

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

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

(Mark One)

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

For the quarterly period ended May 31, 2007

OR

**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
(State or other
jurisdiction of
incorporation or
organization)

16-0716709
(I.R.S.
Employer
Identification
No.)

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

| <u>Class</u> | <u>Number of Shares Outstanding</u> |
|---|-------------------------------------|
| Class A Common Stock, Par Value \$.01 Per Share | 191,759,160 |
| Class B Common Stock, Par Value \$.01 Per Share | 23,819,238 |

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

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements**

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

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

and 28,831,138 shares at February 28, 2007

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

For the Three Months Ended May 31,
 2007 2006

CASH FLOWS FROM OPERATING

ACTIVITIES:

| | | | | |
|------------|----|------|----|------|
| Net income | \$ | 29.8 | \$ | 85.5 |
|------------|----|------|----|------|

Adjustments to reconcile net income to net
 cash (used in)

provided by operating activities:

| | | | | |
|---|--|---------|--|--------|
| Depreciation of property, plant and equipment | | 36.1 | | 26.7 |
| Stock-based compensation expense | | 9.4 | | 3.6 |
| Loss on disposal of business | | 6.3 | | 17.3 |
| Deferred tax provision | | 3.6 | | 15.6 |
| Amortization of intangible and other assets | | 2.6 | | 2.0 |
| Loss on disposal or impairment of long-lived assets, net | | 0.8 | | 0.3 |
| Equity in earnings of equity method investees, net of distributed earnings | | (46.6) | | (0.1) |
| Gain on change in fair value of derivative instrument | | - | | (52.5) |
| Change in operating assets and liabilities, net of effects | | | | |
| from purchases and sales of businesses: | | | | |
| Accounts receivable, net | | (38.9) | | (66.4) |
| Inventories | | (28.0) | | (31.3) |
| Prepaid expenses and other current assets | | (4.7) | | (10.9) |
| Accounts payable | | (23.1) | | 45.4 |
| Accrued excise taxes | | 1.9 | | (9.7) |
| Other accrued expenses and liabilities | | (17.6) | | (12.2) |
| Other, net | | (17.7) | | (7.7) |
| Total adjustments | | (115.9) | | (79.9) |
| Net cash (used in) provided by operating activities | | (86.1) | | 5.6 |

CASH FLOWS FROM INVESTING

ACTIVITIES:

| | | | | |
|--|--|---------|--|--------|
| Purchase of business, net of cash acquired | | (385.5) | | - |
| Purchases of property, plant and equipment | | (17.7) | | (45.1) |
| Payment of accrued earn-out amount | | (2.9) | | (1.1) |
| Proceeds from formation of joint venture | | 185.6 | | - |
| Proceeds from sales of businesses | | 3.0 | | 28.0 |
| Proceeds from sales of assets | | 1.8 | | 0.7 |
| Other investing activities | | - | | (2.1) |
| Net cash used in investing activities | | (215.7) | | (19.6) |

CASH FLOWS FROM FINANCING
ACTIVITIES: