CONSTELLATION BRANDS, INC.
Form 10-Q
July 10, 2009

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

(Mark One)

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

For the quarterly period ended May 31, 2009

OR

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

For the transition period from __________ to __________

Commission File Number 001-08495

CONSTELLATION BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**16-0716709**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
207 High Point Drive, Building 100, Victor, New York	**14564**
(Address of principal executive offices)	(Zip Code)

(585) 678-7100

(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of June 30, 2009, is set forth below:

Class	**Number of Shares Outstanding**
Class A Common Stock, par value $.01 per share	197,049,131
Class B Common Stock, par value $.01 per share	23,736,237
Class 1 Common Stock, par value $.01 per share	None

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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 Operation of this Quarterly Report on Form 10-Q.

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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, 2009	February 28, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash investments	$ 16.8	$ 13.1
Accounts receivable, net	715.9	524.6
Inventories	1,846.0	1,828.7
Prepaid expenses and other	188.0	168.1
Total current assets	2,766.7	2,534.5
PROPERTY, PLANT AND EQUIPMENT, net	1,633.0	1,547.5
GOODWILL	2,540.3	2,615.0
INTANGIBLE ASSETS, net	1,019.7	1,000.6
OTHER ASSETS, net	441.8	338.9
Total assets	$ 8,401.5	$ 8,036.5
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Notes payable to banks	$ 353.5	$ 227.3
Current maturities of long-term debt	256.2	235.2
Accounts payable	276.2	288.7
Accrued excise taxes	69.8	57.6
Other accrued expenses and liabilities	600.0	517.6
Total current liabilities	1,555.7	1,326.4
LONG-TERM DEBT, less current maturities	3,712.1	3,971.1
DEFERRED INCOME TAXES	524.0	543.6
OTHER LIABILITIES	284.5	287.1
STOCKHOLDERS EQUITY:		
Class A Common Stock, $.01 par value- Authorized, 315,000,000 shares; Issued, 224,091,493 shares at May 31, 2009, and 223,584,959 shares at February 28, 2009	2.2	2.2
Class B Convertible Common Stock, $.01 par value- Authorized, 30,000,000 shares; Issued, 28,749,294 shares at May 31, 2009, and 28,749,294 shares at February 28, 2009	0.3	0.3

Additional paid-in capital	1,436.7	1,426.3
Retained earnings	1,010.0	1,003.5
Accumulated other comprehensive income	488.0	94.2
	2,937.2	2,526.5
Less: Treasury stock -		
Class A Common Stock, 27,029,353 shares at May 31, 2009, and 28,184,448 shares at February 28, 2009, at cost	(609.8)	(616.0)
Class B Convertible Common Stock, 5,005,800 shares at May 31, 2009, and February 28, 2009, at cost	(2.2)	(2.2)
	(612.0)	(618.2)
Total stockholders equity	2,325.2	1,908.3
Total liabilities and stockholders equity	$ 8,401.5	$ 8,036.5

The accompanying notes are an integral part of these statements.

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

	For the Three Months Ended May 31,	
	2009	2008
SALES	$ 1,003.8	$ 1,212.0
Less Excise taxes	(212.2)	(280.2)
Net sales	791.6	931.8
COST OF PRODUCT SOLD	(522.9)	(602.8)
Gross profit	268.7	329.0
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(166.6)	(233.5)
RESTRUCTURING CHARGES	(18.9)	(0.5)
ACQUISITION-RELATED INTEGRATION COSTS	(0.1)	(4.3)
Operating income	83.1	90.7
EQUITY IN EARNINGS OF EQUITY METHOD INVESTEES	62.8	72.1
INTEREST EXPENSE, net	(66.8)	(86.6)
Income before income taxes	79.1	76.2
PROVISION FOR INCOME TAXES	(72.6)	(31.6)
NET INCOME	$ 6.5	$ 44.6
SHARE DATA:		
Earnings per common share:		
Basic Class A Common Stock	$ 0.03	$ 0.21
Basic Class B Common Stock	$ 0.03	$ 0.19
Diluted Class A Common Stock	$ 0.03	$ 0.20
Diluted Class B Common Stock	$ 0.03	$ 0.19
Weighted average common shares outstanding:		
Basic Class A Common Stock	195.233	192.792
Basic Class B Common Stock	23.744	23.769
Diluted Class A Common Stock	219.820	219.186
Diluted Class B Common Stock	23.744	23.769

The accompanying notes are an integral part of these statements.

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

	For the Three Months Ended May 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6.5	$ 44.6
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation of property, plant and equipment	34.1	41.2
Stock-based compensation expense	12.2	10.8
Amortization of intangible and other assets	3.1	3.0
Loss on businesses sold or held for sale	0.8	16.0
Loss on disposal or impairment of long-lived assets, net	0.4	0.1
Deferred tax provision	(27.1)	3.2
Equity in earnings of equity method investees, net of distributed earnings	(23.6)	(23.0)
Change in operating assets and liabilities, net of effects from purchases and sales of businesses:		
Accounts receivable, net	(132.8)	(53.1)
Inventories	34.5	(69.0)
Prepaid expenses and other current assets	4.9	6.8
Accounts payable	(28.2)	14.4
Accrued excise taxes	6.0	18.3
Other accrued expenses and liabilities	55.2	(58.7)
Other, net	(0.8)	12.7
Total adjustments	(61.3)	(77.3)
Net cash used in operating activities	(54.8)	(32.7)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of business	270.2	
Proceeds from sales of assets	1.2	0.8
Purchases of property, plant and equipment	(47.1)	(22.2)
Investment in equity method investee	(0.3)	
Purchase of business, net of cash acquired		(2.1)
Other investing activities	0.3	7.8
Net cash provided by (used in) investing activities	224.3	(15.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments of long-term debt	(269.5)	(49.5)
Net proceeds from notes payable	98.6	85.8
Exercise of employee stock options	3.4	12.1

Excess tax benefits from share-based payment awards		1.2		4.7
Net cash (used in) provided by financing activities		(166.3)		53.1
Effect of exchange rate changes on cash and cash investments		0.5		
NET INCREASE IN CASH AND CASH INVESTMENTS		3.7		4.7
CASH AND CASH INVESTMENTS, beginning of period		13.1		20.5
CASH AND CASH INVESTMENTS, end of period	$	16.8	$	25.2
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Fair value of assets acquired, including cash acquired	$		$	19.2
Liabilities assumed				(6.2)
Net assets acquired				13.0
Less cash received from seller				(7.5)
Less cash acquired				(2.6)
Less amount due to seller				(0.7)
Less direct acquisition costs accrued				(0.1)
Net cash paid for purchases of businesses	$		$	2.1
Note receivable from sale of value spirits business	$	60.0	$	

The accompanying notes are an integral part of these statements.

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CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2009

1) MANAGEMENT S REPRESENTATIONS:

The consolidated financial statements included herein have been prepared by Constellation Brands, Inc. and its subsidiaries (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission applicable to quarterly reporting on Form 10-Q and reflect, in the opinion of the Company, all adjustments necessary to present fairly the financial information for the Company. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted as permitted by such rules and regulations. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended February 28, 2009. Results of operations for interim periods are not necessarily indicative of annual results.

2) RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS:

Effective March 1, 2009, the Company adopted Statement of Financial Accounting Standards No. 141 (revised 2007) (SFAS No. 141(R)), Business Combinations. SFAS No. 141(R), among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The adoption of SFAS No. 141(R) did not have a material impact on the Company s consolidated financial statements.

Effective March 1, 2009, the Company adopted Statement of Financial Accounting Standards No. 160 (SFAS No. 160), Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51. SFAS No. 160 amends Accounting Research Bulletin No. 51 (ARB No. 51), Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement also amends certain of ARB No. 51 s consolidation procedures for consistency with the requirements of SFAS No. 141(R). In addition, SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. The adoption of SFAS No. 160 did not have a material impact on the Company s consolidated financial statements.

Effective March 1, 2009, the Company adopted Financial Accounting Standards Board Staff Position No. FAS 142-3, (FSP No. 142-3), Determination of the Useful Life of Intangible Assets. FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards No. 142 (SFAS No. 142), Goodwill and Other Intangible Assets. The intent of FSP No. 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other U.S. generally accepted accounting principles. The adoption of FSP No. 142-3 did not have a material impact on the Company s consolidated financial statements.

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3) INVENTORIES:

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

(in millions)	May 31, 2009	February 28, 2009
Raw materials and supplies	$ 62.6	$ 57.9
In-process inventories	1,202.8	1,218.4
Finished case goods	580.6	552.4
	$ 1,846.0	$ 1,828.7

4) DERIVATIVE INSTRUMENTS:

As a multinational company, the Company is exposed to market risk from changes in foreign currency exchange rates and interest rates that could affect the Company s results of operations and financial condition. The amount of volatility will vary based upon the effectiveness and level of derivative instruments outstanding during a particular period of time, as well as the currency and interest rate market movements during that same period.

The Company enters into derivative instruments, primarily interest rate swaps and foreign currency forward and option contracts, to manage interest rate and foreign currency risks. In accordance with Statement of Financial Accounting Standards No. 133 (SFAS No. 133), Accounting for Derivative Instruments and Hedging Activities, as amended, the Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. The fair values of the Company s derivative instruments change with fluctuations in interest rates and/or currency rates and are expected to offset changes in the values of the underlying exposures. The Company s derivative instruments are held solely to hedge economic exposures. The Company follows strict policies to manage interest rate and foreign currency risks, including prohibitions on derivative market-making or other speculative activities.

To qualify for hedge accounting under SFAS No. 133, the details of the hedging relationship must be formally documented at inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risk that is being hedged, the derivative instrument, how effectiveness is being assessed and how ineffectiveness will be measured. The derivative must be highly effective in offsetting either changes in the fair value or cash flows, as appropriate, of the risk being hedged. Effectiveness is evaluated on a retrospective and prospective basis based on quantitative measures.

Certain of the Company s derivative instruments do not qualify for SFAS No. 133 hedge accounting treatment; for others, the Company chooses not to maintain the required documentation to apply hedge accounting treatment. These undesignated instruments are used to economically hedge the Company s exposure to fluctuations in the value of foreign currency denominated receivables and payables; foreign currency investments, primarily consisting of loans to subsidiaries; and cash flows related primarily to repatriation of those loans or investments. Forward contracts, generally less than 12 months in duration, are used to hedge some of these risks. The Company s derivative policy permits the use of undesignated derivatives when the derivative instrument is settled within the fiscal quarter or offsets a recognized balance sheet exposure. In these circumstances, the mark to fair value is reported currently through earnings in selling, general and administrative expenses on the Company s Consolidated Statements of Operations. As of May 31, 2009, the Company had undesignated foreign currency contracts outstanding with a notional value of $324.1 million. In addition, the Company had offsetting undesignated interest rate swap agreements with an absolute notional amount of $2,400.0 million outstanding at May 31, 2009 (see Note 9).

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Furthermore, when the Company determines that a derivative instrument which qualified for hedge accounting treatment has ceased to be highly effective as a hedge, the Company discontinues hedge accounting prospectively. The Company discontinues hedge accounting prospectively when (i) the derivative is no longer highly effective in offsetting changes in the cash flows or fair value of a hedged item; (ii) the derivative expires or is sold, terminated, or exercised; (iii) it is no longer probable that the forecasted transaction will occur; or (iv) management determines that designating the derivative as a hedging instrument is no longer appropriate.

Cash flow hedges:

The Company is exposed to foreign denominated cash flow fluctuations in connection with third party and intercompany sales and purchases and third party financing arrangements. The Company primarily uses foreign currency forward and option contracts to hedge certain of these risks. In addition, the Company utilizes interest rate swaps to manage its exposure to changes in interest rates. Derivatives managing the Company s cash flow exposures generally mature within three years or less, with a maximum maturity of five years. Throughout the term of the designated cash flow hedge relationship, but at least quarterly, a retrospective evaluation and prospective assessment of hedge effectiveness is performed. In the event the relationship is no longer effective, the Company recognizes the change in the fair value of the hedging derivative instrument from the prior assessment date immediately in the Company s Consolidated Statements of Operations. In conjunction with its effectiveness testing, the Company also evaluates ineffectiveness associated with the hedge relationship. Resulting ineffectiveness, if any, is recognized immediately in the Company s Consolidated Statements of Operations. As of May 31, 2009, the Company had cash flow designated foreign currency contracts outstanding with a notional value of $1,346.1 million. In addition, as of May 31, 2009, the Company had cash flow designated interest rate swap agreements outstanding with a notional value of $1,200.0 million (see Note 9).

The Company records the fair value of its foreign currency and interest rate swap contracts qualifying for cash flow hedge accounting treatment in its consolidated balance sheet with the effective portion of the related gain or loss on those contracts deferred in stockholders equity (as a component of AOCI (as defined in Note 14)). These deferred gains or losses are recognized in the Company s Consolidated Statements of Operations in the same period in which the underlying hedged items are recognized and on the same line item as the underlying hedged items. However, to the extent that any derivative instrument is not considered to be highly effective in offsetting the change in the value of the hedged item, the amount related to the ineffective portion of this derivative instrument is immediately recognized in the Company s Consolidated Statements of Operations in selling, general and administrative expenses.

The Company expects $6.4 million of net losses, net of income tax effect, to be reclassified from AOCI to earnings within the next 12 months. The amount of hedge ineffectiveness associated with the Company s designated cash flow hedge instruments recognized in the Company s Consolidated Statements of Operations for the three months ended May 31, 2009, was not material. All components of the Company s derivative instruments gains or losses are included in the assessment of hedge effectiveness. For the three months ended May 31, 2009, the Company reclassified $2.1 million of net gains, net of income tax effect, from AOCI into earnings as a result of the discontinuance of cash flow hedge accounting due to the probability that the original forecasted transaction would not occur.

Fair value hedges:

Fair value hedges are hedges that offset the risk of changes in the fair values of recorded assets and liabilities, and firm commitments. The Company records changes in fair value of derivative instruments which are designated and deemed effective as fair value hedges, in earnings offset by the corresponding changes in the fair value of the hedged items. The Company did not designate any derivative instruments as fair value hedges for the three months ended May 31, 2009.

Net investment hedges:

Net investment hedges are hedges that use derivative instruments or non-derivative instruments to hedge the foreign currency exposure of a net investment in a foreign operation. Historically, the Company has managed currency exposures resulting from certain of its net investments in foreign subsidiaries principally with debt denominated in the related foreign currency. Accordingly, gains and losses on these instruments were recorded as foreign currency translation adjustments in AOCI. In February 2009, the Company discontinued its net investment hedging relationship between the Company s sterling senior notes and the Company s investment in its U.K. subsidiary. The Company did not designate any derivative or non-derivative instruments as net investment hedges for the three months ended May 31, 2009.

Fair values of derivative instruments:

The fair values and locations of the Company s derivative instruments on its Consolidated Balance Sheets are as follows (see Note 5):

	Asset Derivatives		Liability Derivatives	
(in millions)	Balance Sheet Location	May 31, 2009	Balance Sheet Location	May 31, 2009
Derivatives designated as hedging instruments under SFAS No. 133				
Foreign currency contracts				
Current	Prepaid expenses and other	$ 40.9	Other accrued expenses and liabilities	$ 19.2
Long-term	Other assets, net	33.8	Other liabilities	11.4
Interest rate contracts				
Current	Prepaid expenses and other		Other accrued expenses and liabilities	48.3
Total		74.7		78.9
Derivatives not designated as hedging instruments under SFAS No. 133				
Foreign currency contracts				
Current	Prepaid expenses and other	40.3	Other accrued expenses and liabilities	13.5
Long-term	Other assets, net	0.6	Other liabilities	0.5
Interest rate contracts				
Current	Prepaid expenses and other	3.7	Other accrued expenses and liabilities	3.9
Total		44.6		17.9

Total derivative instruments	$ 119.3	$ 96.8

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The effect of the Company s derivative instruments designated in SFAS No. 133 cash flow hedging relationships on its Consolidated Statements of Operations and Other Comprehensive Income (OCI), net of income tax effect, is as follows:

Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI for the Three Months Ended May 31, 2009 (Effective portion)	Location of Gain (Loss) Reclassified from AOCI to Income (Effective portion)	Gain (Loss) Reclassified from AOCI to Income for the Three Months Ended May 31, 2009 (Effective portion)
(in millions)			
Foreign currency contracts	$ 32.6	Sales	$ 2.7
Foreign currency contracts	13.4	Cost of product sold	(0.7)
Foreign currency contracts	7.9	Selling, general and administrative expenses	16.6
Interest rate contracts	(3.2)	Interest expense, net	(5.8)
Total	$ 50.7	Total	$ 12.8

Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income (Ineffective portion)	Gain (Loss) Recognized in Income for the Three Months Ended May 31, 2009 (Ineffective portion)
(in millions)		
Foreign currency contracts	Selling, general and administrative expenses	$ 1.7

The effect of the Company s undesignated derivative instruments on its Consolidated Statements of Operations is as follows:

	Gain (Loss) Recognized in Income

Derivatives not Designated as Hedging Instruments under SFAS No. 133	Location of Gain (Loss) Recognized in Income		for the Three Months Ended May 31, 2009
(in millions)			
Foreign currency contracts	Selling, general and administrative expenses	$	
Interest rate contracts	Interest expense, net		(0.3)
Total		$	(0.3)

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Credit risk:

The Company enters into master agreements with its bank derivative trading counterparties that allow netting of certain derivative positions in order to manage credit risk. The Company s derivative instruments are not subject to credit rating contingencies or collateral requirements. As of May 31, 2009, the fair value of derivative instruments in a net liability position due to counterparties was $67.2 million. If the Company were required to settle the net liability position under these derivative instruments on May 31, 2009, the Company would have had sufficient availability under its revolving credit facility to satisfy this obligation.

Counterparty credit risk:

Counterparty credit risk relates to losses the Company could incur if a counterparty defaults on a derivative contract. The Company manages exposure to counterparty credit risk by requiring specified minimum credit standards and diversification of counterparties. The Company enters into master agreements with its bank derivative trading counterparties that allow netting of certain derivative positions in order to manage counterparty credit risk. As of May 31, 2009, all of the Company s counterparty exposures are with financial institutions which have investment grade ratings. The Company has procedures to monitor counterparty credit risk for both current and future potential credit exposures. As of May 31, 2009, the fair value of derivative instruments in a net receivable position due from counterparties was $89.7 million.

5) FAIR VALUE MEASUREMENTS:

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS No. 157), Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing an asset or liability. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 (FSP No. 157-2), Effective Date of FASB Statement No. 157. FSP No. 157-2 amended SFAS No. 157 to defer the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually, including goodwill and trademarks. On March 1, 2008, the Company adopted the provisions of SFAS No. 157 that were not deferred by FSP No. 157-2. The adoption of these provisions of SFAS No. 157 did not have a material impact on the Company s consolidated financial statements. On March 1, 2009, in accordance with FSP No. 157-2, the Company adopted the remaining provisions of SFAS No. 157. The adoption of the remaining provisions of SFAS No. 157 did not have a material impact on the Company s consolidated financial statements.

SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset and liability, either directly or indirectly; Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

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The following table presents the fair value hierarchy for the Company s financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2009, and May 31, 2008:

(in millions)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring Fair Value Measurements as of May 31, 2009				
Assets:				
Foreign currency contracts	$	$ 115.6	$	$ 115.6
Interest rate swap contracts	$	$ 3.7	$	$ 3.7
Liabilities:				
Foreign currency contracts	$	$ 44.6	$	$ 44.6
Interest rate swap contracts	$	$ 52.2	$	$ 52.2
Recurring Fair Value Measurements as of May 31, 2008				
Assets:				
Foreign currency contracts	$	$ 92.3	$	$ 92.3
Liabilities:				
Foreign currency contracts	$	$ 73.0	$	$ 73.0
Interest rate swap contracts	$	$ 39.3	$	$ 39.3

The Company s foreign currency contracts consist of foreign currency forward and option contracts which are valued using market-based inputs, obtained from independent pricing services, into valuation models. These valuation models require various inputs, including contractual terms, market foreign exchange prices, interest-rate yield curves and currency volatilities. Interest rate swap fair values are based on quotes from respective counterparties. Quotes are corroborated by the Company using discounted cash flow calculations based upon forward interest-rate yield curves, which are obtained from independent pricing services.

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6) GOODWILL:

The changes in the carrying amount of goodwill are as follows:

(in millions)	Constellation Wines	Crown Imports	Consolidations and Eliminations	Consolidated
Balance, February 29, 2008				
Goodwill	$ 3,723.8	$ 13.0	$ (13.0)	$ 3,723.8
Accumulated impairment losses	(599.9)			(599.9)
	3,123.9	13.0	(13.0)	3,123.9
Purchase accounting allocations	23.8			23.8
Foreign currency translation adjustments	(249.7)			(249.7)
Sale of businesses	(30.3)			(30.3)
Impairment of goodwill	(252.7)			(252.7)
Balance, February 28, 2009				
Goodwill	3,467.6	13.0	(13.0)	3,467.6
Accumulated impairment losses	(852.6)			(852.6)
	2,615.0	13.0	(13.0)	2,615.0
Foreign currency translation adjustments	83.8			83.8
Sale of business	(158.5)			(158.5)
Balance, May 31, 2009				
Goodwill	3,392.9	13.0	(13.0)	3,392.9
Accumulated impairment losses	(852.6)			(852.6)
	$ 2,540.3	$ 13.0	$ (13.0)	$ 2,540.3

For the year ended February 28, 2009, the changes in the carrying amount of goodwill consist of the following components. The Constellation Wines segment s purchase accounting allocations totaling $23.8 million consist primarily of purchase accounting allocations associated with the acquisition of all of the issued and outstanding capital stock of Beam Wine Estates, Inc. (BWE) (the BWE Acquisition) of $14.5 million and purchase accounting allocations associated with the purchase of an immaterial business of $6.4 million. The Constellation Wines segment s sale of businesses consists of (i) the Company s reduction of goodwill in connection with the June 2008 sale of the Pacific Northwest Business (as defined below) and (ii) the impairment of goodwill on an asset group held for sale as of February 28, 2009, in connection with the March 2009 sale of the value spirits business. Lastly, the Constellation Wines segment s impairment of goodwill consists of an impairment loss recorded in the fourth quarter of fiscal 2009 in connection with the Company s performance of its annual goodwill impairment analysis, pursuant to the Company s accounting policy. As a result of this analysis, the Company concluded that the carrying amount of goodwill assigned to the Constellation Wines segment s U.K. reporting unit exceeded its implied fair value and recorded an impairment loss of $252.7 million, which is included in impairment of goodwill and intangible assets on the Company s Consolidated Statements of Operations for the year ended February 28, 2009.

For the three months ended May 31, 2009, the Constellation Wines segment s sale of business consists of the Company s reduction of goodwill in connection with the March 2009 divestiture of the value spirits business.

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Divestiture of Pacific Northwest Business

In June 2008, the Company sold certain businesses consisting of several of the California wineries and wine brands acquired in the BWE Acquisition, as well as certain wineries and wine brands from the states of Washington and Idaho (collectively, the Pacific Northwest Business) for cash proceeds of $204.2 million, net of direct costs to sell. In connection with the classification of the Pacific Northwest Business as an asset group held for sale as of May 31, 2008, the Company s Constellation Wines segment recorded a loss of $23.4 million for the three months ended May 31, 2008, which included asset impairments of $16.0 million and losses on contractual obligations of $7.4 million. This loss of $23.4 million is included in selling, general and administrative expenses on the Company s Consolidated Statements of Operations.

Divestiture of the Value Spirits Business

In March 2009, the Company sold its value spirits business for $330.2 million, net of direct costs to sell, subject to post-closing adjustments. The Company received $270.2 million, net of direct costs to sell, in cash proceeds and a note receivable for $60.0 million in connection with this divestiture. In connection with the classification of the value spirits business as an asset group held for sale as of February 28, 2009, the Company recorded a loss of $15.6 million in the fourth quarter of fiscal 2009, primarily related to asset impairments, which is included in selling, general and administrative expenses on the Company s Consolidated Statements of Operations for the year ended February 28, 2009. For the three months ended May 31, 2009, the Company recognized a net gain of $0.2 million, which included a gain on settlement of a postretirement obligation of $1.0 million, partially offset by an additional loss of $0.8 million. This net gain is included in selling, general and administrative expenses on the Company s Consolidated Statements of Operations.

7) INTANGIBLE ASSETS:

The major components of intangible assets are as follows:

	May 31, 2009		February 28, 2009	
(in millions)	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	$ 84.0	$ 72.3	$ 80.0	$ 70.3
Other	2.9	0.6	11.4	5.4
Total	$ 86.9	72.9	$ 91.4	75.7
Nonamortizable intangible assets:				
Trademarks		940.3		915.2
Other		6.5		9.7
Total		946.8		924.9
Total intangible assets, net		$ 1,019.7		$ 1,000.6

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The Company did not incur costs to renew or extend the term of acquired intangible assets during the three months ended May 31, 2009, and May 31, 2008. The difference between the gross carrying amount and net carrying amount for each item presented is attributable to accumulated amortization. Amortization expense for intangible assets was $1.4 million for the three months ended May 31, 2009, and May 31, 2008. Estimated amortization expense for the remaining nine months of fiscal 2010 and for each of the five succeeding fiscal years and thereafter is as follows:

(in millions)	
2010	$ 4.3
2011	$ 5.5
2012	$ 4.9
2013	$ 4.8
2014	$ 4.8
2015	$ 4.8
Thereafter	$43.8

8) INVESTMENT IN EQUITY METHOD INVESTEES:

Crown Imports:

Constellation Beers Ltd. (Constellation Beers) (previously known as Barton Beers, Ltd.), an indirect wholly-owned subsidiary of the Company, and Diblo, S.A. de C.V. (Diblo), an entity owned 76.75% by Grupo Modelo, S.A.B. de C.V. (Modelo) and 23.25% by Anheuser-Busch Companies, Inc., each have, directly or indirectly, equal interests in a joint venture, Crown Imports LLC (Crown Imports). Crown Imports has the exclusive right to import, market and sell Modelo s Mexican beer portfolio (the Modelo Brands) in the 50 states of the U.S., the District of Columbia and Guam. In addition, the owners of the Tsingtao and St. Pauli Girl brands have transferred exclusive importing, marketing and selling rights with respect to those brands in the U.S. to the joint venture.

The Company 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 Statements of Operations. As of May 31, 2009, and February 28, 2009, the Company s investment in Crown Imports was $160.6 million and $136.9 million, respectively. The carrying amount of the investment is greater than the Company s equity in the underlying assets of Crown Imports by $13.6 million due to the difference in the carrying amounts of the indefinite lived intangible assets contributed to Crown Imports by each party. The Company received $39.2 million and $48.8 million of cash distributions from Crown Imports for the three months ended May 31, 2009, and May 31, 2008, respectively, all of which represent distributions of earnings.

Constellation Beers provides certain administrative services to Crown Imports. Amounts related to the performance of these services for the three months ended May 31, 2009, and May 31, 2008, were not material. In addition, as of May 31, 2009, and February 28, 2009, amounts receivable from Crown Imports were not material.

Matthew Clark:

The Company and Punch Taverns plc each have, directly or indirectly, equal interests in a joint venture (Matthew Clark) which consists of a U.K. wholesale business.

The Company 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 Statements of Operations. As of May 31, 2009, and February 28, 2009, the Company s investment in Matthew Clark was $33.9 million and $28.8 million, respectively. The Company did not receive any cash distributions from Matthew Clark for the three months ended May 31, 2009, and May 31, 2008.

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Amounts sold to Matthew Clark for the three months ended May 31, 2009, and May 31, 2008, were not material. As of May 31, 2009, and May 31, 2008, amounts receivable from Matthew Clark were not material.

Ruffino:

The Company has a 40% interest in Ruffino S.r.l. (Ruffino), the well-known Italian fine wine company. The Company does not have a controlling interest in Ruffino or exert any managerial control. The Company accounts for the investment in Ruffino under the equity method; accordingly, the results of operations of Ruffino are included in the equity in earnings of equity method investees line on the Company s Consolidated Statements of Operations. As of May 31, 2009, and February 28, 2009, the Company s investment in Ruffino was $26.3 million and $24.8 million, respectively.

The Company s Constellation Wines segment distributes Ruffino s products, primarily in the U.S. Amounts purchased from Ruffino under this arrangement for the three months ended May 31, 2009, and May 31, 2008, were not material. As of May 31, 2009, and May 31, 2008, amounts payable to Ruffino were not material.

The following table presents summarized financial information for the Company s Crown Imports equity method investment and the other material equity method investments discussed above. The amounts shown represent 100% of these equity method investments results of operations.

(in millions)	Crown Imports	Other	Total
For the Three Months Ended May 31, 2009			
Net sales	$635.8	$255.1	$890.9
Gross profit	$195.8	$ 34.2	$230.0
Income from continuing operations	$126.1	$ 2.9	$129.0
Net income	$125.7	$ 1.2	$126.9
For the Three Months Ended May 31, 2008			
Net sales	$672.5	$300.0	$972.5
Gross profit	$204.4	$ 50.0	$254.4
Income from continuing operations	$139.0	$ 5.4	$144.4
Net income	$139.4	$ 2.9	$142.3

9) BORROWINGS:

Senior credit facility

On June 5, 2006, the Company and certain of its U.S. subsidiaries, JPMorgan Chase Bank, N.A. as a lender and administrative agent, and certain other agents, lenders, and financial institutions entered into a new credit agreement (the June 2006 Credit Agreement). On February 23, 2007, and on November 19, 2007, the June 2006 Credit Agreement was amended (collectively, the 2007 Amendments). The June 2006 Credit Agreement together with the 2007 Amendments is referred to as the 2006 Credit Agreement . The 2006 Credit Agreement provides for aggregate credit facilities of $3,900.0 million, consisting of a $1,200.0 million tranche A term loan facility due in June 2011, a $1,800.0 million tranche B term loan facility due in June 2013, and a $900 million revolving credit facility (including a sub-facility for letters of credit of up to $200 million) which terminates in June 2011. Proceeds of the June 2006 Credit Agreement were used to pay off the Company s obligations under its prior senior credit facility, to fund the June 5, 2006, acquisition of all of the issued and outstanding common shares of Vincor International Inc. (Vincor) (the Vincor Acquisition), and to repay certain indebtedness of Vincor. The Company uses its revolving credit facility under the 2006 Credit Agreement for general corporate purposes, including working capital, on an as needed basis.

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As of May 31, 2009, the required principal repayments of the tranche A term loan and the tranche B term loan for the remaining nine months of fiscal 2010 and for each of the four succeeding fiscal years are as follows:

(in millions)	Tranche A Term Loan	Tranche B Term Loan	Total
2010	$	$	$
2011	171.1		171.1
2012	150.0	3.4	153.4
2013		613.1	613.1
2014		611.5	611.5
	$ 321.1	$ 1,228.0	$ 1,549.1

The rate of interest on borrowings under the 2006 Credit Agreement is a function of LIBOR plus a margin, the federal funds rate plus a margin, or the prime rate plus a margin. The margin is fixed with respect to the tranche B term loan facility and is adjustable based upon the Company s debt ratio (as defined in the 2006 Credit Agreement) with respect to the tranche A term loan facility and the revolving credit facility. As of May 31, 2009, the LIBOR margin for the revolving credit facility and the tranche A term loan facility is 1.25%, while the LIBOR margin on the tranche B term loan facility is 1.50%.

The February 23, 2007, amendment amended the June 2006 Credit Agreement to, among other things, (i) increase the revolving credit facility from $500.0 million to $900.0 million, which increased the aggregate credit facilities from $3,500.0 million to $3,900.0 million; (ii) increase the aggregate amount of cash payments the Company is permitted to make in respect or on account of its capital stock; (iii) remove certain limitations on the incurrence of senior unsecured indebtedness and the application of proceeds thereof; (iv) increase the maximum permitted total Debt Ratio and decrease the required minimum Interest Coverage Ratio ; and (v) eliminate the Senior Debt Ratio covenant and the Fixed Charges Ratio covenant. The November 19, 2007, amendment clarified certain provisions governing the incurrence of senior unsecured indebtedness and the application of proceeds thereof under the June 2006 Credit Agreement, as previously amended.

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

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

As of May 31, 2009, under the 2006 Credit Agreement, the Company had outstanding tranche A term loans of $321.1 million bearing an interest rate of 1.9%, tranche B term loans of $1,228.0 million bearing an interest rate of 2.7%, revolving loans of $160.0 million bearing an interest rate of 1.6%, outstanding letters of credit of $34.2 million, and $705.8 million in revolving loans available to be drawn.

In April 2009, the Company transitioned its interest rate swap agreements to a one-month LIBOR base rate versus the then existing three-month LIBOR base rate. Accordingly, the Company entered into new interest rate swap agreements which were designated as cash flow hedges of $1,200.0 million of the Company s floating LIBOR rate debt. In addition, the then existing interest rate swap agreements were dedesignated by the Company and the Company entered into additional undesignated interest rate swap agreements for $1,200.0 million to offset the prospective impact of the newly undesignated interest rate swap agreements. As a result, the Company has fixed its interest rates on $1,200.0 million of the Company s floating LIBOR rate debt at an average rate of 4.0% through fiscal 2010. For the three months ended May 31, 2009, and May 31, 2008, the Company reclassified net losses of $5.8 million and $2.4 million, net of income tax effect, respectively, from AOCI to interest expense, net on the Company s Consolidated Statements of Operations. This non-cash operating activity is included in other, net in the Company s Consolidated Statements of Cash Flows.

Subsidiary credit facilities

The Company has additional credit arrangements totaling $307.8 million and $394.5 million as of May 31, 2009, and May 31, 2008, respectively. These arrangements primarily support the financing needs of the Company s domestic and foreign subsidiary operations. Interest rates and other terms of these borrowings vary from country to country, depending on local market conditions. As of May 31, 2009, and May 31, 2008, amounts outstanding under these arrangements were $219.9 million and $236.4 million, respectively.

10) INCOME TAXES:

The Company s effective tax rate for the three months ended May 31, 2009, and May 31, 2008, was 91.8% and 41.5%, respectively. The Company s effective tax rate for the three months ended May 31, 2009, includes $37.5 million of taxes associated with the sale of the value spirits business, primarily related to the write-off of nondeductible goodwill. The Company s effective tax rate for the three months ended May 31, 2008, includes the tax effect of the write-off of nondeductible goodwill related to the sale of certain U.S. wine assets as well as the recognition of a valuation allowance against net operating losses in Australia for the three months ended May 31, 2008.

11) DEFINED BENEFIT PENSION PLANS:

Net periodic benefit cost reported in the Consolidated Statements of Operations for the Company s defined benefit pension plans includes the following components:

	For the Three Months Ended May 31,	
(in millions)	2009	2008
Service cost	$ 0.5	$ 1.3
Interest cost	5.1	7.1
Expected return on plan assets	(5.9)	(8.4)
Recognized net actuarial loss	1.0	2.1
Recognized curtailment loss		0.5
Net periodic benefit cost	$ 0.7	$ 2.6

Contributions of $1.8 million have been made by the Company to fund its defined benefit pension plans for the three months ended May 31, 2009. The Company presently anticipates contributing an additional $5.8 million to fund its defined benefit pension plans during the year ending February 28, 2010, resulting in total employer contributions of $7.6 million for the year ending February 28, 2010.

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12) EARNINGS PER COMMON SHARE:

The Company has two classes of outstanding common stock: Class A Common Stock and Class B Convertible Common Stock. Earnings per common share basic excludes the effect of common stock equivalents and is computed using the two-class method. Earnings per common share diluted for Class A Common Stock reflects the potential dilution that could result if securities to issue common stock were exercised or converted into common stock. Earnings per common share diluted for Class A Common Stock has been computed using the more dilutive of the if-converted or two-class method. Using the if-converted method, earnings per common share for Class A Common Stock assumes the exercise of stock options using the treasury stock method and the conversion of Class B Convertible Common Stock. Using the two-class method, earnings per common share diluted for Class A Common Stock assumes the exercise of stock options using the treasury stock method and no conversion of Class B Convertible Common Stock. For the three months ended May 31, 2009, and May 31, 2008, earnings per common share diluted has been calculated using the if-converted method. Diluted earnings per common share for Class B Convertible Common Stock is presented without assuming conversion into Class A Common Stock and is computed using the two-class computation method.

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

	For the Three Months Ended May 31,	
(in millions, except per share data)	2009	2008
Income available to common stockholders	$ 6.5	$ 44.6
Weighted average common shares outstanding basic:		
Class A Common Stock	195.233	192.792
Class B Convertible Common Stock	23.744	23.769
Weighted average common shares outstanding diluted:		
Class A Common Stock	195.233	192.792
Class B Convertible Common Stock	23.744	23.769
Stock-based awards, primarily stock options	0.843	2.625
Weighted average common shares outstanding diluted	219.820	219.186
Earnings per common share basic:		
Class A Common Stock	$ 0.03	$ 0.21
Class B Convertible Common Stock	$ 0.03	$ 0.19
Earnings per common share diluted:		
Class A Common Stock	$ 0.03	$ 0.20
Class B Convertible Common Stock	$ 0.03	$ 0.19

For the three months ended May 31, 2009, and May 31, 2008, stock-based awards, primarily stock options, which could result in the issuance of 34.5 million and 26.6 million shares, respectively, of Class A Common Stock were outstanding, but were not included in the computation of earnings per common share diluted for Class A Common

Stock because the effect of including such awards would have been antidilutive.

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13) STOCK-BASED COMPENSATION:

The Company recorded $12.2 million and $10.8 million of stock-based compensation cost in its Consolidated Statements of Operations for the three months ended May 31, 2009, and May 31, 2008, respectively. Of the $12.2 million, $1.9 million is related to the granting of 7.5 million nonqualified stock options under the Company s Long-Term Stock Incentive Plan to employees and nonemployee directors during the year ending February 28, 2010. The remainder is related primarily to the amortization of employee and nonemployee director stock options granted during the years ended February 28, 2009, February 29, 2008, and February 28, 2007.

14) COMPREHENSIVE INCOME:

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

(in millions)	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
For the Three Months Ended May 31, 2009			
Net income			$ 6.5
Other comprehensive income (loss):			
Foreign currency translation adjustments	$ 369.5	$ (4.7)	364.8
Unrealized gain on cash flow hedges:			
Net derivative gains	67.7	(17.0)	50.7
Reclassification adjustments	(23.0)	8.5	(14.5)
Net gain recognized in other comprehensive income	44.7	(8.5)	36.2
Pension/postretirement adjustments	(10.2)	3.0	(7.2)
Other comprehensive income	$ 404.0	$ (10.2)	393.8
Total comprehensive income			$ 400.3
For the Three Months Ended May 31, 2008			
Net income			$ 44.6
Other comprehensive income:			
Foreign currency translation adjustments	$ 14.9	$ 1.0	15.9
Unrealized gain on cash flow hedges:			
Net derivative gains	30.6	(10.6)	20.0
Reclassification adjustments	3.7	(0.5)	3.2
Net gain recognized in other comprehensive income	34.3	(11.1)	23.2
Pension/postretirement adjustments	3.3	(0.9)	2.4
Other comprehensive income	$ 52.5	$ (11.0)	41.5
Total comprehensive income			$ 86.1

Accumulated other comprehensive income (AOCI), net of income tax effect, includes the following components:

Net

(in millions)	Foreign Currency Translation Adjustments	Unrealized (Losses) Gains on Derivatives	Pension/ Postretirement Adjustments	Accumulated Other Comprehensive Income
Balance, February 28, 2009	$ 175.4	$ (29.0)	$ (52.2)	$ 94.2
Current period change	364.8	36.2	(7.2)	393.8
Balance, May 31, 2009	$ 540.2	$ 7.2	$ (59.4)	$ 488.0

15) RESTRUCTURING CHARGES:

The Company has several restructuring plans primarily within its Constellation Wines segment as follows:

Robert Mondavi Plan

In January 2005, the Company announced a plan to restructure and integrate the operations of The Robert Mondavi Corporation (Robert Mondavi) (the Robert Mondavi Plan). The objective of the Robert Mondavi Plan is to achieve operational efficiencies and eliminate redundant costs resulting from the December 22, 2004, acquisition of Robert Mondavi. The Robert Mondavi Plan includes the elimination of certain employees, the consolidation of certain field sales and administrative offices, and the termination of various contracts. The Company does not expect any additional costs associated with the Robert Mondavi Plan to be recognized in its Consolidated Statements of Operations. The Company expects the related cash expenditures to be completed by February 29, 2012.

Fiscal 2006 Plan

During fiscal 2006, the Company announced a plan to reorganize certain worldwide wine operations and a plan to consolidate certain west coast production processes in the U.S. (collectively, the Fiscal 2006 Plan). The Fiscal 2006 Plan s principal features are to reorganize and simplify the infrastructure and reporting structure of the Company s global wine business and to consolidate certain west coast production processes. All costs and related cash expenditures associated with the Fiscal 2006 Plan were complete as of February 28, 2009.

Vincor Plan

In July 2006, the Company announced a plan to restructure and integrate the operations of Vincor (the Vincor Plan). The objective of the Vincor Plan is to achieve operational efficiencies and eliminate redundant costs resulting from the June 5, 2006, Vincor Acquisition, as well as to achieve greater efficiency in sales, marketing, administrative and operational activities. The Vincor Plan includes the elimination of certain employment redundancies, primarily in the U.S., U.K. and Australia, and the termination of various contracts. The Company does not expect any additional costs associated with the Vincor Plan to be recognized in its Consolidated Statements of Operations. The Company expects the related cash expenditures to be completed by February 29, 2012.

Fiscal 2007 Wine Plan

In August 2006, the Company announced a 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 U.K. portion of the plan includes new investments in property, plant and equipment and certain disposals of property, plant and equipment and is expected to increase wine bottling capacity and efficiency and reduce costs of transport, production and distribution. The U.K. portion of the plan also includes costs for employee terminations. The Australian portion of the plan includes the buy-out of certain grape supply and processing contracts and the sale of certain property, plant and equipment. The initiatives are part of the Company s ongoing efforts to maximize asset utilization, further reduce costs and improve long-term return on invested capital throughout its international operations. The Company expects all costs associated with the Fiscal 2007 Wine Plan to be recognized in its Consolidated Statements of Operations by February 28, 2010, with the related cash expenditures to be completed by February 28, 2010.

Fiscal 2008 Plan

During November 2007, the Company initiated its plans to streamline certain of its international operations, including the consolidation of certain winemaking and packaging operations in Australia, the buy-out of certain grape processing and wine storage contracts in Australia, equipment relocation costs in Australia, and certain employee termination costs. In addition, the Company incurred certain other restructuring charges during the third quarter of fiscal 2008 in connection with the consolidation of certain spirits production processes in the U.S. In January 2008, the Company announced its plans to streamline certain of its operations in the U.S., primarily in connection with the restructuring and integration of the operations acquired in the BWE Acquisition (the U.S. Initiative). These initiatives will collectively be referred to as the Fiscal 2008 Plan. The Fiscal 2008 Plan is part of the Company s ongoing efforts to maximize asset utilization, further reduce costs and improve long-term return on invested capital throughout its domestic and international operations. The Company expects all costs associated with the Fiscal 2008 Plan to be recognized in its Consolidated Statements of Operations by February 28, 2011, with the related cash expenditures to be completed by February 28, 2011.

Australian Initiative

During August 2008, the Company announced a plan to sell certain assets and implement operational changes designed to improve the efficiencies and returns associated with the Australian business, primarily by consolidating certain winemaking and packaging operations and reducing the Company s overall grape supply due to reduced capacity needs resulting from a streamlining of the Company s product portfolio (the Australian Initiative).

The Australian Initiative includes the planned sale of three wineries and more than 20 vineyard properties, a streamlining of the Company s wine product portfolio and production footprint, the buy-out and/or renegotiation of certain grape supply and other contracts, equipment relocations and costs for employee terminations. In connection with the Australian Initiative, the Company recorded restructuring charges on its Consolidated Statements of Operations for the year ended February 28, 2009, of $46.5 million which represented non-cash charges related to the write-down of property, plant and equipment, net, held for sale. As of May 31, 2009, the Company had $44.1 million of Australian assets held for sale which are included in property, plant and equipment, net on the Company s Consolidated Balance Sheets. The Company expects all costs associated with the Australian Initiative to be recognized in its Consolidated Statements of Operations by February 28, 2011, with the related cash expenditures to be completed by February 28, 2011.

Fiscal 2010 Global Initiative

On April 7, 2009, the Company announced its plan to simplify its business, increase efficiencies and reduce its cost structure on a global basis (the Global Initiative). The Global Initiative includes an approximately five percent reduction in the Company s global workforce and the closing of certain office, production and warehouse facilities. In addition, the Global Initiative includes the termination of certain contracts, and a streamlining of the Company s production footprint and sales and administrative organizations. Lastly, the Global Initiative includes other non-material restructuring activities primarily in connection with the consolidation of the Company s remaining spirits business into its North American wine business following the recent divestiture of its value spirits business. This initiative is part of the Company s ongoing efforts to maximize asset utilization, reduce costs and improve long-term return on invested capital throughout the Company s operations. The Company expects all costs associated with the Global Initiative to be recognized in its Consolidated Statements of Operations by February 28, 2011, with the majority of the related cash expenditures to be completed by February 28, 2011.

Restructuring charges consisting of employee termination benefit costs, contract termination costs, and other associated costs are accounted for under either Statement of Financial Accounting Standards No. 112 (SFAS No. 112), Employers Accounting for Postemployment Benefits An Amendment of FASB Statement No. 35, or Statement of Financial Accounting Standards No. 146 (SFAS No. 146), Accounting for Costs Associated with Exit or Disposal Activities , as appropriate. Employee termination benefit costs are accounted for under SFAS No. 112, as the Company has had several restructuring programs which have provided employee termination benefits in the past. The Company includes employee severance, related payroll benefit costs such as costs to provide continuing health insurance, and outplacement services as employee termination benefit costs. Contract termination costs, and other associated costs including, but not limited to, facility consolidation and relocation costs are accounted for under SFAS No. 146. Per SFAS No. 146, contract termination costs are costs to terminate a contract that is not a capital lease, including costs to terminate the contract before the end of its term or costs that will continue to be incurred under the contract for its remaining term without economic benefit to the entity. The Company includes costs to terminate certain operating leases for buildings, computer and IT equipment, and costs to terminate contracts, including distributor contracts and contracts for long-term purchase commitments, as contract termination costs. Per SFAS No. 146, other associated costs include, but are not limited to, costs to consolidate or close facilities and relocate employees. The Company includes employee relocation costs and equipment relocation costs as other associated costs.

Details of each plan for which the Company expects to incur additional costs are presented separately in the following table. Plans for which exit activities were completed prior to March 1, 2009, are reported below under Other Plans. These plans include the Vincor Plan, the Fiscal 2006 Plan, the Robert Mondavi Plan and certain other immaterial restructuring activities.

(in millions)	Global Initiative	Australian Initiative	Fiscal 2008 Plan	Fiscal 2007 Wine Plan	Other Plans	Total
Restructuring liability, February 28, 2009	$	$ 1.2	$ 8.5	$ 3.2	$ 9.8	$ 22.7
Restructuring charges:						
Employee termination benefit costs	17.3	0.5	(0.5)		(0.2)	17.1
Contract termination costs	0.5	0.8	0.2			1.5
Facility consolidation/relocation costs	0.1	0.2				0.3
Restructuring charges, May 31, 2009	17.9	1.5	(0.3)		(0.2)	18.9
Cash expenditures	(2.1)	(1.0)	(2.7)	(1.7)	(3.3)	(10.8)
Foreign currency translation adjustments	0.7	0.6	0.2	0.3	0.2	2.0
Restructuring liability, May 31, 2009	$ 16.5	$ 2.3	$ 5.7	$ 1.8	$ 6.5	$ 32.8

In connection with the Company s BWE Acquisition, Vincor Acquisition and the acquisition of all of the outstanding capital stock of The Robert Mondavi Corporation (Robert Mondavi), the Company accrued $24.7 million, $37.7 million and $50.5 million of liabilities for exit costs, respectively, as of the respective acquisition date. As of May 31, 2009, the balances of the BWE, Vincor and Robert Mondavi purchase accounting accruals were $5.4 million, $0.7 million and $2.3 million, respectively. As of February 28, 2009, the balances of the BWE, Vincor and Robert Mondavi purchase accounting accruals were $6.3 million, $0.7 million and $2.7 million, respectively.

For the three months ended May 31, 2009, employee termination benefit costs include a reversal of prior accruals of $1.0 million associated with the Fiscal 2008 Plan and other immaterial restructuring activities.

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In addition, the following table presents other costs incurred in connection with the Company s restructuring activities:

(in millions)	Global Initiative	Australian Initiative	Fiscal 2008 Plan	Fiscal 2007 Wine Plan	Other Plans	Total
For the Three Months Ended May 31, 2009						
Accelerated depreciation/inventory write-down/other costs (cost of product sold)	$ 0.1	$ 1.2	$	$ 3.1	$ 0.4	$ 4.8
Asset write-down/other costs (selling, general and administrative expenses)	$ 13.2	$ 0.5	$ 0.1	$ 0.1	$	$ 13.9
Acquisition-related integration costs	$	$	$ 0.1	$	$	$ 0.1
For the Three Months Ended May 31, 2008						
Accelerated depreciation/inventory write-down (cost of product sold)	$	$	$ 2.8	$ 1.2	$	$ 4.0
Asset write-down/other costs (selling, general and administrative expenses)	$	$	$ 0.7	$ 0.8	$	$ 1.5
Acquisition-related integration costs	$	$	$ 3.8	$	$ 0.5	$ 4.3

A summary of restructuring charges and other costs incurred since inception for each plan, as well as total expected costs for each plan, are presented in the following table:

(in millions)	Global Initiative	Australian Initiative	Fiscal 2008 Plan	Fiscal 2007 Wine Plan	Other Plans
Costs incurred to date					
Restructuring charges:					
Employee termination benefit costs	$ 17.3	$ 8.5	$ 8.7	$ 4.3	$ 37.9
Contract termination costs	0.5	1.3	1.4	24.0	0.5
Facility consolidation/relocation costs	0.1	0.9	0.9		1.7
Impairment charges on assets held for sale, net of gains on sales of assets held for sale		46.5			
Total restructuring charges	17.9	57.2	11.0	28.3	40.1
Other costs:					
Accelerated depreciation/inventory write-down/other costs (cost of product sold)	0.1	58.7	17.9	15.3	23.5
	13.2	5.4	2.5	30.6	5.0

Asset write-down/other costs (selling, general and administrative expenses)					
Asset impairment (impairment of goodwill and intangible assets)		21.8	7.4		0.4
Acquisition-related integration costs			12.3		57.7
Total other costs	13.3	85.9	40.1	45.9	86.6
Total costs incurred to date	$ 31.2	$ 143.1	$ 51.1	$ 74.2	$ 126.7
Total expected costs					
Restructuring charges:					
Employee termination benefit costs	$ 23.9	$ 11.2	$ 8.7	$ 4.3	$ 37.9
Contract termination costs	34.3	4.5	1.4	24.0	0.5
Facility consolidation/relocation costs	2.1	1.8	2.9		1.7
Impairment charges on assets held for sale, net of gains on sales of assets held for sale		47.7			
Total restructuring charges	60.3	65.2	13.0	28.3	40.1

(in millions)	Global Initiative	Australian Initiative	Fiscal 2008 Plan	Fiscal 2007 Wine Plan	Other Plans
Other costs:					
Accelerated depreciation/inventory write-down/other costs (cost of product sold)	23.8	59.2	17.9	19.8	23.5
Asset write-down/other costs (selling, general and administrative expenses)	36.1	20.9	2.9	31.8	5.0
Asset impairment (impairment of goodwill and intangible assets)		21.8	7.4		0.4
Acquisition-related integration costs			14.0		57.7
Total other costs	59.9	101.9	42.2	51.6	86.6
Total expected costs	$ 120.2	$ 167.1	$ 55.2	$ 79.9	$ 126.7

16) ACQUISITION-RELATED INTEGRATION COSTS:

For the three months ended May 31, 2009, the Company recorded $0.1 million of acquisition-related integration costs associated with the Fiscal 2008 Plan. The Company defines acquisition-related integration costs as nonrecurring costs incurred to integrate newly acquired businesses after a business combination which are incremental to those of the Company prior to the business combination. As such, acquisition-related integration costs include, but are not limited to, (i) employee-related costs such as salaries and stay bonuses paid to employees of the acquired business that will be terminated after their integration activities are completed, (ii) costs to relocate fixed assets and inventories, and (iii) facility costs and other one-time costs such as external services and consulting fees. For the three months ended May 31, 2009, acquisition-related integration costs consists of $0.1 million of facilities and other one-time costs. For the three months ended May 31, 2008, the Company recorded $4.3 million of acquisition-related integration costs associated primarily with the Fiscal 2008 Plan.

17) CONDENSED CONSOLIDATING FINANCIAL INFORMATION:

The following information sets forth the condensed consolidating balance sheets as of May 31, 2009, and February 28, 2009, the condensed consolidating statements of operations for the three months ended May 31, 2009, and May 31, 2008, and the condensed consolidating statements of cash flows for the three months ended May 31, 2009, and May 31, 2008, for the Company, the parent company, the combined subsidiaries of the Company which guarantee the Company s senior notes and senior subordinated notes (Subsidiary Guarantors) and the combined subsidiaries of the Company which are not Subsidiary Guarantors (primarily foreign subsidiaries) (Subsidiary Nonguarantors). The Subsidiary Guarantors are wholly-owned and the guarantees are full, unconditional, joint and several obligations of each of the Subsidiary Guarantors. Separate financial statements for the Subsidiary Guarantors of the Company are not presented because the Company has determined that such financial statements would not be material to investors. The accounting policies of the parent company, the Subsidiary Guarantors and the Subsidiary Nonguarantors are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 1 to the Company s consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended February 28, 2009, and include the recently adopted accounting pronouncements described in Note 2 herein. There are no restrictions on the ability of the Subsidiary Guarantors to transfer funds to the Company in the form of cash dividends, loans or advances.

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(in millions)	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
Condensed Consolidating Balance Sheet at May 31, 2009					
Current assets:					
Cash and cash investments	$ 1.1	$ 1.7	$ 14.0	$	$ 16.8
Accounts receivable, net	292.2	29.4	394.3		715.9
Inventories	114.2	921.7	820.5	(10.4)	1,846.0
Prepaid expenses and other	12.8	110.4	60.2	4.6	188.0
Intercompany receivable (payable)	299.5	(371.9)	72.4		
Total current assets	719.8	691.3	1,361.4	(5.8)	2,766.7
Property, plant and equipment, net	47.6	815.1	770.3		1,633.0
Investments in subsidiaries	5,898.8	116.8		(6,015.6)	
Goodwill		1,986.0	554.3		2,540.3
Intangible assets, net		685.8	333.9		1,019.7
Other assets, net	93.7	228.1	115.6	4.4	441.8
Total assets	$ 6,759.9	$ 4,523.1	$ 3,135.5	$ (6,017.0)	$ 8,401.5
Current liabilities:					
Notes payable to banks	$ 160.0	$	$ 193.5	$	$ 353.5
Current maturities of long-term debt	252.9	2.5	0.8		256.2
Accounts payable	11.5	75.4	189.3		276.2
Accrued excise taxes	13.6		56.2		69.8
Other accrued expenses and liabilities	158.5	229.8	209.2	2.5	600.0
Total current liabilities	596.5	307.7	649.0	2.5	1,555.7
Long-term debt, less current maturities	3,691.1	6.5	14.5		3,712.1
Deferred income taxes		444.9	74.6	4.5	524.0
Other liabilities	147.1	37.3	100.1		284.5
Stockholders equity:					
Preferred stock		9.0	1,430.9	(1,439.9)	
Class A and Class B Convertible Common Stock	2.5	100.7	184.0	(284.7)	2.5
Additional paid-in capital	1,436.7	1,280.3	1,269.0	(2,549.3)	1,436.7
Retained earnings	1,010.0	2,322.1	(1,125.5)	(1,196.6)	1,010.0
Accumulated other comprehensive income	488.0	14.6	538.9	(553.5)	488.0
Treasury stock	(612.0)				(612.0)
Total stockholders equity	2,325.2	3,726.7	2,297.3	(6,024.0)	2,325.2
	$ 6,759.9	$ 4,523.1	$ 3,135.5	$ (6,017.0)	$ 8,401.5

Total liabilities and stockholders equity

Condensed Consolidating Balance Sheet at February 28, 2009									
Current assets:									
Cash and cash investments	$	2.3	$	3.7	$	7.1	$		$	13.1
Accounts receivable, net		198.9		73.3		252.4				524.6
Inventories		43.1		1,125.7		668.6		(8.7)		1,828.7
Prepaid expenses and other		4.9		117.8		41.7		3.7		168.1
Intercompany receivable (payable)		681.4		(800.8)		119.4				
Total current assets		930.6		519.7		1,089.2		(5.0)		2,534.5
Property, plant and equipment, net		47.0		854.4		646.1				1,547.5
Investments in subsidiaries		5,406.4		100.4				(5,506.8)		
Goodwill				2,144.5		470.5				2,615.0
Intangible assets, net				720.4		280.2				1,000.6
Other assets, net		38.3		215.9		88.8		(4.1)		338.9
Total assets	$	6,422.3	$	4,555.3	$	2,574.8	$	(5,515.9)	$	8,036.5

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(in millions)	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
Current liabilities:					
Notes payable to banks	$ 67.2	$	$ 160.1	$	$ 227.3
Current maturities of long-term debt	224.3	2.9	8.0		235.2
Accounts payable	4.0	123.6	161.1		288.7
Accrued excise taxes	5.7	16.1	35.8		57.6
Other accrued expenses and liabilities	129.0	213.6	173.2	1.8	517.6
Total current liabilities	430.2	356.2	538.2	1.8	1,326.4
Long-term debt, less current maturities	3,951.2	7.2	12.7		3,971.1
Deferred income taxes		488.1	59.6	(4.1)	543.6
Other liabilities	132.6	48.0	106.5		287.1
Stockholders equity:					
Preferred stock		9.0	1,430.9	(1439.9)	
Class A and Class B Convertible Common Stock	2.5	100.7	184.0	(284.7)	2.5
Additional paid-in capital	1,426.3	1,280.3	1,245.0	(2,525.3)	1,426.3
Retained earnings	1,003.5	2,259.8	(1,137.5)	(1,122.3)	1,003.5
Accumulated other comprehensive income	94.2	6.0	135.4	(141.4)	94.2
Treasury stock	(618.2)				(618.2)
Total stockholders equity	1,908.3	3,655.8	1,857.8	(5,513.6)	1,908.3
Total liabilities and stockholders equity	$ 6,422.3	$ 4,555.3	$ 2,574.8	$ (5,515.9)	$ 8,036.5

<u>Condensed Consolidating Statement of Operations for the Three Months Ended May 31, 2009</u>

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
Sales	$ 183.5	$ 435.9	$ 484.2	$ (99.8)	$ 1,003.8
Less excise taxes	(46.5)	(23.4)	(142.3)		(212.2)
Net sales	137.0	412.5	341.9	(99.8)	791.6
Cost of product sold	(78.1)	(248.6)	(269.5)	73.3	(522.9)
Gross profit	58.9	163.9	72.4	(26.5)	268.7
Selling, general and administrative expenses	(63.2)	(72.9)	(54.7)	24.2	(166.6)
Restructuring charges	0.4	(10.6)	(8.7)		(18.9)
Acquisition-related integration costs		(0.1)			(0.1)
Operating (loss) income	(3.9)	80.3	9.0	(2.3)	83.1
Equity in earnings of equity method investees and subsidiaries	75.9	65.4		(78.5)	62.8

Interest expense, net	(58.6)	(6.9)	(1.3)		(66.8)
Income before income taxes	13.4	138.8	7.7	(80.8)	79.1
(Provision for) benefit from income taxes	(6.9)	(76.9)	10.7	0.5	(72.6)
Net income	$ 6.5	$ 61.9	$ 18.4	$ (80.3)	$ 6.5

(in millions)	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations