BROWN FORMAN CORP
Form 10-K
June 20, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended April 30, 2014
	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 002-26821

BROWN-FORMAN CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	61-0143150
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
850 Dixie Highway Louisville, Kentucky	40210
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (502) 585-1100
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 (voting) $0.15 par value	New York Stock Exchange
Class B Common Stock (nonvoting) $0.15 par value	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 þ 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 þ
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 ¨
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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ 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.

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

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

The aggregate market value, as of the last business day of the most recently completed second fiscal quarter, of the voting and nonvoting equity held by nonaffiliates of the registrant was approximately $11,200,000,000.

The number of shares outstanding for each of the registrant’s classes of Common Stock on June 16, 2014, was:

Class A Common Stock (voting)	84,528,225
Class B Common Stock (nonvoting)	129,036,069

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of Registrant for use in connection with the Annual Meeting of Stockholders to be held July 24, 2014, are incorporated by reference into Part III of this report.

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Forward-Looking Statement Information. Certain matters discussed in this report, including the information presented in Part II under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contain statements, estimates, or projections that are “forward-looking statements” as defined under U.S. federal securities laws. Words such as “aim,” “anticipate,” “aspire,” “believe,” “continue,” “could,” “envision,” “estimate,” “expect,” “ “intend,” “may,” “plan,” “potential,” “project,” “pursue,” “see,” “seek,” “should,” “will,” and similar words identify forward-lo statements, which speak only as of the date we make them. Except as required by law, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. By their nature, forward-looking statements involve risks, uncertainties, and other factors (many beyond our control) that could cause our actual results to differ materially from our historical experience or from our current expectations or projections. These risks and uncertainties include those described in Part I under “Item 1A. Risk Factors” and those described from time to time in our future reports filed with the Securities and Exchange Commission, including:

- Unfavorable global or regional economic conditions, and related low consumer confidence, high unemployment, weak credit or capital markets, sovereign debt defaults, sequestrations, austerity measures, higher interest rates, political instability, higher inflation, deflation, lower returns on pension assets, or lower discount rates for pension obligations
- Risks associated with being a U.S.-based company with global operations, including commercial, political, and financial risks; local labor policies and conditions; protectionist trade policies or economic or trade sanctions; compliance with local trade practices and other regulations, including anti-corruption laws; terrorism; and health pandemics
- Fluctuations in foreign currency exchange rates
- Changes in laws, regulations, or policies – especially those that affect the production, importation, marketing, sale, or consumption of our beverage alcohol products
- Tax rate changes (including excise, sales, VAT, tariffs, duties, corporate, individual income, dividends, capital gains) or changes in related reserves, changes in tax rules (for example, LIFO, foreign income deferral, U.S. manufacturing and other deductions) or accounting standards, and the unpredictability and suddenness with which they can occur
- Dependence upon the continued growth of the Jack Daniel’s family of brands
- Changes in consumer preferences, consumption, or purchase patterns – particularly away from brown spirits, our premium products, or spirits generally, and our ability to anticipate and react to them; bar, restaurant, travel, or other on-premise declines; unfavorable consumer reaction to new products, line extensions, package changes, product reformulations, or other product innovation
- Decline in the social acceptability of beverage alcohol products in significant markets
- Production facility, aging warehouse, or supply chain disruption
- Imprecision in supply/demand forecasting
- Higher costs, lower quality, or unavailability of energy, input materials, labor, or finished goods
- Route-to-consumer changes that affect the timing of our sales, temporarily disrupt the marketing or sale of our products, or result in higher implementation-related or fixed costs
- Inventory fluctuations in our products by distributors, wholesalers, or retailers
- Competitors’ consolidation or other competitive activities, such as pricing actions (including price reductions, promotions, discounting, couponing, or free goods), marketing, category expansion, product introductions, or entry or expansion in our geographic markets or distribution networks
- Risks associated with acquisitions, dispositions, business partnerships, or investments – such as acquisition integration, or termination difficulties or costs, or impairment in recorded value
- Insufficient protection of our intellectual property rights
- Product recalls or other product liability claims; product counterfeiting, tampering, or product quality issues
- Significant legal disputes and proceedings; government investigations (particularly of industry or company business, trade or marketing practices)
- Failure or breach of key information technology systems
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- Negative publicity related to our company, brands, marketing, personnel, operations, business performance, or prospects
- Our status as a family ”controlled company” under New York Stock Exchange rules
- Business disruption, decline, or costs related to organizational changes, reductions in workforce, or other cost-cutting measures, or our failure to attract or retain key executive or employee talent

Use of Non-GAAP Financial Information. Certain matters discussed in this report, including the information presented in Part II under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” include measures not derived in accordance with U.S. generally accepted accounting principles (GAAP). These measures should not be considered in isolation or as a substitute for any measure derived in accordance with GAAP, and also may be inconsistent with similar measures presented by other companies. In Part II under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the reasons for the company’s use of these measures are presented under the heading, “Non-GAAP Financial Measures,” and reconciliations of these measures to the most closely comparable GAAP measures are presented under the heading “Results of Operations – Year-Over-Year Comparisons.”

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PART I

Item 1. Business

Overview

Brown-Forman Corporation (“Company,” “we,” “us,” or “our” below) was incorporated under the laws of the State of Delaware in 1933, successor to a business founded in 1870 as a partnership and later incorporated under the laws of the Commonwealth of Kentucky in 1901. We primarily manufacture, bottle, import, export, market, and sell a wide variety of alcoholic beverages under recognized brands. We employ over 4,200 people on six continents, including about 1,200 people in Louisville, Kentucky, USA, home of our world headquarters. We are the largest American-owned spirits and wine company with global reach. We are a “controlled company” under New York Stock Exchange rules, and the Brown family owns a majority of our voting stock.

For a discussion of recent developments, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Overview.”

Brands

Beginning in 1870 with Old Forester Bourbon Whisky – our first and founding brand – and spanning the generations since, we have built a portfolio of more than 30 spirit, wine, and ready-to-drink cocktail (RTD) brands, which includes some of the best-known and most-loved trademarks in our industry. The most important brand in our portfolio is Jack Daniel’s, which is the fourth-largest spirits brand of any kind and the largest selling American whiskey brand in the world, according to Impact Databank’s “Top 100 Premium Spirits Brands Worldwide” list.[1] Our other leading global brands on the Impact list are Finlandia, the sixth-largest-selling vodka; Southern Comfort, the fourth-largest-selling liqueur; Canadian Mist, the fourth-largest-selling Canadian whisky; and el Jimador, the fourth-largest-selling tequila. New this year is our Jack Daniel’s Tennessee Honey, which entered the list at 100, after selling 1 million nine-liter equivalent cases in its third full year since introduction.

Principal Brands

Jack Daniel’s Tennessee Whiskey
Jack Daniel’s Single Barrel
Jack Daniel’s RTDs
Jack Daniel’s Tennessee Honey
Jack Daniel’s Winter Jack
Gentleman Jack
Jack Daniel’s Sinatra™ Select
Jack Daniel’s No. 27 Gold Tennessee Whiskey
Jack Daniel’s 1907 Tennessee Whiskey
Jack Daniel’s Tennessee Rye Whiskeys
Southern Comfort
Southern Comfort RTDs
Southern Comfort flavored line extensions
Finlandia Vodkas
Finlandia RTDs
Maximus Vodka
Antiguo Tequila
el Jimador Tequilas
el Jimador New Mix RTDs
Herradura Tequilas
Pepe Lopez Tequilas
Woodford Reserve Bourbons
Canadian Mist Blended Canadian Whiskies
Chambord Liqueur
Chambord Vodka
Collingwood Canadian Whisky
Early Times Bourbon
Early Times flavored line extensions
Early Times Kentucky Whisky
Korbel California Champagnes[2]
Old Forester Bourbon
Sonoma-Cutrer Wines
Tuaca Liqueur

[1]Impact Databank, a well-known U.S. trade publication, published these industry statistics in February 2014.
[2]Not owned by Brown-Forman but sold by us under contract in the United States and other select markets.

See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Fiscal 2014 Brand Highlights” for additional information regarding the performance of our brands.

Our vision in marketing is to “be the best brand builders in the industry … period.” We build our brands by investing in programs that we believe create enduring connections with our consumers. These programs cover a wide spectrum of activities, including media (TV, radio, print, outdoor, and, increasingly, digital and social media), consumer and trade promotions, sponsorships, and visitor center programs at our distilleries and our winery. We expect to grow our sales and profits by consistently

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and delivering creative and responsible marketing programs that drive brand recognition, brand loyalty, and, ultimately, consumer demand around the world.

Markets

Our products are sold in more than 160 countries around the world. Our largest international markets include Australia, the United Kingdom, Mexico, Germany, Poland, Russia, France, Turkey, Canada, and Japan. Over the last 10 years, we have greatly expanded our international footprint. In fiscal 2014, we generated 59% of our net sales outside the United States compared to 36% ten years ago. The United States remains our largest, most important market, contributing 41% of our net sales in fiscal 2014. We present the percentage of total net sales by geographic area for our most recent three fiscal years and, to provide historical context, fiscal 2004, below:

Percentage of Total Net Sales by Geographic Area

	Year ended April 30								
	2004		...	2012		2013		2014	
United States	64	%	...	42	%	41	%	41	%
International:			...						
Europe			...	30	%	30	%	32	%
Australia			...	13	%	14	%	12	%
Other			...	15	%	15	%	15	%
Total International	36	%	...	58	%	59	%	59	%
TOTAL	100	%		100	%	100	%	100	%

For details about net sales in our largest markets, refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Fiscal 2014 Market Highlights.” For details about our reportable segment and for additional geographic information about net sales and long-lived assets, refer to Note 13 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data.” For details on risks related to our global operations, see “Item 1A. Risk Factors.”

Distribution Network and Customers

Our distribution network, which we sometimes refer to as our “route-to-consumer,” takes a variety of forms depending on (a) a market’s laws and regulatory framework for trade in beverage alcohol, (b) our assessment of a market’s long-term attractiveness and competitive dynamics, (c) the relative profitability of distribution options available to us, (d) the structure of the retail and wholesale trade in the market, and (e) our portfolio’s development stage in the market. As these factors change, we evaluate our route-to-consumer strategy and, from time to time, adopt a different model.

In the United States, which generally prohibits wine and spirits manufacturers from selling their products directly to consumers, we sell our brands either to distributors or (in states that directly control alcohol sales) to state governments that then sell to retail customers and consumers. In some states, we have distribution contracts; these contracts typically have no fixed term, but we can terminate them at any time if we pay a terminated distributor a fee (primarily based on a percentage of purchases over time). Some state franchise statutes limit our ability to terminate distributors or mandate a payment to a terminated distributor.

Outside the United States, we use a variety of route-to-consumer models. We own and operate distribution companies in 11 markets: Australia, Brazil, Canada, China, the Czech Republic, France, Germany, Korea, Mexico, Poland, and Turkey. In these markets, we sell our products directly to retail stores, to wholesalers, or, in Canada, to provincial governments. In the United Kingdom, we partner in a cost-sharing arrangement with another supplier, Bacardi, to sell a portfolio of both companies’ brands. In many other markets, including Russia, Japan, Spain, Italy, and South Africa, we rely on others to distribute our brands, generally under fixed-term distribution contracts.

We believe that our customer relationships are good. We believe our exposure to concentrations of credit risk is limited due to the diverse geographic areas covered by our operations.

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Seasonality

Holiday buying makes the fourth calendar quarter the peak season for our business. Approximately 31% of our net sales for each of the fiscal years ended April 30, 2012 and 2013 was in the fourth calendar quarter. For the fiscal year ended April 30, 2014, approximately 32% of our net sales was in the fourth calendar quarter.

Competition

Trade information indicates that we are one of the largest global suppliers of premium wine and spirits. According to International Wine & Spirit Research, for calendar year 2013, the ten largest global spirits companies controlled less than 20% of the total global market for spirits (on a volume basis). While we believe that the overall market environment offers considerable growth opportunities for us, our industry is now, and will remain, highly competitive. We compete against many global, regional, and local brands in a variety of categories of beverage alcohol, but most of our brands compete primarily in the industry’s premium and higher price categories. While the industry is highly fragmented, direct competitors include Bacardi Limited, Beam Suntory Inc., Davide Campari-Milano S.p.A., Diageo PLC, LVMH Moët Hennessy Louis Vuitton S.A., Pernod Ricard S.A., and Rémy Cointreau S.A.

Brand recognition, quality of product and packaging, availability, taste, and price are factors that affect consumers’ choices among competing brands in our industry. Several factors influence consumers’ buying decisions, including: advertising; promotions; merchandising in bars, restaurants, and shops; expert or celebrity endorsement; social media and word-of-mouth; and the timing and relevance of new production introductions. Although some of our competitors have substantially greater resources than we do, we believe that our competitive position is strong, particularly as it relates to brand recognition, quality, availability, and relevance of new product introductions.

Ingredients and Other Supplies

The principal raw materials used in manufacturing and packaging our distilled spirits are corn, rye, malted barley, agave, sugar, glass, cartons, PET (polyethylene terephthalate, used in non-glass containers), labels, and wood for barrels, which are used for storage of whiskey and certain tequilas. The principal raw materials used in liqueurs are neutral spirits, sugar, and wine, while the principal raw materials used in our RTD products are sugar, flavorings, neutral spirits, whiskey, tequila, or malt. The principal raw materials used in producing wines are grapes, packaging materials, and wood barrels. Our grape supply comes from a combination of owned vineyards located in California and external contracts with independent growers. We believe that our relationships with our growers are good.

Currently, none of these raw materials is in short supply, but shortages in some of these could occur. From time to time, our agricultural ingredients (corn, rye, malted barley, agave, and grapes) could be adversely affected by weather and other forces that might constrain supply.

Due to aging requirements, we must schedule production of whiskeys, certain tequilas, and other distilled spirits to meet demand years in the future. As a result, our inventories may be larger in relation to sales and total assets than would be normal for many other businesses.

For details on risks related to the availability of raw materials and the uncertainty inherent in supply/demand forecasting, see “Item 1A. Risk Factors.”

Intellectual Property

Our intellectual property rights include trademarks, copyrights, proprietary packaging and trade dress, proprietary manufacturing technologies, know-how, and some patents. Our trademarks are essential to our business. We register our trademarks very broadly, some of them in every country where registration is possible. We register others where we sell or expect to sell our products. We protect our intellectual property rights vigorously but fairly. We have licensed some of our trademarks to third parties for use on products and services other than alcoholic beverages, which we believe enhances the awareness and protection of our brands.

For details on risks related to the protection of our intellectual property, see “Item 1A. Risk Factors.”

Regulatory Environment

The production, storage, transportation, distribution, and sale of our products are subject to regulation by federal, state, local, and foreign authorities. Various countries and local jurisdictions prohibit or restrict the marketing or sale of distilled spirits in whole or in part.

The Alcohol and Tobacco Tax and Trade Bureau of the U.S. Department of the Treasury regulates the wine and spirits industry in the United States with respect to production, blending, bottling, labeling, sales, advertising, and transportation of beverage alcohol products. Similar regulatory regimes exist in each state, as well as in most of the non-U.S. jurisdictions where we sell our products. In addition, distilled spirits products are subject to customs duties or excise taxation in many markets, including in the United States, at the federal, state, or local level.

Under U.S. federal regulations, bourbon and Tennessee whiskeys must be aged for at least two years in new charred oak barrels. We typically age our whiskeys between three and six years. Federal regulations also require that "Canadian" whisky must

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be manufactured in Canada in compliance with Canadian laws. Mexican authorities regulate the production and bottling of tequilas, which, among other specifications, mandate minimum aging periods for anejo (one year) and reposado (two months) tequilas. We comply with these regulations.

Our operations within and outside the United States are subject to various environmental protection statutes and regulations, and our policy is to comply with all those regulatory requirements.

Strategy

The B-F Arrow is an articulation of our vision, mission, values, and behaviors that we expect all of our employees to embrace and exhibit.

Our Long-Term Strategy

In the summer of 2010, we introduced our ten-year strategy, the Brown-Forman 150, focused on driving sustainable growth toward our 150th anniversary. Our strategy is flexible. As time passes and the environment changes, we revisit and revise our strategy to reflect current realities. We revised our strategic ambitions in 2013, and these are discussed below.

The Jack Daniel’s family of brands, including Jack Daniel’s Tennessee Whiskey, is our most valuable asset. We will work to keep Jack Daniel’s Tennessee Whiskey strong, healthy, and relevant to consumers worldwide, and to take advantage of the abundant opportunities for growing the Jack Daniel’s family of brands across countries, price points, channels, and consumer groups.

We aspire to become a global leader in whiskey. We believe that whiskey is the most attractive global spirits category, and we believe we can leverage our whiskey-making knowledge, production assets, trademarks, brand-building skills, and other capabilities to accomplish this objective. While we will strive to grow Jack Daniel’s globally, we also expect to grow our other whiskey brands, led by Woodford Reserve, in key markets, and we will consider acquisitions and innovations within the whiskey category.

We aim to grow Finlandia and Herradura. We plan to focus on growing Finlandia in Poland, Russia, eastern Europe, and the United States, and look to add super-premium vodka brands either through acquisition or innovation. We will work to expand the reach of our tequila brands, Herradura and el Jimador, to new consumers, emphasizing Mexico, the United States, and a few other high-potential markets. We also will continue our efforts to enhance and broaden consumer appeal of the Southern Comfort brand.

We will consider entering growing, profitable, local spirit categories in key markets. Realizing this potential will require innovative products and packaging to seize new business opportunities and to leverage our brands into new consumption occasions.

The United States remains our largest market, and continuing to grow this market is important to our long-term success. We expect to effect this growth through stronger participation in fast-growing spirits categories such as flavored whiskey, super-premium bourbon, vodka, and tequila; continued product and packaging innovation; continued route-to-consumer proficiency; and brand building among growing consumer segments, with increasing emphasis on multicultural marketing.

For more than two decades, our business outside the United States has grown more quickly than our business within it. Continuing this trend is important to our overall growth in the next decade, especially in emerging markets. To realize this objective, we expect to grow our portfolio in developed markets such as France, Australia, the United Kingdom, and Germany and in emerging markets such as Poland, Mexico, Turkey, and Russia. We also expect other emerging markets such as Brazil, China, Southeast Asia, Africa, and eastern Europe to increase significantly in importance. We will continue to strive to develop and employ route-to-consumer strategies that will expand our access to and understanding of consumers in these diverse markets.

We believe that having a long-term focused, committed, and engaged shareholder base provides us with an important strategic advantage, particularly in a business with aged products and multi-generational brands. As such, we plan to continue our engagement with our shareholders, including our controlling family shareholders.

Recognizing the strong cash generating capacity and the capital efficiency of our business, we will continue to pursue what we believe to be well-balanced capital deployment strategies aimed at perpetuating Brown-Forman's strength and independence.

Corporate Responsibility

In pursuing all of the objectives described above, we will strive to be responsible in everything we do. Our history of responsibility began in 1870, when our founder, George Garvin Brown, first sold medicinal whisky in glass bottles to ensure quality – an innovative idea during a time when whisky was usually sold by the barrel. Today, achieving Brown-Forman's business purpose, "enriching the experience of life," is only possible within a context of corporate responsibility. This means promoting responsible consumer enjoyment of our brands; working to reduce alcohol abuse and misuse; protecting the environment; providing a healthy, safe, and inclusive workplace; and contributing to the global communities where we operate.

Alcohol Responsibility. We promote responsible consumption of our products as we believe this will enhance our relationships with consumers, business partners, stakeholders, and society at large and is essential for the long-term prosperity of our company and our industry. When abused or misused, alcohol can contribute to significant harm both to individuals and the community. We appreciate the need for governments to appropriately and effectively regulate our industry, taking into account national circumstances and local cultures. Along with others and through partnership, we want to be part of the solution to real and complex problems such as underage drinking, drunk driving and overconsumption.

Since 2009 we have hosted an open forum sharing our point of view and encouraged engagement of others on OurThinkingAboutDrinking.com. We support The Ad Council's "Buzzed Driving is Drunk Driving" campaigns, designated driver services such as BeMyDD and the Responsible Retailing Forum which brings together diverse stakeholders seeking to reduce underage sales, among other initiatives. In 2012, Brown-Forman and 12 other global beer, wine, and spirits producers announced commitments to reduce the harmful use of alcohol over the next five years. Our progress against these commitments will be reported annually and more information can be found at www.producerscommitments.org.

With respect to our consumer relationships, we seek to communicate through responsible advertising content and placement, utilizing our comprehensive internal marketing code and adhering to marketing and advertising guidelines of the Distilled Spirits Council of the United States, the Wine Institute, and spiritsEUROPE, among others. We also are founding members and contribute significant resources to the Foundation for Advancing Alcohol Responsibility, an organization created by spirits producers to combat harmful use of alcohol. While this is a U.S. organization, we actively participate in similar organizations in other markets.

Environmental Sustainability. In 2010, we set out an Environmental Sustainability Roadmap for 2020, which outlines how we will responsibly manage our environmental footprint as we grow. We have decreased our greenhouse gas emissions by 48% per unit of product and increased our energy efficiency by 36% per unit of product (against a 2009 baseline), exceeding our goals of 30% in each category well ahead of schedule. We have decreased our wastewater generated per unit of product by 25%, and are on target to meet our 30% goal. Our target of zero waste sent to landfill from our facilities continues to present challenges as we struggle to obtain accurate data, but we continue to work towards this goal.

In 2014, Newsweek Green Rankings placed us in the #42 spot out of the top 500 U.S. companies. We were also one of only five companies in the S&P 500 consumer staples sector named to the Climate Performance Leadership Index, an index published by the Carbon Disclosure Project, an international non-profit organization that works with institutional investors to motivate companies to disclose and reduce environmental impacts (CDP), for our approach to reducing carbon emissions and mitigating the risks of climate change. We received a distinguished disclosure score of 93 and an “A” performance rating from CDP. In 2013, we signed the Ceres’ Climate Declaration, a business-backed effort to seize the economic opportunity of addressing climate change through stronger climate policies.

Diversity & Inclusion and Human Rights. We believe that a diverse workforce is not only right, but also good for our business and our brand building. We have made progress implementing our aggressive strategy to increase diversity, including better demographic representation in the United States and improved engagement scores among Asians and African Americans, among other groups. In 2013, the Human Rights Campaign, a civil rights organization promoting equality for lesbian, gay, bisexual and transgender Americans, awarded us a 100% rating in their Corporate Equality Index for the third year in a row. Our employee resource groups (ERGs) have been the core of our diversity culture by supporting employees’ growth while enhancing their

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contributions. There are eight ERGs in total, including SPIRIT, which was formed to promote inclusion and respect for non-drinkers and the most recent addition, BRAVE, established to support veterans of the armed forces. In fiscal 2014, more than 25% of our employees were members of at least one ERG.

In the marketplace, we focus on promoting fair and ethical business practices. In 2012, we issued our Global Human Rights Statement, defining our commitment to respecting the fundamental rights inherent to all human beings. We share our human rights policies and practices with our suppliers through our Suppliers Guide to Human Rights.

Community Involvement. Our approach to philanthropy reflects our values as a corporate citizen. Our civic engagement supports non-profit organizations that make a positive impact and improve the lives of individuals and the vitality of our communities. We target our support in six general areas: arts and culture, education, environment, social services, alcohol responsibility and community development. While our focus is in our hometown of Louisville, Kentucky, our civic engagement activities extend to the communities around the globe where our employees live, work and raise their families. In 2014, we donated more than $10 million in cash, logged approximately 18,000 volunteer hours and had over 125 employees serve on boards of directors of 160 non-profit organizations.

Our Corporate Responsibility reports are available at www.brown-forman.com/responsibility.

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Employees and Executive Officers

As of April 30, 2014, we employed approximately 4,200 people, including approximately 200 employed on a part-time or temporary basis. We believe our employee relations are good.

The following persons serve as executive officers of the Company as of June 19, 2014.

Name	Age	Principal Occupation and Business Experience
Paul C. Varga	50	Company Chairman and Chief Executive Officer since 2007. Chief Executive Officer since 2005.
Jane C. Morreau	55	Executive Vice President and Chief Financial Officer since February 2014. Senior Vice President, Chief Production Officer, and Head of Information Technology from 2013 to 2014. Senior Vice President, Director of Financial Management, Accounting and Technology from 2008 to 2012.
James S. Welch, Jr.	55	Company Vice Chairman, Executive Director of Corporate Affairs, Strategy, and Diversity since 2012. Company Vice Chairman, Executive Director of Corporate Affairs, Strategy, Diversity, and Human Resources from 2007 to 2012.
Matthew E. Hamel	54	Executive Vice President, General Counsel, and Secretary since 2007.
Jill Ackerman Jones	48	Executive Vice President, President for North America and Latin America Regions since 2013. Executive Vice President and Chief Production Officer from 2011 through 2012. Senior Vice President, Chief Production Officer from 2007 to 2011.
Mark I. McCallum	59	Executive Vice President, President for Europe, Africa, Middle East, Asia Pacific, and Travel Retail since 2013. Executive Vice President and Chief Operating Officer from 2009 through 2012. Executive Vice President and Chief Brands Officer from 2006 to 2009.
Alejandro “Alex” Alvarez	46	Senior Vice President, Chief Production Officer since February 2014. Vice President, General Manager Casa Herradura from 2013 to 2014. General Manager Casa Herradura from 2008 to 2013.
Brian P. Fitzgerald	41	Senior Vice President, Chief Accounting Officer since 2013. Vice President, Finance Director of Greater Europe and Africa from 2009 to 2012. Assistant Vice President, Director Business Strategy and Analysis from 2007 to 2009.
Lisa P. Steiner	54	Senior Vice President, Chief Human Resources Officer since 2009. Senior Vice President, Director of Global Human Resources from 2007 to 2009.
Lawson E. Whiting	45	Senior Vice President, Chief Brands Officer since 2013. Senior Vice President, Managing Director Western Europe from 2011 through 2012. Vice President, Finance Director Western Europe from 2010 to 2011. Vice President, Finance Director North America from 2009 to 2010.

Available Information

You can read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file with the SEC at www.sec.gov.

Our website address is www.brown-forman.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports are available free of charge on our website as soon as reasonably practicable after we electronically file those reports with the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference, unless such information is otherwise specifically referenced elsewhere in this report.

On our website, we have posted our Corporate Governance Guidelines, our Code of Conduct that applies to all directors and employees, and our Code of Ethics that applies specifically to our senior financial officers. We have also posted on our website the charters of our Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, and Executive Committee of our Board of Directors. Copies of these materials are also available free of charge by writing to our Secretary, Matthew E. Hamel, 850 Dixie Highway, Louisville, Kentucky 40210 or e-mailing him at Secretary@b-f.com.

Item 1A. Risk Factors

We believe the following discussion identifies the most significant risks and uncertainties that could adversely affect our business. If any of the following risks were actually to occur, our business, results of operations, cash flows, and financial condition could be materially and adversely affected. Additional risks not currently known to us, or that we currently deem to be immaterial, could also materially adversely affect our business, results of operations, cash flows, and financial condition in future periods.

Unfavorable economic conditions could negatively affect our operations and results.

Unfavorable global or regional economic conditions, including uncertainty caused by unstable geopolitical environments in many parts of the world, such as Russia and Ukraine, could adversely affect our operations and financial results. While the major economic disruptions of the 2008-2009 financial crisis have largely subsided, many markets where our products are sold still face significant economic challenges resulting from the global economic downturn that followed, including low consumer confidence, high unemployment, budget deficits, burdensome governmental debt, austerity measures, increased taxes, and weak financial, credit, and housing markets. Unfavorable economic conditions such as these can cause governments to increase taxes on beverage alcohol to raise revenue or reduce consumers' willingness to make discretionary purchases of beverage alcohol products or pay for premium brands such as ours. In unfavorable economic conditions, consumers may make more value-driven and price-sensitive purchasing choices and drink more at home rather than at restaurants, bars, and hotels, which tend to favor many of our premium and super-premium products.

Unfavorable economic conditions could also adversely affect our suppliers, distributors, and retailers, who in turn could experience cash flow problems, more costly or unavailable financing, credit defaults, and other financial hardships, which could lead to distributor or retailer destocking, increase our bad debt expense, or cause us to decrease the levels of unsecured credit that we provide to customers. Other potential negative ramifications to our business from poor economic conditions include political instability, higher interest rates, an increase in the rate of inflation, deflation, exchange rate fluctuations, credit or capital market instability, or lower returns on pension assets or lower discount rates for pension obligations (requiring higher contributions to our pension plans). For details on the effects of changes in the value of our benefit plan obligations and assets on our financial results, see Note 9 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data."

Our global business is subject to a number of commercial, political, and financial risks, including foreign currency exchange rate fluctuations.

Our products are sold in more than 160 countries; accordingly, we are subject to risks associated with doing business globally, including commercial, political, and financial risks. We continue to expect our growth rates in non-U.S. markets to surpass our growth rates in the United States. Emerging regions, such as eastern Europe, Latin America, Asia, and Africa, as well as more developed markets, such as the United Kingdom, France, Germany, and Australia, provide growth opportunities for us. If shipments of our products – particularly Jack Daniel's Tennessee Whiskey – to our global markets were to experience significant disruption due to these risks or for other reasons, it could have a material adverse effect on our financial results.

In addition, we are subject to potential business disruption caused by military conflicts; intergovernmental disputes; potentially unstable governments or legal systems; civil or political upheaval or unrest; local labor policies and conditions; possible expropriation, nationalization, or confiscation of assets; problems with repatriation of foreign earnings; economic or trade sanctions; closure of markets to imports; anti-American sentiment; terrorism or other types of violence in or outside the United States; health pandemics; and a significant reduction in global travel. For example, Mexico is a key commercial and production region for some of our products, and an outbreak of violence in that region could disrupt our key business and manufacturing operations there. In addition, our ability to sell into Russia depends on our products being imported into that country, and any economic or trade sanctions could materially adversely affect our operations there. Our success will depend, in part, on our ability to overcome the challenges we encounter with respect to these risks and other factors affecting U.S. companies with global operations.

The more we expand our business globally, the more exchange rate fluctuations relative to the U.S. dollar influence our financial results. In many markets outside the United States, we sell our products and pay for some goods, services, and labor primarily in local currency. Since we sell more in local currencies than we purchase, we have a net exposure to changes in the value of the U.S. dollar relative to those currencies. Thus, profits from our overseas businesses would be adversely affected if the dollar were to strengthen against other currencies in our major markets, especially the euro, British pound sterling, Russian ruble, Australian dollar, Polish zloty, Mexican peso, or Japanese yen. There can be no assurance that we will be successful in limiting our foreign currency risk by use of foreign currency derivatives or other means. Over time, our reported financial results generally will be hurt by a stronger U.S. dollar and improved by a weaker one. For details on how foreign exchange affects our business, see ”Item 7A. Quantitative and Qualitative Disclosures about Market Risk – Foreign Exchange.”

National and local governments may adopt regulations or undertake investigations that could limit our business activities or increase our costs.

Our business is subject to extensive regulatory requirements regarding production, importation, marketing and promotion, labeling, distribution, pricing, and trade practices, among others. Changes in laws, regulatory measures, or governmental policies, or in the manner in which current ones are interpreted, could cause us to incur material additional costs or liabilities, and jeopardize the growth of our business in the affected market. Specifically, governments may prohibit, or impose or increase limitations on, advertising and promotional activities, or times or locations where beverage alcohol may be sold or consumed, or adopt other measures that could limit our opportunities to reach consumers or sell our products. In Europe, for example, regulators in a number of countries have adopted or are considering severe limitations on the marketing and sale of beverage alcohol. Russia has banned all television, newspaper, magazine, and internet advertising (.ru websites) for beverage alcohol products, and Turkey adopted measures to ban all beverage alcohol advertising and increase restrictions on sales. Increases in regulation of this nature could cause a substantial decline in consumer awareness for our products in the affected market.

Some countries in which we do business have a higher risk of corruption than others. While we are committed to doing business in accordance with applicable anti-corruption and other laws, our Code of Conduct and Code of Ethics, and other Company policies, we remain subject to the risk that an employee will violate our policies, or that any of our many affiliates or agents, such as importers, wholesalers, distributors, or other business partners, may take action determined to be in violation of international trade, money laundering, anti-corruption, or other laws, including the U.S. Foreign Corrupt Practices Act of 1977, the U.K. Bribery Act 2010, or local equivalent laws. Any determination that our operations or activities are not, or were not, in compliance with U.S. or foreign laws or regulations could result in investigations, interruption of business, loss of business partner relationships, suspension or termination of licenses and permits (our own or a partner's), imposition of fines, legal or equitable sanctions, negative publicity, and management distraction. Further, our compliance with applicable anti-corruption or other laws, our Code of Conduct and Code of Ethics, and other Company policies could result in higher operating costs compared to those of other suppliers.

Additional regulation in the United States and other countries around climate change and other environmental issues could increase our operating costs. Increasing regulation of fuel emissions could increase the cost of energy, including fuel, required to operate our facilities or transport and distribute our products, thereby substantially increasing the distribution and supply chain costs associated with our products.

Tax increases and changes in tax rules could adversely affect our financial results.

Our business is sensitive to changes in both direct and indirect taxes. As a multinational company based in the United States, we are more exposed to the impact of U.S tax changes than most of our major competitors, especially those that affect the net effective corporate income tax rate. Certain tax changes that have been or are currently proposed by Congress or the administration exemplify this risk, including repealing LIFO (last-in, first-out accounting treatment of inventory) for tax purposes, decreasing or eliminating the ability of U.S.-based companies to receive a tax credit for foreign taxes paid or to obtain a current U.S. tax deduction for certain expenses in the United States related to foreign earnings, changing the U.S. tax treatment of income related to foreign intangibles, decreasing or eliminating the U.S. manufacturing deduction, or changing the rules relating to the depreciation of capital expenditures or the deduction of advertising expenses.

Our business operations are also subject to numerous duties or taxes that are not based on income, sometimes referred to as "indirect taxes," which include excise taxes, sales or value-added taxes, property taxes, and payroll taxes. Increases in or the imposition of new indirect taxes on our operations or products would increase the cost of our products or, to the extent levied directly on consumers, make our products less affordable, which could negatively affect our financial results by reducing purchases of our products and encouraging consumers to switch to lower-priced or lower-taxed product categories. For example, certain jurisdictions such as Australia have increased and may continue to increase excise taxes on beverage alcohol products, which could increase the cost of our products to consumers and could reduce consumer demand in those jurisdictions. Our global business can also be negatively affected by import and export duties, tariff barriers, and related local governmental economic protectionist measures, and the suddenness and unpredictability with which these can occur. The global economic downturn increased our tax-related risks in many countries where we do business, as governmental entities could further increase taxes on beverage alcohol products in an effort to replace lost revenues. New tax rules, accounting standards, or pronouncements, and changes in interpretation of existing ones, could also have a significant adverse effect on our business and financial results.

Our business performance is substantially dependent upon the continued health of Jack Daniel's.

The Jack Daniel's family of brands is the primary driver of our growth. Jack Daniel's is an iconic global trademark with a loyal consumer fan base, and we invest much effort and many resources to protect and preserve the brand's reputation for quality, craftsmanship, and responsibility. A brand's reputational value is based in large part on consumer perceptions, and even an isolated incident that causes harm – particularly one resulting in widespread negative publicity – could adversely influence these perceptions and erode consumer trust and confidence in the brand. Significant damage to the Jack Daniel's brand equity would adversely affect our business. Given the importance of the Jack Daniel's brand to our overall success, a significant or sustained decline in volume or selling price of our Jack Daniel's products would likely have a negative effect on our growth and our stock price. Additionally, should we not be successful in our efforts to maintain or increase the relevance of the Jack Daniel's brand in the minds of current and future consumers, our business and operating results could suffer. For details on the importance of the Jack Daniel's family of brands to our business, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Fiscal 2014 Brand Highlights.”

Changes in consumer preferences and purchases, and our ability to anticipate and react to them, could negatively affect our business results.

We are a branded consumer products company in a highly competitive market, and our success depends on our continued ability to offer consumers appealing, high-quality products. Consumer preferences and purchases may shift due to a host of factors, many of which are difficult to predict, including changes in economic conditions, demographic and social trends, public health policies and initiatives, changes in government regulation of beverage alcohol products, the potential legalization of marijuana use on a more widespread basis within the United States, and changes in travel, leisure, dining, gifting, entertaining, and beverage consumption trends. To continue to succeed, we must anticipate and respond effectively to shifts in demographics, consumer behavior, drinking tastes, and drinking occasions. Our business results could be negatively affected by shifts in demographic trends, specifically in the United States, where our consumer base skews toward non-Hispanic white consumers. In the coming years, demographic cohorts other than non-Hispanic whites are expected to grow more quickly than the non-Hispanic white cohort. If we fail to attract consumers from diverse backgrounds and ethnicities, our business results could suffer. Further, trends in the United States for several years after 2014 indicate a slight decrease in the population segment aged 21 to 24; fewer potential consumers in this age bracket could have a negative effect on industry growth rates and our business.

Our plans call for the continued growth of the Jack Daniel’s family of brands. In particular, we plan to continue to grow Jack Daniel’s Tennessee Honey sales in the United States this fiscal year and to expand this brand to more of our international markets. If these plans are unsuccessful, or if we otherwise fail to develop or implement effective business, portfolio, and brand strategies, our growth, stock price, or financial results could suffer. More broadly, if consumers shift away from spirits (particularly brown spirits), our premium-priced brands, or our RTD products, our financial results could be adversely affected.

We believe that new products, line extensions, label and bottle changes, product reformulations, and similar product innovations by both our competitors and us will compete increasingly for consumer drinking occasions. Product innovation is a significant element of our growth strategy; however, there can be no assurance that we will continue to develop and implement successful line extensions, packaging, formulation or flavor changes, or new products. Unsuccessful implementation or short-lived popularity of our product innovations could result in inventory write-offs and other costs, and also could damage consumers’ perception of the brand family. Our inability to attract consumers to our product innovations relative to our competitors’ products – especially over time – could negatively affect our growth, business, and financial results.

Production facility disruption could adversely affect our business.

Some of our largest brands, including Jack Daniel’s Tennessee Whiskey and Finlandia Vodka, are produced at a single location. A catastrophic event causing physical damage, disruption, or failure at one of our major distillation or bottling facilities could adversely affect our business. Further, because whiskeys and some tequilas are aged for various periods, we maintain a substantial inventory of aged and maturing products in warehouses at a handful of different sites. The loss of a substantial amount of aged inventory – through fire, other natural or man-made disaster, contamination, or otherwise – could significantly reduce the supply of the affected product or products. A consequence of any of these or other supply or supply chain disruptions could be our inability to meet consumer demand for the affected products for a period of time. In addition, insurance proceeds may be insufficient to cover the replacement value of our inventory of maturing products and other assets if they were to be lost. Disaster recovery plans may not prevent business disruption, and reconstruction of any damaged facilities could require a significant amount of time.

The inherent uncertainty in supply/demand forecasting could adversely affect our business, particularly with respect to our aged products.

There is an inherent risk of forecasting imprecision in determining the quantity of aged and maturing products to store in a given year for future consumption. The forecasting strategies we use to balance product supply with fluctuations in consumer demand may not be effective for particular years, products, or markets. We cannot be sure that we will be successful in using various levers, such as price, to create the desired balance of available supply and consumer demand for particular years, products, or markets. As a consequence, we may be unable to meet consumer demand for the affected products for a period of time. Furthermore, not having our products in the market on a consistent basis may adversely affect our brand equity and future sales.

Higher costs or unavailability of materials could adversely affect our financial results, as could our inability to obtain certain finished goods.

Our products use a number of materials and ingredients that we purchase from suppliers. Our ability to make and sell our products depends upon the availability of the raw materials, product ingredients, finished products, wood, glass, bottles, cans,

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bottle closures, packaging, and other materials used to produce and package them. Without sufficient quantities of one or more key materials, our operations and financial results could suffer. For instance, only a few glass producers make bottles on a scale sufficient for our requirements, and a single producer supplies most of our glass requirements. Similarly, a Finnish company distills and bottles Finlandia Vodka for us. In addition, if we experienced a disruption in the supply of American oak logs to produce the new charred oak barrels in which we age our whiskeys, our production capabilities would be compromised. If any of our key suppliers were no longer able to meet our timing, quality, or capacity requirements, ceased doing business with us, or raised prices, and we could not promptly develop alternative cost-effective sources of supply or production, our operations and financial results could suffer.

Higher costs or insufficient availability of suitable grain, agave, water, grapes, wood, glass, closures, and other input materials, or higher associated labor costs or insufficient availability of labor, may adversely affect our financial results, because we may not be able to pass along such cost increases or the cost of such shortages through higher prices to customers. Similarly, when energy costs rise, our transportation, freight, and other operating costs, such as distilling and bottling expenses, also may increase. Our financial results may be adversely affected if we are not able to pass along energy cost increases through higher prices to our customers without reducing demand or sales.

Weather, the effects of climate change, diseases, and other agricultural uncertainties that affect the mortality, health, yield, quality, or price of the various raw materials used in our products also present risks for our business, including in some cases potential impairment in the recorded value of our inventory. Changes in weather patterns or intensity can disrupt our supply chain as well, which may affect production operations, insurance costs and coverage, as well as the timely delivery of our products to customers.

Water is one of the major components of our products, so the quality and quantity of available water is important to our ability to operate our business. If hydrologic cycle patterns change, and droughts become more common or severe, or if the water supply were interrupted for other reasons, high-quality water could become scarce in some key production regions for our products, including Tennessee, Kentucky, California, Finland, Canada, and Mexico.

If the social acceptability of our products declines or governments adopt policies disadvantageous to beverage alcohol, our business could be adversely affected.

Our ability to market and sell our products depends heavily on societal attitudes toward drinking and governmental policies that both flow from and affect those attitudes. In recent years, increased social and political attention has been directed at the beverage alcohol industry. The recent attention has focused largely on public health concerns related to alcohol abuse, including drunk driving, underage drinking, and the negative health impacts of the abuse and misuse of beverage alcohol. While most people who drink enjoy alcoholic beverages in moderation, it is commonly known and well reported that excessive levels or inappropriate patterns of drinking can lead to increased risk of a range of health conditions and, for certain people, can result in alcohol dependence. Some academics and public health officials as well as critics of the alcohol industry in the United States, Europe, and other countries around the world increasingly seek governmental measures to make beverage alcohol products more expensive, less available, or more difficult to advertise and promote. For example, the World Health Organization recently published a report on alcohol and its associated health risks and impacts, and encouraged governments to develop specific regulatory policies to reduce the harmful use of alcohol. If future research indicated more widespread serious health risks associated with alcohol consumption – particularly with moderate consumption – or if for any reason the social acceptability of beverage alcohol were to decline significantly, sales of our products could decrease.

We face substantial competition in our industry, and consolidation among beverage alcohol producers, wholesalers, or retailers, or changes to our route-to-consumer model, could hinder the marketing, sale, or distribution of our products.

We use different business models to market and distribute our products in different countries around the world. In the United States, we sell our products either to distributors for resale to retail outlets or, in those states that control alcohol sales, to state governments who then sell them to retail customers and consumers. In our non-U.S. markets, we use a variety of route-to-consumer models – including, in many markets, reliance on others to market and sell our products. Consolidation among spirits producers, distributors, wholesalers, or retailers could create a more challenging competitive landscape for our products. Consolidation at any level could hinder the distribution and sale of our products as a result of reduced attention and resources allocated to our brands both during and after transition periods, because our brands might represent a smaller portion of the new business portfolio. Expansion into new product categories by other suppliers, or innovation by new entrants into the market, could increase competition in our product categories. Changes to our route-to-consumer models or partners in important markets could result in temporary or longer-term sales disruption, could result in higher implementation-related or fixed costs, and could negatively affect other business relationships we might have with that partner. Distribution network disruption or fluctuations in our product inventory levels at distributors, wholesalers, or retailers could negatively affect our results for a particular period. Further, while we currently

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believe we have sufficient scale to succeed relative to our major competitors, we nevertheless face a risk that continuing consolidation of large beverage alcohol companies could put us at a competitive disadvantage.

Our competitors may respond to industry and economic conditions more rapidly or effectively than we do. Other suppliers, as well as wholesalers and retailers of our brands, offer products that compete directly with ours for shelf space, promotional displays, and consumer purchases. Pricing (including price promotions, discounting, couponing, and free goods), marketing, new product introductions, entry into our distribution networks, and other competitive behavior by other suppliers, and by wholesalers and retailers who sell their products against ours, could adversely affect our sales, margins, and profitability. While we seek to take advantage of the efficiencies and opportunities that large retail customers can offer, large retail customers often seek lower pricing and purchase volume flexibility, offer own-label competing products, and represent a large number of other competing products. If their leverage continues to increase, it could negatively affect our financial results.

We might not succeed in our strategies for acquisitions and dispositions.

From time to time, we acquire or invest in additional brands or businesses. We expect to continue to seek acquisition and investment opportunities that we believe will increase long-term shareholder value, but we may not be able to find and purchase brands or businesses at acceptable prices and terms. Acquisitions involve risks and uncertainties, including potential difficulties integrating acquired brands and personnel; the possible loss of key customers or employees most knowledgeable about the acquired business; implementing and maintaining consistent U.S. public company standards, controls, procedures, policies, and information systems; exposure to unknown liabilities; business disruption; and management distraction. Acquisitions, investments, or joint ventures could also lead us to incur additional debt and related interest expenses, issue additional shares, and become exposed to contingent liabilities, as well as lead to dilution in our earnings per share and reduction in our return on average invested capital. We could incur future restructuring charges or record impairment losses on the value of goodwill or other intangible assets resulting from previous acquisitions, which may also negatively affect our financial results.

We also evaluate from time to time the potential disposition of assets or businesses that may no longer meet our growth, return, or strategic objectives. In selling assets or businesses, we may not get prices or terms as favorable as we anticipated. We could also encounter difficulty in finding buyers on acceptable terms in a timely manner, which could delay our accomplishment of strategic objectives. Expected cost savings from reduced overhead relating to the sold assets may not materialize, and the overhead reductions could temporarily disrupt our other business operations. Any of these outcomes could negatively affect our financial performance.

Inadequate protection of our intellectual property rights or counterfeiting could adversely affect our business prospects.

Our brand names, trademarks, and related intellectual property rights are critical assets, and our business depends on our protecting them successfully. We may be unsuccessful in protecting our intellectual property rights around the world or in challenging those who imitate our products. Although we believe that our intellectual property rights are legally protected in the markets in which we do business, the ability to register and enforce intellectual property rights varies greatly from country to country. We may not be able to secure trademark registrations in every country in which we wish to sell a particular product, and we may not get favorable protective decisions by courts or trademark offices.

Many global spirits brands, including ours, experience problems with product counterfeiting and other forms of trademark infringement, especially in Asia and eastern European markets. We work cooperatively with other spirits industry leaders via our membership in the International Federation of Spirits Producers (IFSP) to combat spirits counterfeiting. While we believe the IFSP generally to be an effective organization, IFSP efforts are subject to cooperation with local authorities and courts in some markets. Despite our and IFSP’s efforts, confusingly similar, lower-quality, or even counterfeit products harmful to consumers could reach the market and adversely affect our intellectual property rights, brand equity, corporate reputation, or financial results. In addition, the industry as a whole could suffer negative effects related to the manufacture, sale, and consumption of illegally produced beverage alcohol.

Product recalls or other product liability claims could materially and adversely affect our sales.

The success of our brands depends upon the positive image that consumers have of those brands. We could decide to, or be required to, recall products due to suspected or confirmed product contamination, product tampering, spoilage, or other quality issues. Any of these events could adversely affect our sales. Actual contamination, whether deliberate or accidental, could lead to inferior product quality and even illness, injury or death to consumers, potential liability claims, and material loss. Should a product recall become necessary, or we voluntarily recall product in the event of contamination, damage, or other quality issue, sales of the affected product or our broader portfolio of brands could be adversely affected. A significant product liability judgment or widespread product recall may negatively impact the sales and profitability of the affected brand or brands. Even if a product liability claim is unsuccessful or is not fully pursued, resulting negative publicity could adversely affect our reputation with existing and potential customers and our corporate and brand image.

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Litigation and legal disputes could expose our business to financial and reputational risk.
Major private or governmental litigation challenging the production, promotion, distribution, or sale of beverage alcohol or specific brands, could affect our ability to sell products. Because litigation and other legal proceedings can be costly to defend, even actions that are ultimately decided in our favor could have a negative impact on our business reputation or financial results. Several years ago, a series of putative class action cases was filed against several beverage alcohol companies, including Brown-Forman, alleging that large producers intentionally focused advertising and promotion at under-age consumers. All of the cases were either dismissed or withdrawn at early stages - but only after considerable effort and expense. Other lawsuits have been brought against beverage alcohol companies alleging problems related to alcohol abuse, negative health consequences from drinking, problems from alleged marketing or sales practices, or underage drinking. While these lawsuits have been largely unsuccessful in the past, others may succeed in the future. We could also experience employment-related class actions, environmental claims, commercial disputes, product liability actions stemming from a beverage or container production defect, a whistleblower suit, or other major litigation that could adversely affect our business results, particularly to the extent the losses or expenses were not insurable or insured.
Governmental actions around the world to enforce trade practice, money laundering, anti-corruption, competition, tax, environmental and other laws are also a continuing risk for global companies such as ours. In addition, as a U.S. public company we are exposed to the risk of securities-related class action suits, particularly following a precipitous drop in the share price of our stock. Adverse developments in major lawsuits concerning these or other matters could have a material adverse effect on our business.
A failure of one or more of our key information technology systems, networks, processes, associated sites, or service providers could have a material adverse impact on our business.
We rely on information technology (IT) systems, networks, and services, including internet sites, data hosting and processing facilities and tools, hardware (including laptops and mobile devices), software and technical applications and platforms, some of which are managed, hosted, provided, or used by third-parties or their vendors, to assist us in the management of our business. The various uses of these IT systems, networks, and services include, but are not limited to: hosting our internal network and communication systems; ordering and managing materials from suppliers; supply/demand planning; production; shipping product to customers; hosting our branded websites and marketing products to consumers; collecting and storing customer, consumer, employee, investor, and other data; processing transactions; summarizing and reporting results of operations; hosting, processing, and sharing confidential and proprietary research, business plans, and financial information; complying with regulatory, legal, or tax requirements; providing data security; and handling other processes necessary to manage our business.
Increased IT security threats and more sophisticated cyber crime pose a potential risk to the security of our IT systems, networks, and services, as well as the confidentiality, availability, and integrity of our data. If the IT systems, networks, or service providers we rely upon fail to function properly, or if we suffer a loss or disclosure of business or other sensitive information, due to any number of causes, ranging from catastrophic events to power outages to security breaches, and our business continuity plans do not effectively address these failures on a timely basis, we may suffer interruptions in our ability to manage operations and reputational, competitive, or business harm, which may adversely affect our business operations or financial condition. In addition, such events could result in unauthorized disclosure of material confidential information, and we may suffer financial and reputational damage because of lost or misappropriated confidential information belonging to us or to our partners, our employees, customers, suppliers, or consumers. In any of these events, we could also be required to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and IT systems.
Negative publicity could affect our stock price and business performance.
Unfavorable media, whether accurate or not, related to our industry or to us or our brands, marketing, personnel, operations, business performance, or prospects could negatively affect our corporate reputation, stock price, ability to attract high-quality talent, or the performance of our business. Adverse publicity or negative commentary on social media outlets, particularly any such negative commentary on social media outlets that goes “viral,” could cause consumers to react rapidly by avoiding our brands or choosing brands offered by our competitors, which could materially negatively affect our financial results.

The Brown family has the ability to control the outcome of matters submitted for stockholder approval.
A substantial majority of our voting stock is controlled by members of the Brown family, and collectively, they have the ability to control the outcome of stockholder votes, including the election of all of our directors and the approval or rejection of any merger, change of control, or other significant corporate transaction. We believe that having a long-term-focused, committed, and engaged shareholder base provides us with an important strategic advantage, particularly in a business with aged products and multi-generational brands. This advantage could be eroded or lost, however, should Brown family members cease, collectively, to be controlling stockholders of the Company. We desire to remain independent and family-owned, and we believe the Brown

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family stockholders share these interests. However, the Brown family's interests may not always be aligned with other stockholders' interests. By exercising their control, the Brown family could cause the Company to take actions that are at odds with the investment goals of institutional, short-term, non-voting, or other non-controlling investors, or that have a negative effect on our stock price.

We are considered a "controlled company" under New York Stock Exchange rules. Controlled companies are exempt from New York Stock Exchange listing standards that require a board composed of a majority of independent directors, a fully independent nominating/corporate governance committee, and a fully independent compensation committee. We avail ourselves of the exemptions from having a board composed of a majority of independent directors and a fully independent nominating/corporate governance committee. Notwithstanding the available exemption, our Compensation Committee is composed exclusively of independent directors. As a result of our use of some "controlled company" exemptions, our corporate governance practices differ from those of non-controlled companies, which are subject to all of the New York Stock Exchange corporate governance requirements.

Our failure to attract or retain key executive or employee talent could adversely affect our business.

Our success depends upon the efforts and abilities of our senior management team, other key employees, and a high-quality employee base, as well as our ability to attract, motivate, reward, and retain them. Difficulties in hiring or retaining key executive or other employee talent, or the unexpected loss of experienced employees, could have an adverse impact our business performance.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Company-owned production facilities include distilleries, a winery, bottling plants, warehousing operations, saw mills, and cooperages. We also have agreements with other parties for contract production in Australia, Belgium, Finland, Mexico, the Netherlands, Poland, South Africa, and the United States. During fiscal 2014, we completed construction of our new Jack Daniel Cooperage in Decatur, Alabama; the facility was placed in service during April 2014.

In addition to Company-owned corporate offices in Louisville, Kentucky, we lease office space for use in our sales, marketing, and administrative operations in the United States and in over 40 other cities around the globe. The lease terms expire at various dates and are generally renewable. Our most significant office locations outside Louisville are:

- United States: Irvine, California; Irving, Texas; Atlanta, Georgia; and Baltimore, Maryland.
- International: Guadalajara, Mexico; Paris, France; Sydney, Australia; London, United Kingdom; Prague, Czech Republic, Hamburg, Germany; Warsaw, Poland; Mexico City, Mexico; Amsterdam, Netherlands; and Hong Kong.

Significant Properties

Location	Principal Activities	Notes
United States:		
Louisville, Kentucky	Corporate offices	Includes several renovated historic structures
	Distilling, bottling, warehousing	
	Cooperage	Brown-Forman Cooperage
Lynchburg, Tennessee	Distilling, bottling, warehousing	Home of the Jack Daniel’s family of brands
	Visitors’ center	
Woodford County, Kentucky	Distilling, bottling, warehousing	Home of Woodford Reserve
	Visitors’ center	
Windsor, California	Winery, bottling, warehousing	Home of Sonoma-Cutrer
Decatur, Alabama	Cooperage	Jack Daniel Cooperage (opened in April 2014)
Clifton, Tennessee	Stave and heading mill	
Stevenson, Alabama	Stave and heading mill	
Jackson, Ohio	Stave and heading mill	Land is leased from a third party
International:		
Collingwood, Canada	Distilling, warehousing	Home of Canadian Mist
Cour-Cheverny, France	Distilling, bottling, warehousing	Home of Chambord
Amatitán, Mexico	Distilling, bottling, warehousing	Home of our tequilas and New Mix RTDs
	Visitors’ center	

We believe that our facilities are in good condition and are adequate for our business.

Item 3. Legal Proceedings

We operate in a litigious environment and we are sued in the normal course of business. We do not anticipate that any currently pending suits will have, individually or in the aggregate, a material adverse effect on our financial position, results of operations, or liquidity.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our Class A and Class B common stock is traded on the New York Stock Exchange (symbols "BFA" and "BFB," respectively). As of May 31, 2014, there were 2,819 holders of record of Class A common stock and 5,526 holders of record of Class B common stock. Because of overlapping ownership between classes, as of May 31, 2014, we had only 5,947 distinct record holders.

The following table sets forth, for the quarterly periods indicated, the high and low sales prices per share for our Class A and Class B common stock, as reported on the New York Stock Exchange composite tape, and dividend per share information:

	Fiscal 2013					Fiscal 2014				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Market price per share:										
Class A high	$63.82	$69.20	$68.50	74.41	$74.41	$75.47	$74.65	$79.83	$91.00	$91.00
Class A low	54.27	58.67	59.79	65.31	54.27	67.00	65.46	71.00	74.67	65.46
Class B high	65.33	67.91	71.00	71.99	71.99	74.29	74.96	80.76	91.15	91.15
Class B low	55.43	60.44	60.90	63.84	55.43	66.44	66.41	72.11	75.54	66.41
Cash dividends per share:										
Declared	0.47	—	4.51	—	4.98	0.51	—	0.58	—	1.09
Paid	0.23	0.23	4.26	0.26	4.98	0.26	0.26	0.29	0.29	1.09

Notes:

Quarterly amounts may not add to amounts for the year due to rounding.

Per share amounts have been adjusted for a 3-for-2 stock split in August 2012.

Cash dividends per share include a special dividend of $4.00 per share paid in December 2012.

Equity Compensation Plan Information

The following table summarizes information as of April 30, 2014, relating to our equity compensation plans pursuant to which grants of stock options, stock appreciation rights, restricted stock, market value units, performance units or other equity awards have been made.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights[1]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights[2]	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by Class A common stockholders	2,302,991	$42.44	7,759,881

[1]Includes 2,141,187 Class B common shares to be issued upon exercise of stock-settled stock appreciation rights (SSARs); 120,314 Class B common restricted stock units (RSUs); 9,371 Class A common deferred stock units (DSUs); 24,810 Class B common DSUs; and 7,309 Class B common stock awards issued under the Brown-Forman 2004 or 2013 Omnibus Compensation Plans. Does not include issued shares of performance-based restricted stock. SSARs are exercisable for an amount of our common stock with a value equal to the increase in the fair market value

of the common stock from the date the SSARs were granted. The fair market value of our common stock at fiscal year-end has been used for the purposes of reporting the number of shares to be issued upon exercise of the 4,062,811 SSARs outstanding at fiscal year-end.

[2]RSUs and DSUs do not have an exercise price because their value depends on continued employment or service over time or the achievement of certain performance goals, and are to be settled for shares of Class B common stock. Accordingly, these have been disregarded for purposes of computing the weighted-average exercise price.

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Stock Performance Graph

The graph below compares the cumulative total shareholder return of our Class B Common Stock for the last five years with the Standard & Poor’s 500 Stock Index, Dow Jones U.S. Consumer Goods Index, and the Dow Jones U.S. Food & Beverage Index. The information presented assumes an initial investment of $100 on April 30, 2009, and that all dividends were reinvested. The cumulative returns shown on the graph represent the value that these investments would have had on April 30 in the years since 2009.

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Item 6. Selected Financial Data

This selected financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements and the Notes thereto contained in “Item 8. Financial Statements and Supplementary Data.”

BROWN-FORMAN CORPORATION
SELECTED FINANCIAL DATA
(Dollars in millions, except per share amounts)

Year Ended April 30,	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Continuing Operations:										
Net sales	$2,195	2,412	2,806	3,282	3,192	3,226	3,404	3,614	3,784	3,946
Gross profit	$1,156	1,308	1,481	1,695	1,577	1,611	1,724	1,795	1,955	2,078
Operating income	$445	563	602	685	661	710	855	788	898	971
Net income	$339	395	400	440	435	449	572	513	591	659
Weighted average shares used to calculate earnings per share										
– Basic	228.3	228.9	230.4	229.6	225.7	221.8	218.4	214.5	213.4	213.5
– Diluted	229.7	231.4	232.8	231.6	227.1	222.9	219.8	216.1	215.0	215.1
Earnings per share from continuing operations										
– Basic	$1.49	1.73	1.74	1.91	1.92	2.02	2.61	2.39	2.77	3.08
– Diluted	$1.48	1.71	1.72	1.89	1.91	2.01	2.60	2.37	2.75	3.06
Gross margin	52.7%	54.2%	52.8%	51.6%	49.4%	50.0%	50.7%	49.7%	51.7%	52.7%
Operating margin	20.3%	23.3%	21.5%	20.9%	20.7%	22.0%	25.1%	21.8%	23.7%	24.6%
Effective tax rate	32.6%	29.3%	31.7%	31.7%	31.1%	34.1%	31.0%	32.5%	31.7%	30.5%
Average invested capital	$1,535	1,863	2,431	2,747	2,893	2,825	2,711	2,803	2,834	3,131
Return on average invested capital	23.0%	21.9%	17.4%	17.2%	15.9%	16.6%	21.8%	19.1%	21.7%	21.6%
Total Company:										
Cash dividends declared per common share	$0.49	0.56	0.62	0.69	0.75	0.78	1.49	0.89	4.98	1.09
Average stockholders’ equity	$1,198	1,397	1,700	1,668	1,793	1,870	1,904	2,046	1,879	1,817
Total assets at April 30	$2,649	2,728	3,551	3,405	3,475	3,383	3,712	3,477	3,626	4,103
Long-term debt at April 30	$351	351	422	417	509	508	504	503	997	997
Total debt at April 30	$630	576	1,177	1,006	999	699	759	510	1,002	1,005
Cash flow from operations	$396	343	355	534	491	545	527	516	537	649
Return on average stockholders’ equity	25.7%	22.9%	22.9%	26.4%	24.2%	24.0%	30.0%	25.1%	31.4%	36.3%
Total debt to total capital	32.5%	26.9%	42.8%	36.8%	35.5%	26.9%	26.9%	19.8%	38.1%	33.1%
Dividend payout ratio	36.1%	40.0%	36.8%	35.8%	38.9%	38.7%	57.0%	37.4%	179.8%	35.3%

Notes:

1. Includes the consolidated results of Swift & Moore, Chambord, and Casa Herradura since their acquisitions in February 2006, May 2006, and January 2007, respectively. Includes the results of our Hopland-based wine brands, which were sold in April 2011 but retained in our portfolio as agency brands through December 2011.
2. Weighted average shares, earnings per share, and cash dividends declared per common share have been adjusted for a 2-for-1 stock split in January 2004, a 5-for-4 stock split in October 2008, and a 3-for-2 stock split in August 2012.

3. Cash dividends declared per common share include special cash dividends of $0.67 per share in fiscal 2011 and $4.00 per share in fiscal 2013.
4. We define return on average invested capital as the sum of net income and after-tax interest expense, divided by average invested capital. Average invested capital equals assets less liabilities, excluding interest-bearing debt and is calculated using the average of the most recent 13 month-end balances. After-tax interest expense equals interest expense multiplied by one minus our effective tax rate.
5. We define return on average stockholders' equity as net income applicable to common stock divided by average stockholders' equity.
6. We define total debt to total capital as total debt divided by the sum of total debt and stockholders' equity.
7. We define dividend payout ratio as cash dividends divided by net income.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand Brown-Forman, our operations, and our current business environment. MD&A is provided as a supplement to – and should be read in conjunction with – our Consolidated Financial Statements and the accompanying Notes contained in "Item 8. Financial Statements and Supplementary Data."

Volume and Depletions

When discussing volume, unless otherwise specified, we refer to "depletions," a term commonly used in the beverage alcohol industry. We define "depletions" as either (a) our shipments directly to retailers or wholesalers, or (b) shipments from our third-party distributor customers to retailers and wholesalers. Because we generally record revenues when we ship our products to our customers, our reported sales for a period do not necessarily reflect actual consumer purchases during that period. We believe that our depletions measure volume in a way that more closely reflects consumer demand than our shipments to third-party distributor customers do.

Volume is discussed on a nine-liter equivalent unit basis (nine-liter cases) unless otherwise specified. At times, we use a "drinks-equivalent" measure for volume when comparing single-serve RTD or ready-to-pour (RTP) brands to a parent spirits brand. "Drinks-equivalent" depletions are RTD and RTP nine-liter cases converted to nine-liter cases of a parent brand on the basis of the number of drinks in one nine-liter case of the parent brand. To convert RTD volumes from a nine-liter case basis to a drinks-equivalent nine-liter case basis, RTD nine-liter case volumes are divided by 10, while RTP nine-liter case volumes are divided by 5.

Non-GAAP Financial Measures

We use certain financial measures in this report that are not measures of financial performance under GAAP. These non-GAAP measures, which are defined below, should be viewed as supplements to (not substitutes for) our results of operations and other measures reported under GAAP. The non-GAAP measures we use in this report may not be defined and calculated by other companies in the same manner.

We present changes in certain income statement line-items that are adjusted to an "underlying" basis, which we believe assists in understanding both our performance from period to period on a consistent basis, and the trends of our business. Non-GAAP "underlying" measures include changes in (a) underlying net sales, (b) underlying cost of sales, (c) underlying gross profit, (d) underlying advertising expenses, (e) underlying selling, general and administrative expenses and (f) underlying operating income. To calculate each of these measures, we adjust for (a) foreign currency exchange, (b) if applicable, estimated net changes in trade inventories, and (c) the absence of Hopland-based wine business. These adjustments are defined below.

- "Foreign exchange." We calculate the percentage change in our income statement line-items in accordance with GAAP and adjust to exclude the cost or benefit of currency fluctuations. Adjusting for foreign exchange allows us to understand our business on a constant dollar basis, as fluctuations in exchange rates can distort the underlying trend both positively and negatively. (In this report, "dollar" always means the U.S. dollar unless clearly denoted otherwise.) To eliminate the effect of foreign exchange fluctuations when comparing across periods, we translate current year results at prior-year rates.
- "Estimated net change in trade inventories" refers to the estimated net effect of changes in distributor inventories on changes in our measures. For each period being compared, we estimate the effect of distributor inventory changes on our results using depletion information provided to us by our distributors. We believe that this adjustment reduces the effect of varying levels of distributor inventories on changes in our measures and allows to understand better our underlying results and trends.
- "Absence of Hopland-based wine business" refers to the exclusion of results from our divested Hopland, California-based wine business, which we sold to Viña Concha y Toro S.A in April 2011. Included in this sale were the Fetzer winery, bottling facility, and vineyards, as well as the Fetzer brand and other Hopland, California-based wines, including Bonterra, Little Black Dress, Jekel, Five Rivers, Bel Arbor, Coldwater Creek, and Sanctuary. Although we sold these brands in April 2011, we retained them in our portfolio as agency brands through December 31, 2011. This adjustment allows for the comparison of our performance in prior periods without this business.

Management uses "underlying" measures of performance to assist it in comparing and measuring our performance from period to period on a consistent basis, and in comparing our performance to that of our competitors. We also use underlying measures as metrics of management incentive compensation calculations. Management also uses underlying measures in its planning and forecasting and in communications with the board of directors, stockholders, analysts and investors concerning our financial performance. We have provided reconciliations of the non-GAAP measures adjusted to an “underlying” basis to their

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nearest GAAP measures in the tables below under “Results of Operations – Year-Over-Year Comparisons” and have consistently applied the adjustments within our reconciliations in arriving at each non-GAAP measure.
We also use the following additional non-GAAP financial measures:
“Net debt” which is a non-GAAP measure that refers to the sum of (a) long-term debt, (b) the current portion of long-term debt, and (c) short-term borrowings, less (d) cash and cash equivalents. Management uses net debt as an additional measure of liquidity.
“Return on average invested capital” refers to the sum of net income and after-tax interest expense, divided by average invested capital. Average invested capital equals assets less liabilities, excluding interest-bearing debt and is calculated using the average of the most recent 13 month-end balances. After-tax interest expense equals interest expense multiplied by one minus our effective tax rate. We consider return on average invested capital to be a meaningful indicator of how effectively and efficiently we use invested capital in our business.

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Our MD&A includes the following sections:

EXECUTIVE SUMMARY

Overview

Over the past several years, including fiscal 2014, we have made progress toward realizing the ambitions of our long-term strategy, which was first set forth in fiscal 2010 and has evolved along with our business since then. Here is a discussion of recent developments:

- We have further developed the Jack Daniel's trademark through innovations designed to create new demand for products from the world's foremost maker of American whiskey. These efforts resulted in the successful launch of Jack Daniel's Tennessee Honey and, more recently, in a series of ultra-premium-priced line extensions. At the same time, we have invested steadily in our core Jack Daniel's Tennessee Whiskey brand to drive its growth broadly around the world and to support our price increases during both fiscal 2013 and 2014.

We have been working to increase our production capacity for the Jack Daniel's family of brands so that we can satisfy expected future demand. In fiscal 2014, we completed construction of the Jack Daniel Cooperage in Decatur, Alabama. We believe that we were already the largest maker of new whiskey barrels in the world before the new cooperage significantly added to our capacity. We believe that our ownership of new whiskey barrel manufacturing facilities is unique among our competitors, and that our control over this critical input to the whiskey-making process gives us a competitive advantage. We announced a major expansion of our distilling capacity last August, and we expect to complete construction of the new distillery on our property in Lynchburg, Tennessee during calendar 2015.

- The recent growth of the Jack Daniel's family of brands is the most important measure of our progress toward becoming a global leader in whiskey. In addition, the growth of Woodford Reserve has also helped us move forward on this ambition, as this super-premium brand grew volume at a compound annual rate of more than 20% from fiscal 2010 to fiscal 2014 – more than doubling its volume and surpassing 300,000 nine-liter cases in April 2014. In June 2013, we announced a more than $35 million expansion at our Woodford Reserve Distillery to support our expected growth. Also during fiscal 2014, we completed a renovation of our visitors' center at the Woodford Reserve Distillery to better serve the large and growing number of brand lovers who visit our distillery annually.

- We divested our Hopland-based wine brands in 2011, leaving us with a portfolio primarily focused on spirits. Since then, we have pursued growth of our spirits portfolio mostly through innovation. From fiscal 2010 through fiscal 2014, we launched more than twice as many line extensions and new products as we launched in the seven years before 2010. Not all of these have been or are expected to be successful, and some have been discontinued. But, in addition to Jack Daniel's Tennessee Honey, other successes include: Southern Comfort Lime (introduced in fiscal 2011), Woodford Reserve Double Oaked (fiscal 2012) and Jack Daniel's Winter Jack (fiscal 2012). In April 2014, we began testing Jack Daniel's Tennessee Fire in three markets in the United States, and – though it is too early to assess results – we are encouraged about the potential for this most recent innovation from Jack Daniel's.

- Since 2010, we have pursued international growth in our larger, developed markets and with increasing focus in the emerging world. Our most visible progress has been the evolution of our route-to-consumer in several key markets. We set up new distribution companies in three of our current top ten countries (Germany, France, and Turkey) and also in Brazil, a market that we believe is among our most promising long-term growth opportunities. We have added substantially to our employee base outside the United States, mostly in markets where we evolved our route-to-consumer.

- Over the past five years, our capital deployment initiatives have been focused on (1) enabling the expected future growth of our existing businesses through investments in our production capacity (discussed above) and (2) returning cash to our shareholders. We have not made any material acquisitions during that time. From fiscal 2010 through 2014, we have returned over $2.5 billion to our shareholders through $988 million in regular quarterly dividends, $998 million in two special dividends, and $555 million through share repurchases.

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Summary and Timing of Recent Developments

Fiscal year	PORTFOLIO	ROUTE-TO-CONSUMER	PRODUCTION
2011	Introduced Jack Daniel’s Tennessee Honey in April Introduced Southern Comfort Lime Sold Hopland-based wine brands and properties	Started distribution operations in Germany Started distribution operations in Brazil	
2012	Introduced Woodford Reserve Double Oaked Introduced Jack Daniel’s Winter Jack	Started distribution operations in Turkey	
2013	Introduced Jack Daniel’s Sinatra Select Introduced Jack Daniel’s Tennessee Rye Whiskey		Announced plans for the Jack Daniel Cooperage
2014	Introduced Jack Daniel’s No. 27 Gold Tennessee Whiskey Introduced Jack Daniel’s Tennessee Fire (limited test)	Started distribution operations in France	Announced capacity expansion at the Woodford Reserve Distillery Announced capacity expansion at the Jack Daniel Distillery Opened the Jack Daniel Cooperage

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Fiscal 2014 Financial Highlights

Summary of Operating Performance Fiscal 2012 - 2014

Fiscal year ended April 30	2012	2013	2014	Reported Change 2013 vs. 2012	Reported Change 2014 vs. 2013	Underlying Change 2013 vs. 2012	Underlying Change 2014 vs. 2013
Net sales	$3,614	$3,784	$3,946	5 %	4 %	8 %	6 %
Cost of sales	928	894	913	(4)%	2 %	4 %	3 %
Gross profit	1,795	1,955	2,078	9 %	6 %	10 %	8 %
Advertising	395	408	436	3 %	7 %	6 %	8 %
SG&A	610	650	686	7 %	5 %	8 %	6 %
Operating income	$788	$898	$971	14 %	8 %	13 %	11 %
Gross margin	49.7 %	51.7 %	52.7 %	2.0pp	1.0pp		
Operating margin	21.8 %	23.7 %	24.6 %	1.9pp	0.9pp		
Interest expense, net	$28	$33	$24	18 %	(27)%		
Effective tax rate	32.5 %	31.7 %	30.5 %	(0.8)pp	(1.2)pp		
Diluted earnings per share	$2.37	$2.75	$3.06	16 %	11 %		
Return on average invested capital[2]	19.1 %	21.7 %	21.6 %	2.6pp	(0.1)pp		

[1]See "Non-GAAP Financial Measures" above for details on our use of "underlying changes" for net sales, cost of sales, gross profit, advertising expenses, and SG&A expenses, including how these measures are calculated and the reasons why we think this information is useful to readers.

[2]See "Non-GAAP Financial Measures" above for details on our use of "return on average invested capital," including how this measure is calculated and the reasons why we think this information is useful to readers.

In fiscal 2014 compared to fiscal 2013, we grew our underlying net sales by 6% (4% reported), increased underlying operating income by 11% (8% reported), and delivered an 11% increase in diluted earnings per share. We improved our margins in fiscal 2014, as we added 100 basis points to our gross margin and 90 basis points to our operating margin. These operating results were driven largely by our American whiskey portfolio, led by the Jack Daniel's family of brands, as many of our markets benefited from favorable category trends. Our net sales growth was balanced geographically, as emerging markets, developed international markets, and the United States all made positive contributions. Our return on average invested capital was essentially unchanged, even as we invested a record $126 million in fiscal 2014 in our capacity expansion projects and increased working capital related to our maturing whiskey inventory. In fiscal 2014, we returned $280 million in cash to our shareholders through dividend payments of $233 million and share repurchases of $47 million, while maintaining investment-grade credit ratings. We accomplished this while strengthening our balance sheet, reducing net debt by approximately $230 million to approximately $568 million as of April 30, 2014.

Outlook

Looking ahead to fiscal 2015, we are optimistic about our prospects for continued net sales and operating income growth, and we expect to make further progress toward our strategic ambitions. We describe below the trends, developments, and uncertainties that we expect to affect our business.

- Favorable American whiskey trends. We believe that the market for American whiskey is growing faster than total distilled spirits globally and that premium American whiskey is among the best-performing components of the broader whiskey category. We face strong competition, and the size of the opportunity is bringing new entrants to the market. Even so, we believe that our whiskey brands are poised to benefit from this trend, including Jack Daniel's Tennessee Whiskey and Woodford Reserve. Furthermore, we believe that we are well-positioned to access emerging growth opportunities driven by consumer trends affecting the category, which include increased interest in flavored whiskeys and in craft whiskeys. We believe that we can benefit from these trends with our existing portfolio of American whiskeys, which includes, among others, Jack Daniel’s Tennessee Honey, our highly successful flavored whiskey, and Old Forester, the world’s

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first bottled bourbon and a brand of distinctive character that savvy consumers are rediscovering. In addition, we expect to bring new products and line extensions to market when our assessment of opportunity supports it.

- Uncertain reaction to our pricing plans. Our operating results have benefited from price increases for several of our brands, including, most importantly, Jack Daniel's Tennessee Whiskey, during fiscal years 2013 and 2014. Higher pricing has contributed strongly to net sales growth, gross margin improvement, and operating profit improvement over the past two years. Looking ahead, we believe that the environment remains suitable in many markets for us to increase prices. We plan to increase prices in fiscal 2015, but not as much as in fiscal years 2013 and 2014. In the United States, we expect that higher volumes will result from smaller price increases compared to fiscal years 2013 and 2014. Overall, we believe that our balanced approach to pricing will continue to support net sales growth, but we are unsure how our customers and consumers will react – especially in those markets where we have increased prices recently. We may need to adjust prices if consumers react negatively or net sales growth is adversely affected.
- Impact of owned distribution operations in France. After more than a year of planning, establishing an appropriate infrastructure, and hiring about 70 new employees, we started operating our own distribution company in France in January 2014. Our fiscal 2014 results reflected a negative effect on our diluted earnings per share of about $0.06 attributed to our distributor's full destocking in connection with transition of distribution to us. We present details about France in "Fiscal 2014 Market Highlights" below. In fiscal 2015, we expect that our sales growth rate will benefit somewhat from our higher prices as we now sell directly to the trade (formerly, our prices were lower to allow for a third-party distributor's profit margin). Correspondingly, our cost of sales will increase, reflecting in-market logistics expenses we now bear, and our SG&A expenses will be higher due to the direct costs of our expanded team and related, higher, on-going administrative costs. We expect that the net effect will be positive and that our gross margin and operating margin will benefit to an extent.
- Uncertain impact of excise taxes and government regulations restricting trade in spirits and wine. From time to time, we face increases in excise taxes or duties on spirits, and we periodically face other regulatory measures that either restrict our ability to sell and market our brands responsibly or raise the cost of our doing so. In fiscal 2015, we are aware of several enacted (or proposed and likely-to-be-enacted) excise tax increases. Whenever practicable, we increase our prices to the extent of those tax increases. We do not believe that any one known or expected excise tax increase will have a significant negative effect on our results, nor do we expect that they collectively will. But because excise tax increases can lead to inflation in consumer prices, the cumulative effect over time in a given market could soften demand for our products. For example, excise taxes increased 15% in Poland in January 2014, and we believe that this development could negatively affect consumer demand and our results there.
- Emerging-market uncertainty. During fiscal 2014, we grew net sales in emerging markets, led by the Jack Daniel's family of brands, while our competition reported generally negative circumstances and results in emerging markets, particularly in China. We experienced challenges in our largest emerging market, Mexico, but, collectively, our emerging markets have grown net sales consistently and at higher rates than our developed markets in recent years. We expect this to continue, but we are cautious about our growth outlook given the geopolitical uncertainty related to Russia and Ukraine. These two countries, and more broadly the emerging markets in eastern Europe and central Asia, have been important to our emerging markets net sales growth in recent years, including in fiscal 2014.

We believe that we are well-positioned to take advantage of the opportunities and to address the challenges related to the trends and uncertainties noted above. However, we may not succeed in taking full advantage of these opportunities, and any of these challenges could have a material adverse effect on our business.

See also ''Item 1A. Risk Factors'' for details about risks and uncertainties that could affect our business or results.

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RESULTS OF OPERATIONS – FISCAL 2014 MARKET HIGHLIGHTS

The following table shows net sales results for our ten largest markets, summarized by geographic area, for the fiscal year ended April 30, 2014, compared to the prior fiscal year. We discuss the most significant changes in net sales for each geographic area.

Top 10 Markets - Percentage of Fiscal 2014 Total Net Sales and Fiscal 2014 Net Sales Growth by Geographic Area

		Net Sales[1] % Change vs. 2013			
Markets	% of Fiscal 2014 Net Sales	Underlying	Foreign Exchange	Net Chg in Est. Trade Inventories	Reported *
United States	41 %	4 %	— %	— %	4 %
Europe:					
United Kingdom	10 %	8 %	1 %	— %	9 %
Germany	5 %	8 %	4 %	— %	12 %
Poland	4 %	2 %	3 %	— %	5 %
Russia	2 %	23 %	(2)%	(1)%	19 %
France	2 %	18 %	4 %	(33)%	(12)%
Turkey	1 %	32 %	(9)%	— %	24 %
Rest of Europe	8 %	13 %	3 %	(2)%	14 %
Europe	32 %	11 %	2 %	(2)%	10 %
Australia	12 %	2 %	(10)%	— %	(8)%
Other:					
Mexico	6 %	(4)%	— %	— %	(5)%
Canada	1 %	4 %	(4)%	2 %	2 %
Rest of Other	8 %	17 %	(5)%	1 %	12 %
Other	15 %	6 %	(3)%	1 %	4 %
TOTAL	100 %	6 %	(1)%	(1)%	4 %

* Totals may differ due to rounding

[1]See “Non-GAAP Financial Measures” above for details on our use of “underlying change” in net sales, including how this measure is calculated and the reasons why we think this information is useful to readers.

The United States, our largest and most important market, accounted for 41% of our reported net sales in both fiscal 2014 and fiscal 2013. In fiscal 2014, net sales increased 4%, driven by the Jack Daniel’s family of brands and Woodford Reserve. Higher pricing on Jack Daniel’s Tennessee Whiskey was the most significant overall contributor to net sales growth in the United States, while higher volumes for Jack Daniel’s Tennessee Honey, Woodford Reserve, and Gentleman Jack were also key contributors to our net sales growth there.

Europe accounted for 32% of our net sales in fiscal 2014, increasing from 30% in fiscal 2013. For fiscal 2014, reported net sales in Europe were up 10%. After adjusting for the positive effect of a weaker dollar and the estimated reduction in net trade inventories (mostly attributed to our route-to-consumer change in France in fiscal 2014), underlying net sales in Europe were up 11%. Our underlying net sales growth in Europe was broad-based and included gains in all of our largest markets, including the United Kingdom, Germany, Poland, France, Russia, and Turkey. Reported net sales in France declined as a result of decreased shipments corresponding to our former distributor’s inventory reduction ahead of our route-to-consumer change. (See “Outlook – Impact of owned distribution operations in France” above.) We believe that our underlying net sales in Europe grew largely because of higher consumer demand for our brands in most of Europe. But in Poland, our growth was partly driven by timing of our sales to wholesale and retail trade customers who, we believe, increased their inventories in advance of the January 2014 excise tax hike and our related price increase. We believe that customer inventories in Poland remained somewhat elevated at the end of fiscal 2014.

Australia accounted for 12% of our net sales in fiscal 2014, down from 14% in fiscal 2013. For fiscal 2014, reported net sales were down 8%, but underlying net sales were up 2% after adjusting for the negative effect of a weaker Australian dollar.

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Underlying net sales growth was driven primarily by net sales of a third-party brand that we began representing as sales agent in Australia during fiscal 2014, and volume increases for both Jack Daniel's RTDs and Jack Daniel's 1907 Whiskey, a standard-priced line extension sold exclusively in Australia. Net sales growth in Australia was partially offset by lower volumes and pricing for Jack Daniel's Tennessee Honey, which suffered from weak consumer acceptance in fiscal 2014 in addition to a difficult comparison to its launch in this market last year.

Net sales for our other markets constituted 15% of our total net sales in both fiscal 2014 and fiscal 2013. Reported net sales grew 4% in fiscal 2014 and 6% on an underlying basis after adjusting for the negative effect of a stronger U.S. dollar and the positive effect of an estimated net increase in trade inventories. The increase in underlying net sales was driven by broad growth across most of our other markets, but primarily by Brazil, Japan, China, markets in Southeast Asia, and markets in Africa. Net sales declines in Mexico and a few other markets partially offset these gains. In Mexico, fiscal 2014 net sales declined because of (a) excess inventory of New Mix and Herradura held by our wholesale customers as we entered the fiscal year, thus reducing their demand in fiscal 2014, and (b) a difficult competitive environment related to the tequila category, exacerbated by a generally challenging economic environment.

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RESULTS OF OPERATIONS – FISCAL 2014 BRAND HIGHLIGHTS

The following table highlights the worldwide results of our largest brands for the fiscal year ended April 30, 2014, compared to the same period last year. We discuss results of the brands most affecting our performance below the table.

Major Brands Worldwide Results for Fiscal 2014

	Depletion Volume				Net Sales[1] % Change vs. 2013			
Brand family / brand	Nine-Liter Cases (Millions)	% Change vs. 2013	Drinks Equivalent (Millions)	% Change vs. 2013	Underlying	Foreign Exchange	Net Chg in Est. Trade Inventories	Reported *
Jack Daniel's Family[2]	20.0	5%	13.9	6%	8%	(2%)	(1%)	6%
Jack Daniel's Tennessee Whiskey	11.5	4%	11.5	4%	6%	—%	(1%)	5%
Jack Daniel's Tennessee Honey	1.0	36%	1.0	36%	36%	(1%)	(3%)	32%
Jack Daniel's RTDs/RTP[3]	6.8	3%	0.7	4%	5%	(7%)	1%	(1%)
New Mix RTDs	5.0	(13%)	0.5	(13%)	(9%)	(1%)	—%	(10%)
Finlandia	3.4	3%	3.4	3%	4%	—%	(2%)	3%
Southern Comfort Family	2.3	(4%)	1.9	(5%)	(2%)	(2%)	—%	(5%)
Canadian Mist Family	1.6	(1%)	1.6	(1%)	(1%)	—%	—%	(1%)
Korbel Champagnes	1.3	(2%)	1.3	(2%)	4%	—%	(1%)	3%
El Jimador	1.2	(3%)	1.2	(3%)	3%	(1%)	(2%)	—%
Other Super-Premium brands[4]	1.2	4%	1.2	4%	8%	—%	—%	8%

* Totals may differ due to rounding

[1]See "Non-GAAP Financial Measures" above for details on our use of "underlying change" in net sales, including how this measure is calculated and the reasons why we think this information is useful to readers.
[2]In addition to the brands separately listed here, the Jack Daniel's family of brands includes Gentleman Jack, Jack Daniel's Single Barrel, Jack Daniel's Sinatra™ Select, Jack Daniel's No. 27 Gold Tennessee Whiskey, Jack Daniel's 1907 Tennessee Whiskey, and Jack Daniel's Tennessee Rye Whiskeys.
[3]Jack Daniel's RTD and RTP products include all RTD line extensions of Jack Daniel's, such as Jack Daniel's & Cola, Jack Daniel's & Diet Cola, Jack & Ginger, Jack Daniel's Country Cocktails, Gentleman Jack & Cola, and the seasonal Jack Daniel's Winter Jack RTP.
[4]Includes Chambord liqueur and flavored vodka, Herradura, Sonoma-Cutrer, Tuaca, and Woodford Reserve.

In fiscal 2014, the Jack Daniel's family of brands grew volumes 6% globally to nearly 14 million drinks-equivalent nine-liter cases across all expressions of the brand. Reported net sales grew 6% while underlying net sales increased 8%, after adjusting for the negative effects of both foreign exchange and an estimated net decrease in trade inventories. In fiscal 2014, the Jack Daniel's family of brands grew at a faster rate than Jack Daniel's Tennessee Whiskey, primarily because of the contributions to growth made by our innovations, and most significantly due to the introduction of Jack Daniel's Tennessee Honey in several international markets as well as its continued growth in the United States and the United Kingdom.

Jack Daniel's Tennessee Whiskey (JDTW) generates a significant percentage of our total net sales, and it is our top priority. As the world's fourth largest premium spirits brand measured by both volume and retail value, we believe that JDTW is one of the most valuable spirits brands in the world. JDTW grew volume for the 22nd consecutive year and outpaced the average volume growth of the top 25 premium spirits brands[1] during calendar 2013. That achievement reinforces our belief in the brand's long-term appeal and sustainable growth potential. JDTW grew volumes 4% globally in fiscal 2014, an acceleration compared to its

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growth rate of 3% in fiscal 2013, despite price increases in many markets in fiscal 2014. JDTW grew reported net sales 5% and underlying net sales 6%, at a faster rate than volume gains owing to price increases and favorable mix. The brand grew strongly in emerging markets, as exemplified by the double-digit volume growth in three of the four emerging markets among our top ten listed above: volume in Russia increased 28%; Mexico, 16%; and Turkey, 11%. In the United States, volume decreased 1% but net sales grew due to price increases.

Late in fiscal 2011, we introduced Jack Daniel’s Tennessee Honey (JDTH) in the United States. Since then, we have introduced the brand in many other countries around the world, and JDTH has become a significant contributor to our net sales growth. In fiscal 2014, the brand surpassed the 1 million cases milestone to become, we believe, one of only 20 brands selling more than 1 million cases in a 12-month period at an average retail value of of $25 or higher for a 750ml bottle. In fiscal 2014, JDTH grew volumes by double digits in the United States, its largest market, and was named to Impact’s “Hot Brands” list[2] for a third consecutive year. In the United Kingdom, JDTH’s second largest market, the brand grew volumes nearly 50% compared to fiscal 2013, its year of introduction in that market. In addition, we successfully launched JDTH in several of our largest international markets in fiscal 2014, including Germany, Russia, France, Mexico, and Japan. Looking ahead, while JDTH is now available in our largest markets, there remain many others where the brand has yet to be introduced, leaving room for us to continue its international expansion in fiscal 2015.

JDTH Volume by Year and Introduction History by Major Market

Year Ended April 30,	2012	2013	2014
Nine-Liter Cases (Thousands)	450	770	1,050
Major launch markets:	United States* Canada Travel Retail	United Kingdom Australia Poland South Africa	Mexico France Germany Russia Japan Czech Republic

*Introduced at the end of fiscal year 2011

The Jack Daniel’s RTDs/RTP brands (JD RTDs) grew volume 3% in fiscal 2014, while reported sales decreased 1% due to the negative foreign exchange effect of a weaker Australian dollar. Adjusted for foreign exchange and an estimated net increase in trade inventories, JD RTDs grew underlying net sales 5% during fiscal 2014. Four of our top five markets for JD RTDs grew volumes and underlying net sales. Australia, the brand’s largest market, grew volumes and underlying net sales in the low single-digits despite a challenging economic and industry environment. The United States and the United Kingdom both grew underlying net sales by double digits as these markets benefited from the broader introduction of our seasonal Jack Daniel’s Winter Jack in fiscal 2014.

In fiscal 2014, we continued to introduce innovative new whiskeys from the Jack Daniel Distillery, with a focus on ultra-premium line extensions. This year, we launched Jack Daniel’s Sinatra™ Select in the United States after its successful introduction with our travel retail customers in fiscal 2013. Outside the United States, we introduced Jack Daniel’s No. 27 Gold Tennessee Whiskey to our travel retail customers in Asia, setting the stage for a launch in select markets in fiscal 2015. Underlying net sales of the original Jack Daniel’s line extension Gentleman Jack – launched in 1988 – grew by double digits in fiscal 2014, driven equally by growth in the United States and in international markets. Outside the United States, Gentleman Jack continued its international expansion, as both volumes and underlying net sales grew by double digits. Underlying net sales also grew by double digits in the United States, as the brand was helped by its first-ever television advertising campaign, “The Order of the Gentleman.”

In fiscal 2014, Finlandia grew reported net sales by 3% and underlying net sales 4%, after adjusting for the effect of an estimated net reduction in trade inventories. Finlandia’s underlying net sales growth was primarily due to volume gains in Poland, Russia, and Ukraine. In addition, Finlandia’s net sales growth benefited from better price/mix in fiscal 2014, as price increases in Poland added to underlying net sales growth, but were partially offset by lower net pricing in Russia.

[1]Based on industry statistics published by Impact Databank, a well-known U.S. trade publication, in February 2014.
[2]Impact Databank published the Impact's "Hot Brands" - Spirits list in March 2014.

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The Southern Comfort family of brands volume declined 4% in fiscal 2014. Reported net sales declined 5% while underlying net sales declined 2%, after adjusting for the negative effect of foreign exchange. Our Southern Comfort business in the United States faced persistent consumer challenges affecting the liqueurs category generally, increased competition from flavored whiskeys, and continuing weakness experienced by many brands in the U.S. on-premise channel. These challenges led to declining volumes and net sales for the brand family in the United States, Southern Comfort's largest market. Outside the United States, fiscal 2014 performance was mixed for Southern Comfort. The brand family grew net sales in the high single digits in the United Kingdom, its second largest market, helped by volume growth in the off-premise channel and better net pricing. South Africa also grew volumes and net sales as we launched a line of Southern Comfort RTDs there during fiscal 2014. Both markets benefited from investments in our award-winning advertising campaign. Volumes and net sales declined in (a) Germany, due to delays in the full roll-out of our promotional campaign, and (b) Australia, where all of our brands were challenged by a difficult economic and industry environment.

In fiscal 2014, the performance of our two most important tequila brands, el Jimador and Herradura, was mixed across markets. In Mexico, volumes and underlying net sales declined for both brands, but outside of Mexico, both brands significantly grew volumes and underlying net sales. The net result for Herradura was a small increase in underlying net sales, as growth outside of Mexico offset declines in Mexico. For el Jimador, the net result was better, as el Jimador's underlying net sales growth outside of Mexico more than offset declines in Mexico. As a result, el Jimador's underlying net sales grew 3%, despite a 3% reduction in volumes. The United States is the most important market for both brands. In the United States, super-premium Herradura grew volumes in the high single-digits and underlying net sales in the low double-digits to outpace its competitive set and gain market share, while el Jimador grew volumes and underlying net sales in the high single-digits. We were encouraged by consumers' reaction to our new bottle for el Jimador, which was introduced to the U.S. market during fiscal 2014 and, we believe, had a positive effect on our volumes and net sales growth. In the rest of the world, el Jimador grew volumes 25% – its third consecutive year of volume growth above 20% outside of the United States and Mexico. We remain focused on developing our tequila portfolio in the United States, where we see considerable potential for growth, strengthening our position in Mexico, and continuing to build our presence in higher-value tequila markets throughout the world.

el Jimador New Mix, our market-leading RTD brand in Mexico, had a difficult fiscal 2014, as volumes declined 13% and underlying net sales declined 9%, driven in part by higher customer inventory levels at the beginning of the fiscal year, which led to lower sales in fiscal 2014. In addition, New Mix faced softer consumer demand as the brand was challenged by a difficult economic environment in Mexico and by increased competition.

Woodford Reserve, our super-premium bourbon brand, surpassed the 300,000 nine-liter cases milestone in fiscal 2014 and grew volumes 24% (after growing 26% in fiscal 2013). The United States is by far the brand's most important market and was responsible for most of its growth during fiscal 2014. Woodford Reserve also gained momentum outside the United States, growing volumes 35%, driven by our travel retail business and some markets in Europe where American whiskey trends are favorable, such as the United Kingdom. During fiscal 2014, we substantially increased our advertising investment in Woodford Reserve and began advertising on television for the first time in the United States with our "Woodford Way" campaign. We believe that Woodford Reserve is a leader in the fast-growing super-premium American whiskey market in the United States and is poised for growth as interest in bourbon increases around the world. We plan to continue to devote substantial resources to Woodford Reserve to support its future growth potential.

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RESULTS OF OPERATIONS – YEAR-OVER-YEAR COMPARISONS
NET SALES

Percentage change versus the prior fiscal year		2014	2013
Underlying change in net sales		6 %	8 %
Volume	3 %		5 %
Net price/mix	3 %		3 %
Foreign exchange		(1)%	(1)%
Estimated net change in trade inventories		(1)%	1 %
Absence of Hopland-based wine business		— %	(2)%
Reported change in net sales *		4 %	5 %

* 2013 Total differs due to rounding.

Fiscal 2014 compared to Fiscal 2013

Net sales of $3,946 million increased 4%, or $162 million, compared to fiscal 2013. Underlying net sales growth was 6%, after adjusting for the negative effect of foreign exchange and the estimated net reduction in trade inventories. The negative effect on reported net sales growth of a weaker Australian dollar more than offset the positive effect of generally stronger European currencies. The primary factor driving the estimated net reduction in trade inventories was decreased shipments corresponding to our former distributor's inventory reduction ahead of our route-to-consumer change in France.

The primary factors contributing to growth in underlying net sales were:

a. More than half of the 3% of net sales growth attributed to price/mix was driven by the United States, primarily related to price increases for JDTW, JDTH, and Korbel. Outside the United States, the primary markets contributing to net sales growth from price/mix were Germany, Poland, Brazil, Turkey, China, and France (which increased as a result of our route-to-consumer change during fiscal 2014).
b. About half of the net sales growth attributed to volume was from JDTW, which grew broadly, but was led by (1) strong consumer-oriented growth in several large European markets, including Germany, France, Russia, Turkey, and the United Kingdom; (2) strong demand despite difficult economies in Brazil and Mexico; and (3) a motivated distribution partner and increased advertising investments in Japan.
c. JDTH was the second-most-important contributor to volume-driven net sales growth, led by increases in the United States and the United Kingdom, and also by volumes in several markets where we launched the brand in fiscal 2014, including Mexico, Germany, the Czech Republic, and France.
d. Our super-premium American whiskey brands, Gentleman Jack and Woodford Reserve, were the next-most-significant contributors to volume-based growth. The U.S. market drove much of the increase for Woodford Reserve, while growth of Gentleman Jack was driven equally by strong results in the United States and its continued expansion in our international markets.
e. Other recent innovations from Jack Daniel's, most importantly Jack Daniel's Winter Jack and Jack Daniel's Sinatra™ Select among others, collectively contributed meaningfully to our net sales growth driven by volume. We believe that this result demonstrates the versatility of Jack Daniel's and its relevance to diverse consumers in various markets around the world.

The primary factors partially offsetting underlying net sales growth were:

a. Lower volumes in Mexico for our tequila brands and New Mix RTD, driven by (1) excess inventory of New Mix and Herradura held by our wholesale customers as we entered the fiscal year, and (2) lower consumer demand for our tequila brands in a difficult competitive and economic environment.
b. Lower volume and pricing for JDTH in Australia driven by weak consumer acceptance of the brand and a difficult comparison to our launch in that market last year.
c. Lower volume for the Southern Comfort family of brands, primarily in the United States, driven by weaker demand in the on-premise channel.

Fiscal 2013 compared to Fiscal 2012

Net sales of $3,784 million increased 5%, or $170 million, compared to fiscal 2012. On an underlying basis, net sales increased by 8%. We continued to expand our international footprint, as reported net sales outside the United States grew faster

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at 6% compared to 3% net sales growth in the United States. The year-over-year comparison of our net sales was negatively affected by the absence of approximately $83 million in net sales of Hopland-based wine brands (which were included in fiscal 2012) due to the sale of this business line.

We attribute our 8% underlying growth in net sales during fiscal 2013 primarily to the strong performance of the Jack Daniel's family of brands and the performance of several other brands, including Woodford Reserve, Finlandia, New Mix, Herradura, and agency brands. In fiscal 2013, net sales growth of the Jack Daniel's family of brands benefited from (a) volume growth and price increases of Jack Daniel's Tennessee Whiskey across many markets, including the United States; (b) expansion of Jack Daniel's Tennessee Honey to markets outside the United States and its continued growth in the United States; and (c) continued growth of line extensions, including Gentleman Jack and the line of Jack Daniel's RTDs. These gains were partially offset by declines in net sales for a few brands, most notably Southern Comfort. Our change in reported net sales was reduced by the negative effect of foreign exchange and the absence of Hopland-based wine business. Reported net sales benefited from an estimated increase in trade inventories in Japan, the United States, and across many markets in Europe.

We experienced the most significant growth in net sales on both a reported and an underlying basis in the United States, Australia, Germany, Russia, Mexico, the United Kingdom, Turkey, Poland, and France, while net sales declined in some countries, including Canada, China, and Korea.

COST OF SALES

Percentage change versus the prior fiscal year			2014				2013	
Underlying change in cost of sales			3	%			4	%
Volume	2	%			4	%		
Cost/mix	1	%			—	%		
Foreign exchange			—	%			(1	)%
Estimated net change in trade inventories			(1	)%			0	%
Absence of Hopland-based wine business			—	%			(7	)%
Reported change in cost of sales			2	%			(4	)%

Fiscal 2014 compared to Fiscal 2013

Cost of sales of $913 million increased $19 million, or 2%, during fiscal 2014. Underlying cost of sales grew 3% after adjusting for the positive effect of the estimated reduction in net trade inventories. About two-thirds of the underlying increase in costs of sales was driven by growth in sales volumes, while the balance of the increase related to higher input costs, including higher expenses related to value-added packaging compared to the prior year.

Fiscal 2013 compared to Fiscal 2012

Cost of sales of $894 million decreased $34 million, or 4%, during fiscal 2013. Growth in sales volume resulted in cost of sales increases for the period, while higher transportation and input costs, including grain and glass, were mostly offset by lower value-added package expense and manufacturing efficiencies. Additionally, the transition services agreement with the buyer of our Hopland-based wines business expired on December 31, 2011, resulting in lower costs compared to the prior year. Foreign exchange favorably affected reported cost of sales.

GROSS PROFIT

Percentage change versus the prior fiscal year	2014		2013	
Underlying change in gross profit	8	%	10	%
Foreign exchange	(1	)%	(1	)%
Estimated net change in trade inventories	(1	)%	1	%
Absence of Hopland-based wine business	—	%	(1	)%
Reported change in gross profit	6	%		