in the Constellation Spirits segment and are included in the consolidated results of operations of the Company from the date of acquisition. The Svedka Acquisition had a significant impact on the Company's interest expense associated with the additional revolver borrowings.

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 (the Vincor Acquisition). 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 Vincor Acquisition include Inniskillin, Jackson-Triggs, Sawmill Creek, Sumac Ridge, R.H. Phillips, Toasted Head, Hogue, Kim Crawford and Kumala.

The Vincor Acquisition 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 Vincor Acquisition 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 Vincor Acquisition 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 \$9.4 million. At closing, the Company also assumed outstanding indebtedness of Vincor, net of cash acquired, of \$320.2 million, resulting in a total transaction value of \$1,445.4 million. The purchase price was financed with borrowings under the Company's June 2006 Credit Agreement. The results of operations of the Vincor business are reported in the Constellation Wines segment and are included in the consolidated results of operations of the Company from the date of acquisition.

Equity Method Investments in Fiscal 2008 and Fiscal 2007***Investment in Matthew Clark***

On April 17, 2007, the Company and Punch Taverns plc (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 joint venture reinforces Matthew Clark's position as the U.K.'s largest independent premier drinks wholesaler serving the on-trade drinks industry. The Company received \$185.6 million of cash proceeds from the formation of the joint venture.

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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 on the Company's Consolidated Statement of Operations from the date of investment.

Investment in Crown Imports

On July 17, 2006, Barton Beers, Ltd. (Barton), an indirect wholly-owned subsidiary of the Company, entered into an Agreement to Establish Joint Venture (the Joint Venture Agreement) with Diblo, S.A. de C.V. (Diblo), an entity owned 76.75% by Grupo Modelo, S.A.B. de C.V. (Modelo) and 23.25% by Anheuser-Busch Companies, Inc., pursuant to which Modelo's Mexican beer portfolio (the Modelo Brands) will be exclusively imported, marketed and sold 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 transferred exclusive importing, marketing and selling rights with respect to these brands in the U.S. to the joint venture. On January 2, 2007, the parties completed the closing (the Closing) of the transactions contemplated in the Joint Venture Agreement, as amended at Closing.

Pursuant to the Joint Venture Agreement, Barton established Crown Imports LLC, a wholly-owned subsidiary formed as a Delaware limited liability company. On January 2, 2007, pursuant to a Barton Contribution Agreement, dated July 17, 2006, among Barton, Diblo and Crown Imports LLC, Barton transferred to Crown Imports LLC substantially all of its assets relating to importing, marketing and selling beer under the Corona Extra, Corona Light, Coronita, Modelo Especial, Negra Modelo, Pacifico, St. Pauli Girl and Tsingtao brands and the liabilities associated therewith (the Barton Contributed Net Assets). At the Closing, GModelo Corporation, a Delaware corporation (the Diblo Subsidiary), a subsidiary of Diblo joined Barton as a member of Crown Imports LLC, and, in exchange for a 50% membership interest in Crown Imports LLC, contributed cash in an amount equal to the Barton Contributed Net Assets, subject to specified adjustments. This imported beers joint venture is referred to hereinafter as Crown Imports .

Also on January 2, 2007, Crown Imports and Extrade II S.A. de C.V. (Extrade II), an affiliate of Modelo, entered into an importer agreement, pursuant to which Extrade II granted to Crown Imports the exclusive right to import, market and sell the Modelo Brands in the territories mentioned above, and Crown Imports and Marcas Modelo, S.A. de C.V. (Marcas Modelo), entered into a Sub-license Agreement, pursuant to which Marcas Modelo granted Crown Imports an exclusive sub-license to use certain trademarks related to the Modelo Brands within this territory.

As a result of these transactions, Barton and Diblo each have, directly or indirectly, equal interests in Crown Imports and each of Barton and Diblo have appointed an equal number of directors to the Board of Directors of Crown Imports.

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 contemplated by the Joint Venture Agreement, as amended. The contribution by Diblo Subsidiary in exchange for a 50% membership interest in Crown Imports does not constitute the acquisition of a business by the Company.

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The joint venture and the related importation arrangements provide that, subject to the terms and conditions of those agreements, the joint venture and the related importation arrangements will continue for an initial term of 10 years, and renew in 10-year periods unless Diblo Subsidiary gives notice prior to the end of year seven of any term. Upon consummation of the transactions, 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 on the Company's Consolidated Statement of Operations from the date of investment.

Divestiture in Fiscal 2008

In February 2008, as part of ongoing efforts to increase focus on premium wine offerings in the U.S., the Company sold its lower margin popular-priced wine brands, Almaden and Inglenook, and certain other assets for cash proceeds of \$133.7 million. The Company recorded a loss of \$27.8 million on this sale which is included in selling, general and administrative expenses on the Company's Consolidated Statements of Operations.

Results of Operations**Fiscal 2008 Compared to Fiscal 2007***Net Sales*

The following table sets forth the net sales (in millions of dollars) by operating segment of the Company for Fiscal 2008 and Fiscal 2007.

	Fiscal 2008 Compared to Fiscal 2007		
	Net Sales		%
	2008	2007	Increase (Decrease)
Constellation Wines:			
Branded wine	\$ 3,016.9	\$ 2,755.7	(9)%
Wholesale and other	341.9	1,087.7	(69)%
Constellation Wines net sales	3,358.8	3,843.4	(13)%
Constellation Spirits net sales	414.2	329.4	26%
Constellation Beers net sales		1,043.6	(100)%
Crown Imports net sales	2,391.0	368.8	NM
Consolidations and eliminations	(2,391.0)	(368.8)	NM
Consolidated Net Sales	\$ 3,773.0	\$ 5,216.4	(28)%

NM = Not Meaningful

Net sales for Fiscal 2008 decreased to \$3,773.0 million from \$5,216.4 million for Fiscal 2007, a decrease of \$1,443.4 million, or (28%). This decrease resulted primarily from a decrease in net sales of \$1,043.6 million and \$759.8 million for the Crown Imports and Matthew Clark investments, respectively, which are accounted for under the equity method of accounting, partially offset by net sales of products acquired in the Vincor Acquisition, Svedka Acquisition and BWE Acquisition of \$202.7 million and a favorable foreign currency impact of \$133.5 million.

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Net sales for Constellation Wines decreased to \$3,358.8 million for Fiscal 2008 from \$3,843.4 million in Fiscal 2007, a decrease of \$484.6 million, or (13%). Branded wine net sales increased \$261.2 million primarily due to \$140.2 million of net sales of branded wine acquired in the Vincor Acquisition and BWE Acquisition, a favorable foreign currency impact of \$108.2 million and a benefit of \$55.7 million due to branded wine net sales for the U.K. previously sold through the Company's U.K. wholesale business, partially offset by lower U.S. base branded wine net sales resulting primarily from the Company's implementation of a program to reduce distributor wine inventory levels in the U.S. Wholesale and other net sales decreased \$745.8 million primarily due to accounting for the Matthew Clark investment under the equity method of accounting, partially offset by a favorable foreign currency impact of \$25.3 million.

Constellation Spirits

Net sales for Constellation Spirits increased to \$414.2 million for Fiscal 2008 from \$329.4 million for Fiscal 2007, an increase of \$84.8 million, or 26%. This increase resulted primarily from \$55.1 million of net sales of branded spirits acquired in the Svedka Acquisition and an increase in base branded spirits net sales of \$19.9 million due primarily to higher average selling prices.

Constellation Beers

Net sales for Constellation Beers decreased \$1,043.6 million, or (100%), from Fiscal 2007 as the Crown Imports investment is accounted for under the equity method of accounting.

Gross Profit

The Company's gross profit decreased to \$1,281.5 million for Fiscal 2008 from \$1,523.9 million for Fiscal 2007, a decrease of \$242.4 million, or (16%). The Constellation Wines segment's gross profit increased \$4.9 million primarily due to increased gross profit of \$58.5 million due to the Vincor Acquisition and BWE Acquisition and a favorable foreign currency impact of \$40.6 million, partially offset by a decrease of \$77.8 million resulting from accounting for the Matthew Clark investment under the equity method of accounting and lower U.S. base branded wine gross profit resulting from the lower U.S. base branded wine net sales primarily as a result of the Company's program to reduce distributor inventory levels. The Constellation Spirits segment's gross profit increased \$36.7 million primarily due to increased gross profit of \$26.2 million due to the Svedka Acquisition and increased base branded spirits gross profit of \$9.0 million resulting from the higher average selling prices. The Constellation Beers segment's gross profit was down \$290.9 million due to accounting for the Crown Imports investment under the equity method of accounting. In addition, unusual items, which consist of certain costs that are excluded by management in their evaluation of the results of each operating segment, were lower by \$6.9 million in Fiscal 2008 versus Fiscal 2007. This decrease resulted primarily from decreased flow through of inventory step-up of \$18.8 million associated primarily with the Vincor Acquisition, partially offset by an increase in inventory write-offs and accelerated depreciation of \$9.5 million and \$5.4 million, respectively, primarily associated with the Fiscal 2008 Plan. Gross profit as a percent of net sales increased to 34.0% for Fiscal 2008 from 29.2% for Fiscal 2007 primarily due to the benefit of reporting the lower margin U.K. wholesale and imported beer businesses under the equity method of accounting, partially offset by (i) lower margins in the U.S. base branded wine business primarily due to the distributor inventory reduction program and (ii) lower margins in the U.K. branded wine business primarily due to the Company's absorption of increased duty costs.

Table of Contents***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased to \$807.3 million for Fiscal 2008 from \$768.8 million for Fiscal 2007, an increase of \$38.5 million, or 5%. This increase is due to an increase of \$76.4 million in the Constellation Wines segment, an increase of \$30.2 million in the Constellation Spirits segment, and an increase of \$24.6 million in Corporate Operations and Other, partially offset by a \$82.8 million decrease in selling, general and administrative expenses within the Constellation Beers segment as the Crown Imports investment is accounted for under the equity method of accounting, and a reduction in unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment of \$9.9 million. The increase in the Constellation Wines segment's selling, general and administrative expenses is due to increased general and administrative expenses of \$43.2 million, advertising expenses of \$20.4 million and selling expenses of \$12.8 million resulting primarily from the Vincor Acquisition and BWE Acquisition and the recognition of an additional \$6.5 million of stock-based compensation expense. The increase in the Constellation Spirits segment's selling, general and administrative expenses is primarily due to increases in advertising expenses of \$14.0 million and selling expenses of \$11.8 million resulting primarily from the Svedka Acquisition. The Corporate Operations and Other segment's selling, general and administrative expenses increased primarily due to increased general and administrative expenses to support the Company's growth and the recognition of additional stock-based compensation expense in Fiscal 2008 of \$6.8 million. The decrease in unusual costs was primarily due to the recognition in Fiscal 2008 of (i) \$35.3 million of other costs associated primarily with the loss on the sale of the Company's Almaden and Inglenook wine brands and certain other assets and (ii) a \$6.6 million loss in connection with the contribution of the Company's U.K. wholesale business to the Matthew Clark joint venture, net of a \$4.8 million realized gain on a prior asset sale; partially offset by the recognition in Fiscal 2007 of (i) \$16.3 million of other costs associated with the Fiscal 2007 Wine Plan (as defined below in Restructuring and Related Charges) (primarily from the write-down of an Australian winery and certain Australian vineyards to fair value less cost to sell) and the Fiscal 2006 Plan (as defined below in Restructuring and Related Charges), (ii) a \$13.4 million loss on the sale of the Company's branded bottled water business resulting from the write-off of \$27.7 million of non-deductible intangible assets, primarily goodwill, (iii) financing costs of \$11.9 million related primarily to the Company's new senior credit facility entered into in connection with the Vincor Acquisition and (iv) foreign currency losses of \$5.4 million on foreign denominated intercompany loan balances associated with the Vincor Acquisition.

Selling, general and administrative expenses as a percent of net sales increased to 21.4% for Fiscal 2008 as compared to 14.7% for Fiscal 2007 primarily due to (i) the reporting of the imported beer and U.K. wholesale businesses under the equity method of accounting, (ii) the percent increase in general and administrative expenses supporting the Company's growth within the Corporate Operations and Other segment and the Constellation Wines segment growing at a faster rate than the increase in the respective segment's net sales (including a combined increase of \$13.3 million of stock-based compensation expense for those segments) and (iii) the lower net sales associated with the reduction in the distributor wine inventory levels without a corresponding decrease in selling, general and administrative expenses within the U.S. branded wine business.

Table of Contents***Impairment of Goodwill and Intangible Assets***

The Company recorded \$812.2 million of impairment losses for Fiscal 2008, consisting of impairments of goodwill and intangible assets of \$599.9 million and \$212.3 million, respectively, as more fully discussed in the Overview above.

Acquisition-Related Integration Costs

Acquisition-related integration costs decreased to \$11.8 million for Fiscal 2008 from \$23.6 million for Fiscal 2007. Acquisition-related integration costs for Fiscal 2008 consisted of costs recorded primarily in connection with the Company's plan to restructure and integrate the operations of Vincor (the Vincor Plan) and the Company's plan to streamline certain of its international operations and costs associated with the consolidation of certain spirits production processes in the U.S., collectively with the U.S. Initiative, the Fiscal 2008 Plan. These costs included \$4.8 million of employee-related costs and \$7.0 million of facilities and other costs. Acquisition-related integration costs for Fiscal 2007 consisted of costs recorded primarily in connection with the Vincor Plan.

For Fiscal 2009, the Company expects to incur total acquisition-related integration costs of \$10.3 million primarily in connection with the Fiscal 2008 Plan.

Restructuring and Related Charges

The Company recorded \$6.9 million of restructuring and related charges for Fiscal 2008 associated primarily with the Company's Fiscal 2008 Plan and the Company's worldwide wine reorganizations announced during Fiscal 2006 and the Company's program to consolidate certain west coast production processes in the U.S. (collectively, the Fiscal 2006 Plan) of \$12.0 million, partially offset by the reversal of prior accruals related primarily to the Vincor Plan of \$5.1 million. Restructuring and related charges included \$10.2 million of employee termination benefit costs, (\$3.4) million of contract termination costs and \$0.1 million of facility consolidation/relocation costs. In addition, in connection with the Fiscal 2008 Plan, the Company's plan to invest in new distribution and bottling facilities in the U.K. and to streamline certain Australian wine operations (collectively, the Fiscal 2007 Wine Plan), the Fiscal 2006 Plan and the Vincor Plan, the Company recorded (i) \$12.0 million of accelerated depreciation and \$10.1 million of inventory write-downs, (ii) \$7.4 million of intangible asset impairments and (iii) \$2.2 million of other costs which were recorded in the cost of product sold line, impairment of goodwill and intangible assets line and selling, general and administrative expenses line, respectively, within the Company's Consolidated Statements of Operations. The Company recorded \$32.5 million of restructuring and related charges for Fiscal 2007 associated primarily with the Company's Fiscal 2007 Wine Plan and Fiscal 2006 Plan.

For Fiscal 2009, the Company expects to incur total restructuring and related charges of \$16.7 million associated primarily with the Fiscal 2008 Plan and the Fiscal 2006 Plan. In addition, with respect to the Fiscal 2008 Plan, Fiscal 2007 Wine Plan and the Vincor Plan, the Company expects to incur \$14.7 million and \$8.1 million of charges in selling, general and administrative expenses and cost of product sold, respectively, related primarily to duplicative facility costs in the U.K. and accelerated depreciation, respectively.

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Operating (Loss) Income

The following table sets forth the operating (loss) income (in millions of dollars) by operating segment of the Company for Fiscal 2008 and Fiscal 2007.

Fiscal 2008 Compared to Fiscal 2007
Operating (Loss) Income
%
Increase