CONSTELLATION BRANDS, INC.
Form 10-Q
January 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended November 30, 2011

OR

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

Commission File Number 001-08495

CONSTELLATION BRANDS, INC.

(Exact name of registrant as specified in its charter)

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

207 High Point Drive, Building 100, Victor, New York	**14564**
(Address of principal executive offices)	(Zip Code)

(585) 678-7100
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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 x	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 Exchange Act). Yes ¨ No x

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of December 31, 2011, is set forth below:

Class	Number of Shares Outstanding
Class A Common Stock, par value $.01 per share	176,087,973
Class B Common Stock, par value $.01 per share	23,578,116
Class 1 Common Stock, par value $.01 per share	11,500

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share data)

(unaudited)

	November 30, 2011	February 28, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash investments	$ 55.8	$ 9.2
Accounts receivable, net	569.2	417.4
Inventories	1,463.5	1,369.3
Prepaid expenses and other	90.0	287.1
Total current assets	2,178.5	2,083.0
PROPERTY, PLANT AND EQUIPMENT, net	1,251.7	1,219.6
GOODWILL	2,602.2	2,619.8
INTANGIBLE ASSETS, net	897.6	886.3
OTHER ASSETS, net	295.2	358.9
Total assets	$ 7,225.2	$ 7,167.6
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Notes payable to banks	$ 352.3	$ 83.7
Current maturities of long-term debt	174.4	15.9
Accounts payable	270.6	129.2
Accrued excise taxes	23.5	14.2
Other accrued expenses and liabilities	357.4	419.9
Total current liabilities	1,178.2	662.9
LONG-TERM DEBT, less current maturities	2,577.9	3,136.7
DEFERRED INCOME TAXES	594.3	583.1
OTHER LIABILITIES	236.8	233.0
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS EQUITY:		
Class A Common Stock, $.01 par value- Authorized, 322,000,000 shares; Issued, 233,163,859 shares at November 30, 2011, and 230,290,798 shares at February 28, 2011	2.3	2.3
Class B Convertible Common Stock, $.01 par value- Authorized, 30,000,000 shares; Issued, 28,583,916 shares at November 30, 2011, and 28,617,758 shares at February 28, 2011	0.3	0.3

Additional paid-in capital	1,672.6	1,602.4
Retained earnings	2,004.3	1,662.3
Accumulated other comprehensive income	127.8	188.8
	3,807.3	3,456.1
Less: Treasury stock -		
Class A Common Stock, 56,854,694 shares at November 30, 2011, and 42,739,831 shares at February 28, 2011, at cost	(1,167.1)	(902.0)
Class B Convertible Common Stock, 5,005,800 shares at November 30, 2011, and February 28, 2011, at cost	(2.2)	(2.2)
	(1,169.3)	(904.2)
Total stockholders equity	2,638.0	2,551.9
Total liabilities and stockholders equity	$ 7,225.2	$ 7,167.6

The accompanying notes are an integral part of these statements.

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CONSTELLATION BRANDS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(unaudited)

	For the Nine Months Ended November 30, 2011	For the Nine Months Ended November 30, 2010	For the Three Months Ended November 30, 2011	For the Three Months Ended November 30, 2010
SALES	$ 2,270.1	$ 3,224.5	$ 789.0	$ 1,191.4
Less - excise taxes	(243.9)	(607.8)	(88.3)	(225.0)
Net sales	2,026.2	2,616.7	700.7	966.4
COST OF PRODUCT SOLD	(1,209.3)	(1,680.6)	(417.8)	(614.5)
Gross profit	816.9	936.1	282.9	351.9
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(398.2)	(512.2)	(121.8)	(176.1)
RESTRUCTURING CHARGES	(11.6)	(17.4)	(0.8)	1.2
IMPAIRMENT OF INTANGIBLE ASSETS	-	(6.9)	-	(6.9)
Operating income	407.1	399.6	160.3	170.1
EQUITY IN EARNINGS OF EQUITY METHOD INVESTEES	179.5	192.3	53.3	71.4
INTEREST EXPENSE, net	(133.1)	(147.9)	(46.3)	(49.1)
Income before income taxes	453.5	444.0	167.3	192.4
PROVISION FOR INCOME TAXES	(111.5)	(164.3)	(62.5)	(53.1)
NET INCOME	$ 342.0	$ 279.7	$ 104.8	$ 139.3
SHARE DATA:				
Earnings per common share:				
Basic - Class A Common Stock	$ 1.67	$ 1.33	$ 0.53	$ 0.67
Basic - Class B Convertible Common Stock	$ 1.52	$ 1.21	$ 0.48	$ 0.61
Diluted - Class A Common Stock	$ 1.62	$ 1.30	$ 0.52	$ 0.65
Diluted - Class B Convertible Common Stock	$ 1.49	$ 1.20	$ 0.47	$ 0.60
Weighted average common shares outstanding:				
Basic - Class A Common Stock	183.348	188.154	176.293	186.272
Basic - Class B Convertible Common Stock	23.594	23.706	23.585	23.680
Diluted - Class A Common Stock	210.666	214.515	202.933	213.110
Diluted - Class B Convertible Common Stock	23.594	23.706	23.585	23.680

The accompanying notes are an integral part of these statements.

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CONSTELLATION BRANDS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	For the Nine Months Ended November 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 342.0	$ 279.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	71.6	91.9
Stock-based compensation expense	37.5	39.8
Deferred tax provision	36.8	72.2
Equity in earnings of equity method investees, net of distributed earnings	27.1	(0.4)
Amortization of intangible and other assets	9.0	11.0
Gain on business sold, net	(3.0)	-
Gain on contractual obligation from put option of Ruffino shareholder	(2.5)	-
Impairment of intangible assets	-	6.9
Loss on disposal or impairment of long-lived assets, net	-	1.2
Change in operating assets and liabilities:		
Accounts receivable, net	(139.5)	(344.3)
Inventories	(37.8)	52.5
Prepaid expenses and other current assets	13.6	7.9
Accounts payable	135.3	72.6
Accrued excise taxes	9.4	20.5
Other accrued expenses and liabilities	133.9	76.4
Other, net	7.4	(18.5)
Total adjustments	298.8	89.7
Net cash provided by operating activities	640.8	369.4
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(54.1)	(70.1)
Purchase of business, net of cash acquired	(51.5)	-
Payments related to sale of business	(26.9)	(1.6)
Investments in equity method investees	(0.1)	(29.7)
Proceeds from redemption of available-for-sale debt securities	20.2	-
Proceeds from note receivable	1.0	60.0
Proceeds from sales of assets	0.6	15.5
Other investing activities	(7.9)	0.8
Net cash used in investing activities	(118.7)	(25.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments of long-term debt	(470.5)	(101.1)
Purchases of treasury stock	(281.3)	(300.0)
Payment of minimum tax withholdings on stock-based payment awards	(2.2)	(0.4)
Net proceeds from (repayment of) notes payable	223.2	(16.7)

Proceeds from exercises of employee stock options		42.3		35.8
Proceeds from excess tax benefits from stock-based payment awards		11.1		7.1
Proceeds from employee stock purchases		2.4		2.1
Payment of financing costs of long-term debt		-		(0.2)
Net cash used in financing activities		(475.0)		(373.4)
Effect of exchange rate changes on cash and cash investments		(0.5)		1.6
NET INCREASE (DECREASE) IN CASH AND CASH INVESTMENTS		46.6		(27.5)
CASH AND CASH INVESTMENTS, beginning of period		9.2		43.5
CASH AND CASH INVESTMENTS, end of period	$	55.8	$	16.0
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Property, plant and equipment acquired under financing arrangements	$	23.4	$	18.3
Fair value of assets acquired, including cash acquired	$	155.7	$	-
Liabilities assumed		(132.2)		-
Net assets acquired		23.5		-
Plus - settlement of contractual obligation from put option of shareholder		56.7		-
Less - fair value of previously owned 49.9% equity interest		(11.6)		-
Less - cash acquired		(17.1)		-
Net cash paid for purchase of business	$	51.5	$	-

The accompanying notes are an integral part of these statements.

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CONSTELLATION BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2011

(unaudited)

1. BASIS OF PRESENTATION:

The consolidated financial statements included herein have been prepared by Constellation Brands, Inc. and its subsidiaries (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission applicable to quarterly reporting on Form 10-Q and reflect, in the opinion of the Company, all adjustments necessary to present fairly the financial information for the Company. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted as permitted by such rules and regulations. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended February 28, 2011. Results of operations for interim periods are not necessarily indicative of annual results.

2. RECENTLY ADOPTED ACCOUNTING GUIDANCE:

Fair value measurements and disclosures

In January 2010, the Financial Accounting Standards Board (FASB) issued amended guidance for fair value measurements and disclosures. This guidance requires an entity to (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers, and (ii) present separately information about purchases, sales, issuances and settlements on a gross basis in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). This guidance also clarifies existing disclosures requiring an entity to provide fair value measurement disclosures for each class of assets and liabilities and, for Level 2 or Level 3 fair value measurements, disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Effective March 1, 2010, the Company adopted the additional disclosure requirements and clarifications of existing disclosures of this guidance, except for the disclosures about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). Effective March 1, 2011, the Company adopted the additional disclosure requirement to present separately information about purchases, sales, issuances and settlements on a gross basis in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The adoption of the remaining provision of this guidance on March 1, 2011, did not have a material impact on the Company s consolidated financial statements.

Intangibles goodwill and other

Effective March 1, 2011, the Company adopted the FASB amended guidance for when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. The amended guidance modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. Any resulting goodwill impairment upon adoption should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. The adoption of this amended guidance on March 1, 2011, did not have a material impact on the Company s consolidated financial statements.

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3. INVENTORIES:

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

(in millions)	November 30, 2011	February 28, 2011
Raw materials and supplies	$ 41.8	$ 38.2
In-process inventories	1,110.1	1,012.1
Finished case goods	311.6	319.0
	$ 1,463.5	$ 1,369.3

4. PREPAID EXPENSES AND OTHER:

The major components of prepaid expenses and other are as follows:

(in millions)	November 30, 2011	February 28, 2011
Income taxes receivable	$ 19.8	$ 193.8
Deferred tax assets	34.4	42.1
Other	35.8	51.2
	$ 90.0	$ 287.1

5. DERIVATIVE INSTRUMENTS:

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

The Company enters into derivative instruments, primarily interest rate swaps and foreign currency forward and option contracts, to manage interest rate and foreign currency risks. In accordance with the FASB guidance for derivatives and hedging, the Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value (see Note 6). The fair values of the Company s derivative instruments change with fluctuations in interest rates and/or currency rates and are expected to offset changes in the values of the underlying exposures. The Company s derivative instruments are held solely to hedge economic exposures. The Company follows strict policies to manage interest rate and foreign currency risks, including prohibitions on derivative market-making or other speculative activities.

To qualify for hedge accounting treatment under the FASB guidance for derivatives and hedging, the details of the hedging relationship must be formally documented at inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risk that is being hedged, the derivative instrument, how effectiveness is being assessed and how ineffectiveness will be measured. The derivative must be highly effective in offsetting either changes in the fair value or cash flows, as appropriate, of the risk being hedged. Effectiveness is evaluated on a retrospective and prospective basis based on quantitative measures.

Certain of the Company s derivative instruments do not qualify for hedge accounting treatment under the FASB guidance for derivatives and hedging; for others, the Company chooses not to maintain the required documentation to apply hedge accounting treatment. These undesignated instruments are used to economically hedge the Company s exposure to fluctuations in the value of foreign currency denominated receivables and payables; foreign currency investments, primarily consisting of loans to subsidiaries; and cash flows related primarily to repatriation of those loans or investments. Foreign currency contracts, generally less than 12 months in duration, are used to hedge some of these risks. The Company s derivative policy permits the use of undesignated derivatives when the derivative instrument is settled within the fiscal quarter or offsets a recognized balance sheet exposure. In these circumstances, the mark to fair value is reported currently through earnings in selling, general and administrative expenses on the Company s Consolidated Statements of Operations. As of November 30, 2011, and February 28, 2011, the Company had undesignated foreign currency contracts outstanding with a notional value of $185.5 million and $160.0 million, respectively. The Company had no undesignated interest rate swap agreements outstanding as of November 30, 2011, and February 28, 2011.

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

Cash flow hedges:

The Company is exposed to foreign denominated cash flow fluctuations in connection with third party and intercompany sales and purchases and, historically, third party financing arrangements. The Company primarily uses foreign currency forward and option contracts to hedge certain of these risks. In addition, the Company utilizes interest rate swaps to manage its exposure to changes in interest rates. Derivatives managing the Company s cash flow exposures generally mature within three years or less, with a maximum maturity of five years. Throughout the term of the designated cash flow hedge relationship, but at least quarterly, a retrospective evaluation and prospective assessment of hedge effectiveness is performed. All components of the Company s derivative instruments gains or losses are included in the assessment of hedge effectiveness. In the event the relationship is no longer effective, the Company recognizes the change in the fair value of the hedging derivative instrument from the date the hedging derivative instrument became no longer effective immediately in the Company s Consolidated Statements of Operations. In conjunction with its effectiveness testing, the Company also evaluates ineffectiveness associated with the hedge relationship. Resulting ineffectiveness, if any, is recognized immediately on the Company s Consolidated Statements of Operations in selling, general and administrative expenses.

The Company records the fair value of its foreign currency and interest rate swap contracts qualifying for cash flow hedge accounting treatment in its consolidated balance sheet with the effective portion of the related gain or loss on those contracts deferred in stockholders equity (as a component of AOCI (as defined in Note 15)). These deferred gains or losses are recognized in the Company s Consolidated Statements of Operations in the same period in which the underlying hedged items are recognized and on the same line item as the underlying hedged items. However, to the extent that any derivative instrument is not considered to be highly effective in offsetting the change in the value of the hedged item, the hedging relationship is terminated and the amount related to the ineffective portion of this derivative instrument is immediately recognized on the Company s Consolidated Statements of Operations in selling, general and administrative expenses.

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As of November 30, 2011, and February 28, 2011, the Company had cash flow designated foreign currency contracts outstanding with a notional value of $324.5 million and $166.4 million, respectively. In addition, as of November 30, 2011, and February 28, 2011, the Company had cash flow designated interest rate swap agreements outstanding with a notional value of $500.0 million (see Note 10). The Company expects $0.1 million of net gains, net of income tax effect, to be reclassified from AOCI to earnings within the next 12 months.

Fair value hedges:

Fair value hedges are hedges that offset the risk of changes in the fair values of recorded assets and liabilities, and firm commitments. The Company records changes in fair value of derivative instruments which are designated and deemed effective as fair value hedges, in earnings offset by the corresponding changes in the fair value of the hedged items. The Company did not designate any derivative instruments as fair value hedges for the nine months and three months ended November 30, 2011, and November 30, 2010.

Net investment hedges:

Net investment hedges are hedges that use derivative instruments or non-derivative instruments to hedge the foreign currency exposure of a net investment in a foreign operation. Historically, the Company has managed currency exposures resulting from certain of its net investments in foreign subsidiaries principally with debt denominated in the related foreign currency. Accordingly, gains and losses on these instruments were recorded as foreign currency translation adjustments in AOCI. The Company did not designate any derivative or non-derivative instruments as net investment hedges for the nine months and three months ended November 30, 2011, and November 30, 2010.

Fair values of derivative instruments:

The fair value and location of the Company s derivative instruments on its Consolidated Balance Sheets are as follows:

Balance Sheet Location	November 30, 2011	February 28, 2011
(in millions)		
Derivative instruments designated as hedging instruments		
Foreign currency contracts		
Prepaid expenses and other	$ 8.5	$ 11.0
Other accrued expenses and liabilities	$ 1.5	$ 3.4
Other assets, net	$ 3.2	$ 2.8
Other liabilities	$ 1.7	$ 0.9
Interest rate swap contracts		
Other accrued expenses and liabilities	$ 12.6	$ 6.1
Other assets, net	$ -	$ 1.7
Other liabilities	$ 30.2	$ -
Derivative instruments not designated as hedging instruments		
Foreign currency contracts		
Prepaid expenses and other	$ 1.7	$ 3.2
Other accrued expenses and liabilities	$ 2.8	$ 1.0
Other assets, net	$ 0.3	$ -
Other liabilities	$ 0.5	$ -

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The effect of the Company s derivative instruments designated in cash flow hedging relationships on its Consolidated Statements of Operations, as well as its Other Comprehensive Income (OCI), net of income tax effect, is as follows:

Derivative Instruments in Designated Cash Flow Hedging Relationships (in millions)	Net Gain (Loss) Recognized in OCI (Effective portion)	Location of Net Gain (Loss) Reclassified from AOCI to Income (Effective portion)	Net Gain (Loss) Reclassified from AOCI to Income (Effective portion)
For the Nine Months Ended November 30, 2011			
Foreign currency contracts	$ 5.5	Sales	$ 4.4
Foreign currency contracts	2.1	Cost of product sold	1.6
Interest rate swap contracts	(23.4)	Interest expense, net	(2.0)
Total	$ (15.8)	Total	$ 4.0
For the Nine Months Ended November 30, 2010			
Foreign currency contracts	$ 6.1	Sales	$ 10.6
Foreign currency contracts	1.0	Cost of product sold	2.7
Interest rate swap contracts	(10.5)	Interest expense, net	-
Total	$ (3.4)	Total	$ 13.3
For the Three Months Ended November 30, 2011			
Foreign currency contracts	$ (1.5)	Sales	$ 1.7
Foreign currency contracts	(4.1)	Cost of product sold	1.0
Interest rate swap contracts	(0.8)	Interest expense, net	(2.0)
Total	$ (6.4)	Total	$ 0.7
For the Three Months Ended November 30, 2010			
Foreign currency contracts	$ 6.0	Sales	$ 2.7
Foreign currency contracts	3.1	Cost of product sold	1.4
Interest rate swap contracts	1.5	Interest expense, net	-
Total	$ 10.6	Total	$ 4.1

Derivative Instruments in Designated Cash Flow Hedging Relationships (in millions)	Location of Net Gain Recognized in Income (Ineffective portion)	Net Gain Recognized in Income (Ineffective portion)
For the Nine Months Ended November 30, 2011		
Foreign currency contracts	Selling, general and administrative expenses	$ 1.4
For the Nine Months Ended November 30, 2010		
Foreign currency contracts	Selling, general and	$ 1.6

	administrative expenses		
For the Three Months Ended November 30, 2011			
	Selling, general and		
Foreign currency contracts	administrative expenses	$	0.6
For the Three Months Ended November 30, 2010			
	Selling, general and		
Foreign currency contracts	administrative expenses	$	0.9

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

Derivative Instruments not Designated as Hedging Instruments (in millions)	Location of Net (Loss) Gain Recognized in Income	Net (Loss) Gain Recognized in Income
For the Nine Months Ended November 30, 2011		
Foreign currency contracts	Selling, general and administrative expenses	$ (2.8)
For the Nine Months Ended November 30, 2010		
Foreign currency contracts	Selling, general and administrative expenses	$ 7.0
For the Three Months Ended November 30, 2011		
Foreign currency contracts	Selling, general and administrative expenses	$ (7.6)
For the Three Months Ended November 30, 2010		
Foreign currency contracts	Selling, general and administrative expenses	$ 8.0

Credit risk:

The Company enters into master agreements with its bank derivative trading counterparties that allow netting of certain derivative positions in order to manage credit risk. The Company s derivative instruments are not subject to credit rating contingencies or collateral requirements. As of November 30, 2011, the fair value of derivative instruments in a net liability position due to counterparties was $45.1 million. If the Company were required to settle the net liability position under these derivative instruments on November 30, 2011, the Company would have had sufficient availability under its revolving credit facility to satisfy this obligation.

Counterparty credit risk:

Counterparty credit risk relates to losses the Company could incur if a counterparty defaults on a derivative contract. The Company manages exposure to counterparty credit risk by requiring specified minimum credit standards and diversification of counterparties. The Company enters into master agreements with its bank derivative trading counterparties that allow netting of certain derivative positions in order to manage counterparty credit risk. As of November 30, 2011, all of the Company s counterparty exposures are with financial institutions which have investment grade ratings. The Company has procedures to monitor counterparty credit risk for both current and future potential credit exposures. As of November 30, 2011, the fair value of derivative instruments in a net receivable position due from counterparties was $9.5 million.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Company calculates the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available, the Company uses standard pricing models for various types of financial instruments (such as forwards, options, swaps, etc.) which take into account the present value of estimated future cash flows.

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The carrying amount and estimated fair value of the Company s financial instruments are summarized as follows:

	November 30, 2011		February 28, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in millions)				
Assets:				
Cash and cash investments	$ 55.8	$ 55.8	$ 9.2	$ 9.2
Accounts receivable	$ 567.7	$ 567.7	$ 416.2	$ 416.2
Available-for-sale debt securities	$ 25.1	$ 25.1	$ 40.8	$ 40.8
Foreign currency contracts	$ 13.7	$ 13.7	$ 17.0	$ 17.0
Interest rate swap contracts	$ -	$ -	$ 1.7	$ 1.7
Notes receivable	$ 4.9	$ 4.9	$ 6.0	$ 6.0
Liabilities:				
Notes payable to banks	$ 352.3	$ 348.1	$ 83.7	$ 83.8
Accounts payable	$ 270.6	$ 270.6	$ 129.2	$ 129.2
Long-term debt, including current portion	$ 2,752.3	$ 2,934.8	$ 3,152.6	$ 3,298.2
Foreign currency contracts	$ 6.5	$ 6.5	$ 5.3	$ 5.3
Interest rate swap contracts	$ 42.8	$ 42.8	$ 6.1	$ 6.1

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash investments, accounts receivable and accounts payable: The carrying amounts approximate fair value due to the short maturity of these instruments.

Available-for-sale (AFS) debt securities: The fair value is estimated by discounting cash flows using market-based inputs (see Fair value measurements below).

Foreign currency contracts: The fair value is estimated using market-based inputs, obtained from independent pricing services, into valuation models (see Fair value measurements below).

Interest rate swap contracts: The fair value is estimated based on quoted market prices from respective counterparties (see Fair value measurements below).

Notes receivable: These instruments are fixed interest rate bearing notes. The fair value is estimated by discounting cash flows using market-based inputs, including counterparty credit risk.

Notes payable to banks: The revolving credit facility under the 2006 Credit Agreement (as defined in Note 10) is a variable interest rate bearing note which includes a fixed margin which is adjustable based upon the Company s debt ratio (as defined in the 2006 Credit Agreement). The fair value of the revolving credit facility is estimated by discounting cash flows using LIBOR plus a margin reflecting current market conditions obtained from participating member financial institutions. The remaining instruments are variable interest rate bearing notes for which the carrying value approximates the fair value.

Long-term debt: The tranche B term loan facility under the 2006 Credit Agreement is a variable interest rate bearing note which includes a fixed margin. The fair value of the tranche B term loan facility is estimated by discounting cash flows using LIBOR plus a margin reflecting current market conditions obtained from participating member financial institutions. The fair value of the remaining long-term debt, which is all fixed rate, is estimated by discounting cash flows using interest rates currently available for debt with similar terms and maturities.

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Fair value measurements

The FASB guidance on fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and requires disclosures about fair value measurements. This guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing an asset or liability. The fair value measurement guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset and liability, either directly or indirectly; and Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

The following table presents the Company s financial assets and liabilities measured at fair value on a recurring basis.

(in millions)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
November 30, 2011				
Assets:				
AFS debt securities	$ -	$ -	$ 25.1	$ 25.1
Foreign currency contracts	$ -	$ 13.7	$ -	$ 13.7
Liabilities:				
Foreign currency contracts	$ -	$ 6.5	$ -	$ 6.5
Interest rate swap contracts	$ -	$ 42.8	$ -	$ 42.8
February 28, 2011				
Assets:				
AFS debt securities	$ -	$ -	$ 40.8	$ 40.8
Foreign currency contracts	$ -	$ 17.0	$ -	$ 17.0
Interest rate swap contracts	$ -	$ 1.7	$ -	$ 1.7
Liabilities:				
Foreign currency contracts	$ -	$ 5.3	$ -	$ 5.3
Interest rate swap contracts	$ -	$ 6.1	$ -	$ 6.1

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

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The following table represents a reconciliation of the changes in fair value of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

(in millions)	AFS Debt Securities
Balance at February 28, 2011	$ 40.8
Total net gains:	
Included in earnings (interest expense, net)	4.5
Included in other comprehensive income (net unrealized gains on AFS debt securities)	1.5
Total net gains	6.0
Settlements	(21.7)
Transfers in and/or out of Level 3	-
Balance at November 30, 2011	$ 25.1

In the third quarter of fiscal 2012, the Company received cash proceeds of $21.7 million, consisting of proceeds for principal of $20.2 million and proceeds for interest of $1.5 million, in connection with the early redemption of certain of the AFS debt securities. In addition, the Company reclassified net gains of $3.2 million, net of income tax effect, from AOCI to selling, general and administrative expenses on the Company s Consolidated Statements of Operations for the nine months and three months ended November 30, 2011.

The following table presents the Company s assets and liabilities measured at fair value on a nonrecurring basis for which an impairment assessment was performed for the periods presented.

	$000,000.00	$000,000.00	$000,000.00	$000,000.00
	Fair Value Measurements Using			
(in millions)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
<u>For the Nine Months Ended November 30, 2010</u>				
Long-lived assets held for sale	$ -	$ -	$ 4.1	$ 5.8
Trademarks	-	-	-	6.9
Total	$ -	$ -	$ 4.1	$ 12.7
<u>For the Three Months Ended November 30, 2010</u>				
Trademarks	$ -	$ -	$ -	$ 6.9
Total	$ -	$ -	$ -	$ 6.9

Long-lived assets held for sale:

For the nine months ended November 30, 2010, in connection with the Company s plan announced in August 2008 to sell certain assets and implement operational changes designed to improve the efficiencies and returns associated with its then existing Australian business, primarily by consolidating certain winemaking and packaging operations and reducing the Company s overall grape supply due to reduced capacity needs resulting from a streamlining of the Company s product portfolio (the Australian Initiative), long-lived assets held for sale with a carrying value of $10.1 million were written down to their estimated fair value of $4.1 million, less cost to sell (which was estimated to be minimal), resulting in a loss of $5.8 million, which is included in restructuring charges on the Company s Consolidated Statements of Operations. These assets consisted primarily of certain winery and vineyard assets which had satisfied the conditions necessary to be classified as held for sale. As such, these assets were written down to a value based on the Company s estimate of fair value less cost to sell. The fair value was determined based on a market value approach adjusted for the different characteristics between assets measured and the assets upon which the observable inputs were based.

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Trademarks:

In connection with the Company s third quarter of fiscal 2011 decision to discontinue certain wine brands within its CWNA segment s wine portfolio, certain indefinite-lived trademarks, with a carrying value of $6.9 million, were written down to their estimated fair value resulting in an impairment of $6.9 million for the nine months and three months ended November 30, 2010. This impairment is included in impairment of intangible assets on the Company s Consolidated Statements of Operations. The Company measured the amount of impairment by calculating the amount by which the carrying value of these assets exceeded their estimated fair values. The fair value was determined based on an income approach using the relief from royalty method, which assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to exploit the related benefits of trademark assets. The cash flow models the Company uses to estimate the fair values of its trademarks involve several assumptions, including (i) projected revenue growth rates; (ii) estimated royalty rates; (iii) calculated after-tax royalty savings expected from ownership of the subject trademarks; and (iv) discount rates used to derive the present value factors used in determining the fair value of the trademarks.

7. GOODWILL:

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

	$00,000,000 Constellation Wines North America (CWNA)	$00,000,000 Constellation Wines Australia and Europe (CWAE)	$00,000,000 Crown Imports LLC	$00,000,000 Consolidations and Eliminations	$00,000,000 Consolidated
(in millions)					
Balance, February 28, 2010					
Goodwill	$ 2,570.6	$ 852.6	$ 13.0	$ (13.0)	$ 3,423.2
Accumulated impairment losses	-	(852.6)	-	-	(852.6)
	2,570.6	-	13.0	(13.0)	2,570.6
Foreign currency translation adjustments	49.2	-	-	-	49.2
Divestiture of business					
Goodwill	-	(852.6)	-	-	(852.6)
Accumulated impairment losses	-	852.6	-	-	852.6
Balance, February 28, 2011					
Goodwill	2,619.8	-	13.0	(13.0)	2,619.8
Accumulated impairment losses	-	-	-	-	-
	2,619.8	-	13.0	(13.0)	2,619.8
Foreign currency translation adjustments	(17.6)	-	-	-	(17.6)
Balance, November 30, 2011					
Goodwill	2,602.2	-	13.0	(13.0)	2,602.2
Accumulated impairment losses	-	-	-	-	-
	$ 2,602.2	$ -	$ 13.0	$ (13.0)	$ 2,602.2

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Divestiture of the Australian and U.K. Business

In January 2011, the Company sold 80.1% of its Australian and U.K. business (the CWAE Divestiture) at a transaction value of $268.4 million. As of November 30, 2011, the Company has received cash proceeds of $194.4 million, net of cash divested of $15.8 million, direct costs paid of $11.4 million and post-closing adjustments paid of $17.8 million. The Company has retained a less than 20% interest in its previously owned Australian and U.K. business, Accolade Wines (Accolade) (see Note 9). The following table summarizes the net gain recognized and the net cash proceeds received in connection with this divestiture.

(in millions)	
Net assets sold	$ (734.1)
Cash received from buyer, net of cash divested and post-closing adjustments paid	