CONSTELLATION BRANDS, INC.
Form 10-K
April 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 28, 2007

OR

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

For the transition period from ____________________ to ____________________

Commission File Number 001-08495

CONSTELLATION BRANDS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

Title of each class	Name of each exchange on which registered
Class A Common Stock (par value $.01 per share)	New York Stock Exchange
Class B Common Stock (par value $.01 per share)	New York Stock Exchange

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

None

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

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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):
Large Accelerated Filer X Accelerated Filer ___ Non-accelerated Filer ___

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based upon the closing sales prices of the registrant's Class A and Class B Common Stock as reported on the New York Stock Exchange as of the last business day of the registrant's most recently completed second fiscal quarter was $5,416,393,626. The registrant has no non-voting common equity.

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of April 13, 2007, is set forth below:

Class	Number of Shares Outstanding
Class A Common Stock, par value $.01 per share	211,231,621
Class B Common Stock, par value $.01 per share	23,825,338

DOCUMENTS INCORPORATED BY REFERENCE

The proxy statement of Constellation Brands, Inc. to be issued for the Annual Meeting of Stockholders which is expected to be held July 26, 2007 is incorporated by reference in Part III to the extent described therein.

==

This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, that could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. All statements other than statements of historical facts included in this Annual Report on Form 10-K, including without limitation the statements under Item 1 "Business" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding (i) the Company's business strategy, future financial position, prospects, plans and objectives of management, (ii) the expected impact upon the Company's net sales and diluted earnings per share resulting from the decision to reduce distributor wine inventory levels in the U.S., (iii) the Company's expected restructuring and related charges, accelerated depreciation costs, acquisition-related integration costs, and other related charges, and (iv) information concerning expected actions of third parties are forward-looking statements. When used in this Annual Report on Form 10-K, the words "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Annual Report on Form 10-K. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. In addition to the risks and uncertainties of ordinary business operations, the forward-looking statements of the Company contained in this Annual Report on Form 10-K are also subject to the risk and uncertainty that (i) the impact upon net sales and diluted earnings per share resulting from the decision to reduce distributor wine inventory levels will vary from current expectations due to the actual levels of distributor wine inventory reductions and (ii) the Company's restructuring and related charges, accelerated depreciation costs, acquisition-related integration costs, and other related charges may exceed current expectations due to, among other reasons, variations in anticipated headcount reductions, contract terminations or greater than anticipated implementation costs. Additional important factors that could cause actual results to differ materially from those set forth in, or implied, by the Company's forward-looking statements contained in this Annual Report on Form 10-K are those described in Item 1A "Risk Factors" and elsewhere in this report and in other Company filings with the Securities and Exchange Commission.

PART I

Item 1. Business

Introduction

Unless the context otherwise requires, the terms "Company," "we," "our," or "us" refer to Constellation Brands, Inc. and its subsidiaries, and all references to "net sales" refer to gross sales less promotions, returns and allowances, and excise taxes to conform with the Company's method of classification. All references to "Fiscal 2007," "Fiscal 2006," and "Fiscal 2005" shall refer to the Company's fiscal year ended the last day of February of the indicated year. All references to "Fiscal 2008" shall refer to the Company's fiscal year ending February 29, 2008.

Market positions and industry data discussed in this Annual Report on Form 10-K are as of calendar 2006 and have been obtained or derived from industry and government publications and Company estimates. The industry and government publications include: Adams Liquor Handbook; Adams Wine Handbook; Adams Beer Handbook; Adams Handbook Advance; The U.S. Wine Market: Impact Databank Review and Forecast; The U.S. Beer Market: Impact Databank Review and Forecast; The U.S. Spirits Market: Impact Databank Review and Forecast; Euromonitor; Australian Bureau of Statistics; Information Resources, Inc.; ACNielsen; Association for Canadian Distillers; AZTEC; and DISCUS. The Company has not independently verified the data from the industry and government publications. Unless otherwise noted, all references to market positions are based on unit volume.

The Company is a Delaware corporation incorporated on December 4, 1972, as the successor to a business founded in 1945. The Company has approximately 9,200 employees located throughout the world and the corporate headquarters are located in Fairport, New York.

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

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

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

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

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

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

(in millions)		For the Year Ended February 28, 2007	% of Total		For the Year Ended February 28, 2006	% of Total
Branded wine	$	2,755.7	53%	$	2,263.4	49%
Wholesale and other		1,087.7	21%		972.0	21%
Imported beers		1,043.6	20%		1,043.5	23%
Spirits		329.4	6%		324.6	7%
Consolidated Net Sales	$	5,216.4	100%	$	4,603.5	100%

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

(in millions)		For the Year Ended February 28, 2007	% of Total		For the Year Ended February 28, 2006	% of Total
North America	$	1,933.2	70%	$	1,516.6	67%
Europe		495.7	18%		445.3	20%
Australia/New Zealand		326.8	12%		301.5	13%
Consolidated Net Sales	$	2,755.7	100%	$	2,263.4	100%

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

· Consolidation of suppliers, wholesalers and retailers;

· An increase in global wine consumption; and

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

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

- Leveraging the Company's existing portfolio of leading brands;
- Developing new products, new packaging and line extensions;
- Diversifying the Company's product portfolio with an emphasis on premium spirits and premium, super-premium and fine wines;
- Diversifying geographic markets with a focus on expansion in Continental Europe and Japan;
- Strengthening its relationships with wholesalers and retailers;
- Expanding its distribution and enhancing its production capabilities;
- Realizing operating synergies; and
- Acquiring additional management, operational, marketing, and product development expertise.

Recent Acquisitions and Equity Method Investments

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

In March 2007, the Company acquired the SVEDKA Vodka brand ("Svedka") and related business. Svedka is produced in Sweden and sold over one million cases in calendar 2006. It is the fifth largest imported vodka and the fastest growing major imported premium vodka in the U.S. This acquisition increases the Company's mix of premium spirits and provides a selling and marketing platform for further expansion of the Company's premium spirits portfolio.

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

In June 2006, the Company acquired Vincor International Inc. (“Vincor”), Canada’s premier wine company. Vincor is Canada’s largest producer and marketer of wines. At the time of the acquisition, Vincor was the world’s eighth largest producer and distributor of wine and related products by revenue and was also one of the largest wine importers, marketers and distributors in the U.K. Through this transaction, the Company acquired various additional winery and vineyard interests used in the production of premium, super-premium and fine wines from Canada, California, Washington State, Western Australia and New Zealand. In addition, as a result of the acquisition, the Company sources, markets and sells premium wines from South Africa. Well-known premium brands acquired in the Vincor acquisition include Inniskillin, Jackson-Triggs, Sawmill Creek, Sumac Ridge, R.H. Phillips, Toasted Head, Hogue, Kim Crawford and Kumala.

In December 2004, the Company acquired The Robert Mondavi Corporation (“Robert Mondavi”), a leading premium wine producer based in Napa, California. Through this transaction, the Company acquired various additional winery and vineyard interests, and, additionally produces, markets and sells premium, super-premium and fine California wines under the Woodbridge by Robert Mondavi, Robert Mondavi Private Selection and Robert Mondavi Winery brand names. Woodbridge and Robert Mondavi Private Selection are the leading domestic premium and super-premium wine brands, respectively, in the U.S. As a result of the Robert Mondavi acquisition, the Company acquired an ownership interest in Opus One, a joint venture owned equally by Robert Mondavi and Baron Philippe de Rothschild, S.A. During September 2005, the Company’s president and Baroness Philippine de Rothschild announced an agreement to maintain equal ownership of Opus One. Opus One produces fine wines at its Napa Valley winery. The Company accounts for its investment in Opus One under the equity method.

In December 2004, the Company purchased a 40% interest in Ruffino S.r.l. (“Ruffino”), the well-known Italian fine wine company, and in February 2005, the Constellation Wines segment began distributing Ruffino’s products in the U.S. Also in December 2004, the Company became a 50% owner in a joint venture with jstar Brands (“Planet 10 Spirits”). The objective of Planet 10 Spirits is to create and market premium spirit brands in the U.S. and key export markets. The first product from this joint venture is Effen Vodka, a luxury brand imported from Holland.

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

Business Segments

On January 2, 2007, as a result of the Company’s investment in Crown Imports, the Company changed its internal management financial reporting to consist of three business divisions, Constellation Wines, Constellation Spirits and Crown Imports. Prior to the investment in the joint venture, the Company’s internal management financial reporting included the Constellation Beers business division. Consequently, as of February 28, 2007, the Company reports its operating results in five segments: Constellation Wines (branded wine, and U.K. wholesale and other), Constellation Spirits (distilled spirits), Constellation Beers (imported beer), Crown Imports (imported beer) and Corporate Operations and Other. Segment results for Constellation Beers are for the period prior to January 2, 2007, and segment results for Crown Imports are for the period on and after January 2, 2007. The new business segments, described more fully below, reflect how the Company’s operations are managed, how operating performance within the Company is evaluated by senior management and the structure of its internal financial reporting.

Information regarding net sales, operating income and total assets of each of the Company’s business segments and information regarding geographic areas is set forth in Note 22 to the Company’s consolidated financial statements located in Item 8 of this Annual Report on Form 10-K.

Constellation Wines

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

In the U.S., Constellation Wines sells 24 of the top-selling 100 table wine brands and has the largest portfolio of premium, super-premium and fine wines. In Canada, it has wine across all price points, and has five of the top 20 table wine brands and the leading Icewine brand with Inniskillin. It has eight of the top-selling 20 table wine brands in the U.K. and the best selling brand of fortified British wine. In Australia, it has wine brands across all price points and varieties, including a comprehensive range of premium wine brands, and has five of the top-selling 20 wine brands and is the largest producer of cask (box) wines.

Constellation Wines’ well-known wine brands include Robert Mondavi Winery, Inniskillin, Simi, Franciscan Oakville Estate, Kim Crawford, Estancia, Toasted Head, Ravenswood, Jackson-Triggs, Blackstone, Robert Mondavi Private Selection, Ruffino, Nobilo, Rex Goliath, Alice White, Hardys, Goundrey, Kumala, Woodbridge by Robert Mondavi, Vendange, Arbor Mist, Almaden, and Stowells.

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

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

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

Constellation Beers

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

Crown Imports

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

Constellation Spirits

Constellation Spirits produces, bottles, imports and markets a diversified line of distilled spirits. Constellation Spirits is a leading producer and marketer of distilled spirits in the U.S. The majority of the segment’s distilled spirits unit volume consists of products marketed in the value and mid-premium priced category. Principal distilled spirits brands include Black Velvet, Chi-Chi’s prepared cocktails, Barton, Sköl, Fleischmann’s, Canadian LTD, Montezuma, Ten High, Mr. Boston and Inver House. The segment is continuing efforts to increase its premium spirits offerings, with brands that include Black Velvet Reserve, the 99 Schnapps family, Effen Vodka, 1792 Ridgemont Reserve, Meukow Cognac, Cocktails by Jenn, Monte Alban, Danfield’s, di Amore, Caravella, Balblair, Old Pulteney and Speyburn.

The acquisition of Svedka and related business in March 2007 increases the Company’s mix of premium spirits and provides a selling and marketing platform for further expansion of the premium spirits portfolio.

Corporate Operations and Other

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

Marketing and Distribution

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

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

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

Trademarks and Distribution Agreements

Trademarks are an important aspect of the Company's business. The Company sells its products under a number of trademarks, which the Company owns or uses under license. Throughout its segments, the Company also has various licenses and distribution agreements for the sale, or the production and sale, of its products and products of third parties. These licenses and distribution agreements have varying terms and durations. Agreements include, among others, a long-term license agreement with Hiram Walker & Sons, Inc., which expires in 2116, for the Ten High, Crystal Palace, Northern Light, Lauder's and Imperial Spirits brands, and a long-term license agreement with Chi-Chi's, Inc., which expires in 2117, for the production, marketing and sale of beverage products, alcoholic and non-alcoholic, utilizing the Chi-Chi's brand name.

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

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

Competition

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

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

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

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

Production

In the U.S., the Company operates 21 wineries where wine is produced from many varieties of grapes grown principally in the Napa, Sonoma, Monterey and San Joaquin regions of California. In Australia, the Company operates 12 wineries where wine is produced from many varieties of grapes grown in most of the major viticultural regions. The Company also operates eight wineries in Canada and four wineries in New Zealand. Grapes are crushed at most of the Company's wineries and stored as wine until packaged for sale under the Company's brand names or sold in bulk. In the U.S. and Canada, the Company's inventories of wine are usually at their highest levels in September through November during and after the crush of each year's grape harvest, and are reduced prior to the subsequent year's crush. Similarly, in Australia and New Zealand, the Company's inventories of wine are usually at their highest levels in March through May during and after the crush of each year's grape harvest, and are reduced prior to the subsequent year's crush.

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

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

Sources and Availability of Production Materials

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

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

The Company receives grapes from approximately 1,050 independent growers in the U.S., approximately 1,400 growers in Australia and approximately 150 growers in both Canada and New Zealand. The Company enters into written purchase agreements with a majority of these growers and pricing generally varies year-to-year and generally based on then-current market prices. In Australia, approximately 700 of the 1,400 growers belong to a grape growers' cooperative. The Company purchases the majority of its Australian grape requirements from this cooperative under a long-term arrangement. In the U.K., the Company produces wine from materials purchased either on a contract basis or on the open market.

At February 28, 2007, the Company owned or leased approximately 24,000 acres of land and vineyards, either fully bearing or under development, in California (U.S.), New York (U.S.), Washington (U.S.), Canada, Australia and New Zealand. This acreage supplies only a small percentage of the Company's overall total wine needs. However, most of this acreage is used to supply a large portion of the grapes used for the production of the Company's super-premium and fine wines. The Company continues to consider the purchase or lease of additional vineyards, and additional land for vineyard plantings, to supplement its grape supply.

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

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

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

Government Regulation

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

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

Seasonality

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

Employees

As of the end of March 2007, the Company had approximately 9,200 full-time employees throughout the world. Approximately 3,700 full-time employees were in the U.S. and approximately 5,500 full-time employees were outside of the U.S., in countries including Australia, the U.K., Canada and New Zealand. Additional workers may be employed by the Company during the peak and grape crushing seasons. The Company considers its employee relations generally to be good.

Company Information

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

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

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

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

Item 1A. Risk Factors

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

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

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

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

- Our ability to obtain financing for future working capital needs or acquisitions or other purposes may be limited;
- Our funds available for operations, expansion or distributions will be reduced because we will dedicate a significant portion of our cash flow from operations to the payment of principal and interest on our indebtedness;
- Our ability to conduct our business could be limited by restrictive covenants; and
- Our vulnerability to adverse economic conditions may be greater than less leveraged competitors and, thus, our ability to withstand competitive pressures may be limited.

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

Our acquisition and joint venture strategies may not be successful.

We have made a number of acquisitions, including our recent acquisition of Svedka and its related business and our acquisition of Vincor International Inc., and we anticipate that we may, from time to time, acquire additional businesses, assets or securities of companies that we believe would provide a strategic fit with our business. We will need to integrate acquired businesses with our existing operations. We cannot assure you that we will effectively assimilate the business or product offerings of acquired companies into our business or product offerings. Integrating the operations and personnel of acquired companies into our existing operations may result in difficulties and expense, disrupt our business or divert management’s time and attention. Acquisitions involve numerous other risks, including potential exposure to unknown liabilities of acquired companies and the possible loss of key employees and customers of the acquired business. In connection with acquisitions or joint venture investments outside the U.S., we may enter into derivative contracts to purchase foreign currency in order to hedge against the risk of foreign currency fluctuations in connection with such acquisitions or joint venture investments, which subjects us to the risk of foreign currency fluctuations associated with such derivative contracts.

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

Competition could have a material adverse effect on our business.

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

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

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

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

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

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

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

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

- A general decline in economic conditions;
- Increased concern about the health consequences of consuming beverage alcohol products and about drinking and driving;
- A general decline in the consumption of beverage alcohol products in on-premise establishments, such as may result from smoking bans;
- A trend toward a healthier diet including lighter, lower calorie beverages such as diet soft drinks, juices and water products;
- The increased activity of anti-alcohol groups; and
- Increased federal, state or foreign excise or other taxes on beverage alcohol products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

An increase in the cost of energy could affect our profitability.

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

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

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

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

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

Various diseases, pests and certain weather conditions could affect quality and quantity of grapes.

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

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

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

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

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

Constellation Wines

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

United States

In the U.S., the Company through its Constellation Wines segment operates two wineries in New York, located in Canandaigua and Naples; 15 wineries in California, located in Acampo, Esparto, Gonzales, Healdsburg, Kenwood, Oakville, Soledad, Rutherford, Ukiah, two in Lodi, two in Madera and two in Sonoma; three wineries in Washington, located in Prosser, Woodinville and Sunnyside; and one winery in Caldwell, Idaho. All of these wineries are owned, except for the wineries in Caldwell (Idaho) and Woodinville (Washington), which are leased. The Constellation Wines segment considers its principal wineries in the U.S. to be the Mission Bell winery in Madera (California), the Canandaigua winery in Canandaigua (New York), the Ravenswood wineries in Sonoma (California), the Franciscan Vineyards winery in Rutherford (California), the Woodbridge Winery in Acampo (California), the Turner Road Vintners Winery in Lodi (California), the Robert Mondavi Winery in Oakville (California) and the Blackstone Winery in Gonzales (California). The Mission Bell winery crushes grapes, produces, bottles and distributes wine and produces specialty concentrates and Mega Colors for sale. The Canandaigua winery crushes grapes and produces, bottles and distributes wine. The other principal wineries crush grapes, vinify, cellar and bottle wine.

Through the Constellation Wines segment, as of February 28, 2007, the Company owned or leased approximately 11,200 acres of vineyards, either fully bearing or under development, in California and New York to supply a portion of the grapes used in the production of wine.

Australia/New Zealand

Through the Constellation Wines segment, the Company owns and operates 12 Australian wineries, five of which are in South Australia, three in Western Australia and the other four in New South Wales, Australian Capital Territory, Victoria and Tasmania. Additionally, through this segment the Company also owns four wineries in New Zealand. All but one of these Australia/New Zealand wineries crush grapes, vinify and cellar wine. Five include bottling and/or packaging operations. The facility in Reynella, South Australia bottles a significant portion of the wine produced in Australia, produces all Australian sparkling wines and cellars wines. The Company considers the segment's principal facilities in Australia/New Zealand to be the Berri Estates winery located in Glossop and the bottling facility located in Reynella, both in South Australia.

Through the Constellation Wines segment, the Company owns or has interests in approximately 7,100 plantable acres of vineyards in South Australia, the Australian Capital Territory, Western Australia, Victoria, and Tasmania, and approximately 3,700 acres of vineyards, either fully bearing or under development, in New Zealand.

Europe

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

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

Additionally, through the Constellation Wines segment, the Company leases warehouse and office facilities in Dublin and has contracted with a third party with respect to a depot in Cork in support of the Company's business of marketing, storing and distributing alcoholic beverages in the Republic of Ireland.

Canada

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

Through the Constellation Wines segment, as of February 28, 2007, the Company owned or leased approximately 2,000 acres of vineyards, either fully bearing or under development, in Ontario and British Columbia to supply a portion of the grapes used in the production of wine.

Constellation Beers and Crown Imports

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

Constellation Spirits

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

Through this segment, the Company owns and operates four distilling plants, two in the U.S. and two in Canada. The two distilling plants in the U.S. are located in Bardstown, Kentucky and Albany, Georgia. The two distilling plants in Canada are located in Valleyfield, Quebec and Lethbridge, Alberta. The Company considers this segment's principal distilling plants to be the facilities located in Bardstown (Kentucky), Valleyfield (Quebec) and Lethbridge (Alberta). The Bardstown facility distills, bottles and warehouses distilled spirits products for the Company and, on a contractual basis, for other industry members. The two Canadian facilities distill, bottle and store Canadian whisky for the segment, and distill and/or bottle and store Canadian whisky, vodka, rum, gin and liqueurs for third parties.

In the U.S., the Company through its Constellation Spirits segment also operates three bottling plants, located in Atlanta, Georgia; Owensboro, Kentucky and Carson, California. The facilities located in Atlanta (Georgia) and Owensboro (Kentucky) are owned, while the facility in Carson (California) is leased. The Company considers this segment's bottling plant located in Owensboro to be one of the segment's principal facilities. The Owensboro facility bottles and warehouses distilled spirits products for the segment and is also utilized for contract bottling.

Corporate Operations and Other

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

Item 3. Legal Proceedings

In the course of their business, the Company and its subsidiaries are subject to litigation from time to time. Although the amount of any liability with respect to such litigation cannot be determined, in the opinion of management, such liability will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

Executive Officers of the Company

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

NAME	AGE	OFFICE OR POSITION HELD
Richard Sands	56	Chairman of the Board and Chief Executive Officer
Robert Sands	48	President and Chief Operating Officer
Alexander L. Berk	57	Chief Executive Officer, Constellation Beers and Spirits, and President and Chief Executive Officer, Barton Incorporated
F. Paul Hetterich	44	Executive Vice President, Business Development and Corporate Strategy
Thomas J. Mullin	55	Executive Vice President and General Counsel
Thomas S. Summer	53	Executive Vice President and Chief Financial Officer
W. Keith Wilson	56	Executive Vice President and Chief Human Resources Officer

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

Robert Sands is President and Chief Operating Officer of the Company. He was appointed to these positions in December 2002 and has served as a director since January 1990. Mr. Sands also served as Group President from April

2000 through December 2002, as Chief Executive Officer, International from December 1998 through April 2000, as Executive Vice President from October 1993 through April 2000, as General Counsel from June 1986 through May 2000, and as Vice President from June 1990 through October 1993. He is the brother of Richard Sands.

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

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

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

Thomas S. Summer joined the Company in April l997 as Senior Vice President and Chief Financial Officer and in April 2000 was elected Executive Vice President. From November 1991 to April 1997, Mr. Summer served as Vice President, Treasurer of Cardinal Health, Inc., a large national health care services company, where he was responsible for directing financing strategies and treasury matters. Prior to that, from November 1987 to November 1991, Mr. Summer held several positions in corporate finance and international treasury with PepsiCo, Inc. In October 2006, Mr. Summer announced that he planned to retire from the Company and from the position of Executive Vice President and Chief Financial Officer in May 2007, or such earlier date as a new chief financial officer is chosen. Mr. Summer will continue in an advisory capacity to the Company until May 14, 2008 or such earlier date as the Company and Mr. Summer shall mutually agree.

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

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

PART II

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

The Company’s Class A Common Stock (the “Class A Stock”) and Class B Common Stock (the “Class B Stock”) trade on the New York Stock ExchangeÒ (“NYSE”) under the symbols STZ and STZ.B, respectively. The following tables set forth for the periods indicated the high and low sales prices of the Class A Stock and the Class B Stock as reported on the NYSE.

CLASS A STOCK

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2006				
High	$ 30.08	$ 31.60	$ 29.01	$ 27.39
Low	$ 24.50	$ 26.26	$ 21.15	$ 23.16
Fiscal 2007				
High	$ 28.02	$ 27.29	$ 29.09	$ 29.17
Low	$ 23.32	$ 24.13	$ 26.90	$ 23.01

CLASS B STOCK

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2006				
High	$ 29.88	$ 31.24	$ 28.90	$ 27.35
Low	$ 25.99	$ 26.75	$ 21.50	$ 23.32
Fiscal 2007				
High	$ 27.73	$ 27.29	$ 29.00	$ 29.14
Low	$ 24.00	$ 23.85	$ 26.85	$ 23.15

At April 13, 2007, the number of holders of record of Class A Stock and Class B Stock of the Company were 1,034 and 219, respectively.

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

Item 6. Selected Financial Data

	For the Years Ended				
	February 28, 2007	February 28, 2006	February 28, 2005	February 29, 2004	February 28, 2003
(in millions, except per share data)					
Sales	$ 6,401.8	$ 5,707.0	$ 5,139.8	$ 4,469.3	$ 3,583.1
Less-excise taxes	(1,185.4)	(1,103.5)	(1,052.2)	(916.9)	(851.5)
Net sales	5,216.4	4,603.5	4,087.6	3,552.4	2,731.6
Cost of product sold	(3,692.5)	(3,278.9)	(2,947.0)	(2,576.6)	(1,970.9)
Gross profit	1,523.9	1,324.6	1,140.6	975.8	760.7
Selling, general and administrative expenses	(768.8)	(612.4)	(555.7)	(457.3)	(350.9)
Restructuring and related charges[1]	(32.5)	(29.3)	(7.6)	(31.1)	(4.8)
Acquisition-related integration costs[2]	(23.6)	(16.8)	(9.4)	-	-
Operating income	699.0	666.1	567.9	487.4	405.0
Equity in earnings of equity method investees	49.9	0.8	1.8	0.5	12.2
Gain on change in fair value of derivative instruments	55.1	-	-	1.2	23.1
Interest expense, net	(268.7)	(189.6)	(137.7)	(144.7)	(105.4)
Income before income taxes	535.3	477.3	432.0	344.4	334.9
Provision for income taxes	(203.4)	(152.0)	(155.5)	(124.0)	(131.6)
Net income	331.9	325.3	276.5	220.4	203.3
Dividends on preferred stock	(4.9)	(9.8)	(9.8)	(5.7)	-
Income available to common stockholders	$ 327.0	$ 315.5	$ 266.7	$ 214.7	$ 203.3
Earnings per common share[3]:					
Basic - Class A Common Stock	$ 1.44	$ 1.44	$ 1.25	$ 1.08	$ 1.15
Basic - Class B Common Stock	$ 1.31	$ 1.31	$ 1.14	$ 0.98	$ 1.04
Diluted - Class A Common Stock	$ 1.38	$ 1.36	$ 1.19	$ 1.03	$ 1.10
Diluted - Class B Common	$ 1.27	$ 1.25	$ 1.09	$ 0.95	$ 1.01

Stock										
Total assets	$	9,438.2	$	7,400.6	$	7,804.2	$	5,558.7	$	3,196.3
Long-term debt, including current maturities	$	4,032.2	$	2,729.9	$	3,272.8	$	2,046.1	$	1,262.9

(1) For a detailed discussion of restructuring and related charges for the years ended February 28, 2007, February 28, 2006, and February 28, 2005, see Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Annual Report on Form 10-K under the captions "Fiscal 2007 Compared to Fiscal 2006 - Restructuring and Related Charges" and "Fiscal 2006 Compared to Fiscal 2005 - Restructuring and Related Charges," respectively.

(2) For a detailed discussion of acquisition-related integration costs for the years ended February 28, 2007, February 28, 2006, and February 28, 2005, see Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Annual Report on Form 10-K under the caption "Fiscal 2007 Compared to Fiscal 2006 - Acquisition-Related Integration Costs" and "Fiscal 2006 Compared to Fiscal 2005 - Acquisition-Related Integration Costs," respectively.

(3) All per share data have been adjusted to give effect to the two-for-one splits of the Company's two classes of common stock, which were distributed in the form of stock dividends in May 2005.

For the years ended February 28, 2007, and February 28, 2006, see Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Annual Report on Form 10-K and the Consolidated Financial Statements and notes thereto under Item 8 of this Annual Report on Form 10-K.

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

Overview

The Company is a leading international producer and marketer of beverage alcohol brands with a broad portfolio across the wine, spirits and imported beer categories. As of January 2, 2007, the Company continues to supply imported beer in the U.S. through its investment in Crown Imports (as defined in "Acquisitions in Fiscal 2007 and Fiscal 2005, and Equity Method Investments" below). The Company has the largest wine business in the world and is the largest multi-category (wine, spirits and imported beer) supplier of beverage alcohol in the United States ("U.S."); a leading producer and exporter of wine from Australia and New Zealand; and both a major producer and, through its investment in Matthew Clark (see "Recent Developments" below), a major independent drinks wholesaler in the United Kingdom ("U.K."). In addition, with the acquisition of Vincor (as defined below), the Company is the largest producer and marketer of wine in Canada.

Through January 1, 2007, the Company reported its operating results in three segments: Constellation Wines (branded wines, and U.K. wholesale and other), Constellation Beers and Spirits (imported beers and distilled spirits) and Corporate Operations and Other. As a result of the Company's investment in Crown Imports, the Company has changed its internal management financial reporting to consist of three business divisions, Constellation Wines, Constellation Spirits and Crown Imports. Prior to the investment in Crown Imports, the Company's internal management financial reporting included the Constellation Beers business division. Consequently, as of February 28, 2007, the Company reports its operating results in five segments: Constellation Wines (branded wine, and U.K. wholesale and other), Constellation Beers (imported beer), Constellation Spirits (distilled spirits), Corporate Operations and Other and Crown Imports (imported beer). Segment results for Constellation Beers are for the period prior to January 2, 2007, and segment results for Crown Imports are for the period on and after January 2, 2007. Amounts included in the Corporate Operations and Other segment consist of general corporate administration and finance expenses. These amounts include costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations, global information technology and global strategic sourcing. Any costs incurred at the corporate office that are applicable to the segments are allocated to the appropriate segment. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other operating segments. The new business segments reflect how the Company's operations are managed, how operating performance within the Company is evaluated by senior management and the structure of its internal financial reporting. In addition, the Company excludes acquisition-related integration costs, restructuring and related charges and unusual items that affect comparability from its definition of operating income for segment purposes. The financial information for Fiscal 2006 and Fiscal 2005 (as defined below) have been restated to conform to the new segment presentation.

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

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

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

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

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

In the U.K., significant consolidation at the retail level has resulted in a limited number of large retailers controlling a significant portion of the off-premise wine business. A surplus of Australian wine has made very low cost bulk wine available to retailers which has allowed certain of these large retailers to quickly create and build private label brands in the Australian wine category. With growth in the U.K. wine market moderating and significant growth in private label brands, the Company has experienced declines in both volume and pricing. These markets have become increasingly competitive resulting in the Company's difficulty to recover certain cost increases, in particular, the duty increases in the U.K. which have been imposed annually for the past several years. In Australia, the domestic market remains competitive due to the surplus of Australian bulk wine, resulting in pricing pressures on the Company's products, in particular on the box wine category. These conditions are expected to persist at least until the Australian bulk wine market firms. These factors have resulted in a decrease for Fiscal 2007 (as defined below) in the Company's net sales for the U.K. and a decrease in gross profit associated with the Company's Australian portfolio sold in the U.K.

Two years of record Australian grape harvests in calendar 2004 and 2005 have contributed to the surplus of Australian bulk wine. The calendar 2006 Australian grape harvest was slightly lower than the prior year's harvest. However, this has not had a significant impact on the current surplus. The calendar 2007 Australian grape harvest is expected to be significantly lower than the calendar 2006 Australian grape harvest as a result of an ongoing drought and late spring frosts in several regions. The effects of the ongoing drought conditions are also expected by many industry projections to impact the size of the calendar 2008 Australian grape harvest. Significant reductions in the calendar 2007 and 2008 Australian grape harvests could have a substantial impact on the current surplus and may result in higher pricing for Australian bulk wine. In the U.S., the smaller than average calendar 2006 California grape harvest which followed a larger than average calendar 2005 California grape harvest should result in overall supply remaining generally in balance with demand.

For the year ended February 28, 2007 ("Fiscal 2007"), the Company's net sales increased 13% over the year ended February 28, 2006 ("Fiscal 2006"), primarily from net sales of products acquired in the Vincor acquisition and an increase in base branded wine net sales. (References to base branded wine net sales exclude the net sales of branded wine acquired in the acquisition of Vincor.) Operating income increased 5% over the comparable prior year period resulting from the increased sales discussed above, partially offset by increased "acquisition-related integration costs, restructuring and related charges and unusual costs," the recognition of stock-based compensation expense due to the Company's March 1, 2006, adoption of Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS No. 123(R)"), "Share-Based Payment," and the competitive market conditions in the U.K. Net income increased 2% over the comparable prior year period primarily due to increased interest expense combined with an increased provision for income taxes, partially offset by a gain on change in fair value of derivative instrument entered into in connection with the acquisition of Vincor, an increase in equity in earnings of equity method investees in connection with Crown Imports, and the increase in operating income.

The Company's Constellation Wines segment has made an operating plan decision to reduce distributor wine inventory levels in the U.S. during the year ending February 29, 2008 ("Fiscal 2008"), in response to the consolidation of distributors over the past few years and supply chain technology improvements. As distributors are looking to operate with lower levels of inventory while maintaining appropriate service levels to retailers, the Company plans on working closely with its distributors on supply-chain efficiencies, thereby lowering costs for both the Company and its distributors, and ultimately making the Company's brands more competitive in the marketplace. The Company is planning to reduce distributor inventory levels during the first half of Fiscal 2008. This decision is expected to have a significant impact on the Company's Fiscal 2008 financial performance, including a reduction of net sales in the range of $160 million to $190 million and a reduction in diluted earnings per share in the range of $0.15 to $0.20.

The following discussion and analysis summarizes the significant factors affecting (i) consolidated results of operations of the Company for Fiscal 2007 compared to Fiscal 2006, and Fiscal 2006 compared to the year ended February 28, 2005 ("Fiscal 2005"), and (ii) financial liquidity and capital resources for Fiscal 2007. This discussion and analysis also identifies certain acquisition-related integration costs, restructuring and related charges and net unusual costs expected to affect consolidated results of operations of the Company for Fiscal 2008. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein.

Recent Developments

Investment in Matthew Clark

On April 17, 2007, the Company and Punch Taverns plc ("Punch") commenced operations of a joint venture for the U.K. wholesale business ("Matthew Clark"). The U.K. wholesale business was formerly owned entirely by the Company. Under the terms of the arrangement, the Company and Punch, directly or indirectly, each have a 50% voting and economic interest in Matthew Clark. The joint venture will reinforce Matthew Clark's position as the U.K.'s largest independent premier drinks wholesaler serving the on-trade drinks industry. The Company received $178.8 million of cash proceeds from the formation of the joint venture, subject to a post-closing adjustment.

Upon formation of the joint venture, the Company discontinued consolidation of the U.K. wholesale business and accounts for the investment in Matthew Clark under the equity method. Accordingly, the results of operations of Matthew Clark will be included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income from the date of investment.

Acquisition of Svedka

On March 19, 2007, the Company acquired the SVEDKA Vodka brand ("Svedka") in connection with the acquisition of Spirits Marque One LLC and related business (the "Svedka Acquisition") for cash consideration of $383.7 million, net of cash acquired. In addition, the Company expects to incur direct acquisition costs of approximately $1.0 million. Svedka is a premium vodka produced in Sweden and is the fastest growing major imported premium vodka in the U.S. Svedka is the fifth largest imported vodka in the U.S. The purchase price was financed with revolver borrowings under the Company's senior credit facility.

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

Acquisitions in Fiscal 2007 and Fiscal 2005, and Equity Method Investments

Acquisition of Vincor

On June 5, 2006, the Company acquired all of the issued and outstanding common shares of Vincor International Inc. ("Vincor"), Canada's premier wine company. Vincor is Canada's largest producer and marketer of wine. At the time of the acquisition, Vincor was the world's eighth largest producer and distributor of wine and related products by revenue and was also one of the largest wine importers, marketers and distributors in the U.K. Through this transaction, the Company acquired various additional winery and vineyard interests used in the production of premium, super-premium and fine wines from Canada, California, Washington State, Western Australia and New Zealand. In addition, as a result of the acquisition, the Company sources, markets and sells premium wines from South Africa. Well-known premium brands acquired in the Vincor acquisition include Inniskillin, Jackson-Triggs, Sawmill Creek, R.H. Phillips, Toasted Head, Hogue, Kim Crawford and Kumala.

The acquisition of Vincor supports the Company's strategy of strengthening the breadth of its portfolio across price segments and geographic regions to capitalize on the overall growth in the wine industry. In addition to complementing the Company's current operations in the U.S., U.K., Australia and New Zealand, the acquisition of Vincor increases the Company's global presence by adding Canada as another core market and provides the Company with the ability to capitalize on broader geographic distribution in strategic international markets. In addition, the acquisition of Vincor makes the Company the largest wine company in Canada and strengthens the Company's position as the largest wine company in the world and the largest premium wine company in the U.S.

Total consideration paid in cash to the Vincor shareholders was $1,115.8 million. In addition, the Company expects to incur direct acquisition costs of approximately $11.0 million. At closing, the Company also assumed outstanding indebtedness of Vincor, net of cash acquired, of $320.2 million, resulting in a total transaction value of $1,447.0 million. The purchase price was financed with borrowings under the Company's June 2006 Credit Agreement (as defined below).

The results of operations of the Vincor business are reported in the Constellation Wines segment and are included in the consolidated results of operations of the Company from the date of acquisition. The acquisition of Vincor is significant and the Company expects it to have a material impact on the Company's future results of operations, financial position and cash flows. In particular, the Company expects its future results of operations to be significantly impacted by, among other things, the flow through of inventory step-up, acquisition-related integration costs and interest expense associated with the 2006 Credit Agreement (as defined below).

Acquisition of Robert Mondavi

On December 22, 2004, the Company acquired all of the outstanding capital stock of The Robert Mondavi Corporation ("Robert Mondavi"), a leading premium wine producer based in Napa, California. Through this transaction, the Company acquired various additional winery and vineyard interests, and, additionally produces, markets and sells premium, super-premium and fine California wines under the Woodbridge by Robert Mondavi, Robert Mondavi Private Selection and Robert Mondavi Winery brand names. In the United States, Woodbridge is the leading domestic premium wine brand and Robert Mondavi Private Selection is the leading super-premium wine brand. As a result of the Robert Mondavi acquisition, the Company acquired an ownership interest in Opus One, a joint venture owned equally by Robert Mondavi and Baron Philippe de Rothschild, S.A. During September 2005, the Company's president and Baroness Philippine de Rothschild announced an agreement to maintain equal ownership of Opus One. Opus One produces fine wines at its Napa Valley winery. The Company accounts for the investment in Opus One under the equity method. Accordingly, the results of operations of Opus One are included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income since December 22, 2004.

The acquisition of Robert Mondavi supports the Company's strategy of strengthening the breadth of its portfolio across price segments to capitalize on the overall growth in the premium, super-premium and fine wine categories. The Company believes that the acquired Robert Mondavi brand names have strong brand recognition globally. The vast majority of sales from these brands are generated in the United States. The Company is leveraging the Robert Mondavi brands in the United States through its selling, marketing and distribution infrastructure. The Company has also expanded distribution for the Robert Mondavi brands in Europe through its Constellation Europe infrastructure.

The Robert Mondavi acquisition supports the Company's strategy of growth and breadth across categories and geographies, and strengthens its competitive position in certain of its core markets. The Robert Mondavi acquisition provides the Company with a greater presence in the growing premium, super-premium and fine wine sectors within the United States and the ability to capitalize on the broader geographic distribution in strategic international markets. In particular, the Company believes there are growth opportunities for premium, super-premium and fine wines in the United Kingdom and other "new world" wine markets. Total consideration paid in cash to the Robert Mondavi shareholders was $1,030.7 million. Additionally, the Company incurred direct acquisition costs of $12.0 million. The purchase price was financed with borrowings under the Company's prior senior credit facility.

The results of operations of the Robert Mondavi business have been reported in the Company's Constellation Wines segment since December 22, 2004. Accordingly, the Company's results of operations for Fiscal 2007 and Fiscal 2006 include the results of operations of the Robert Mondavi business for the entire period, whereas the results of operations for Fiscal 2005 only include the results of operations of the Robert Mondavi business from December 22, 2004, to the end of Fiscal 2005.

Following the Robert Mondavi acquisition, the Company sold certain of the acquired vineyard properties and related assets, investments accounted for under the equity method, and winery properties and related assets. The Company realized net proceeds of $180.7 million from the sale of these assets since the date of acquisition through the end of Fiscal 2006. No amounts were realized for Fiscal 2007. No gain or loss was recognized upon the sale of these assets.

Investment in Crown Imports

On July 17, 2006, Barton Beers, Ltd. ("Barton"), an indirect wholly-owned subsidiary of the Company, entered into an Agreement to Establish Joint Venture (the "Joint Venture Agreement") with Diblo, S.A. de C.V. ("Diblo"), an entity owned 76.75% by Grupo Modelo, S.A. de C.V. ("Modelo") and 23.25% by Anheuser-Busch, Inc., pursuant to which Modelo's Mexican beer portfolio (the "Modelo Brands") will be exclusively imported, marketed and sold in the 50 states of the U.S., the District of Columbia and Guam. In addition, the owners of the Tsingtao and St. Pauli Girl brands transferred exclusive importing, marketing and selling rights with respect to these brands in the U.S. to the joint venture. On January 2, 2007, the parties completed the closing (the "Closing") of the transactions contemplated in the Joint Venture Agreement, as amended at Closing.

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

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

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

The Importer Agreement set forth an immediate increase in the price of the products sold to Crown Imports of $0.25 per case, subject to adjustment by the parties. Such initial price increase was not intended to be reflected in an automatic corresponding price increase charged to Crown Imports customers. It was designed to reflect the relative values of the importation rights for the Western United States previously held by Barton and the importation rights for the rest of the U.S. Subsequent to January 2, 2007, it was determined that the initial price increase was not necessary as the relative value of the importation rights for the Western United States was comparable with that of the rest of the U.S. Accordingly, equity in earnings of equity method investees for Crown Imports does not include any initial price increase from the date of investment. The importer agreement that previously gave Barton the exclusive right to import, market and sell the Modelo Brands primarily west of the Mississippi River was superseded by the transactions contemplated by the Joint Venture Agreement, as amended. The contribution by Diblo Subsidiary in exchange for a 50% membership interest in Crown does not constitute the acquisition of a business by the Company.

The joint venture and the related importation arrangements provide that, subject to the terms and conditions of those agreements, the joint venture and the related importation arrangements will continue for an initial term of 10 years, and renew in 10-year periods unless Diblo Subsidiary gives notice prior to the end of year seven of any term. Upon consummation of the transactions, the Company discontinued consolidation of the imported beer business and accounts for the investment in Crown Imports under the equity method. Accordingly, the results of operations of Crown Imports are included in the equity in earnings of equity method investees line in the Company’s Consolidated Statements of Income from the date of investment.

Investment in Ruffino

On December 3, 2004, the Company purchased a 40% interest in Ruffino S.r.l. (“Ruffino”), the well-known Italian fine wine company, for $89.6 million, including direct acquisition costs of $7.5 million. As of February 1, 2005, the Constellation Wines segment began distributing Ruffino’s products in the United States. The Company accounts for the investment in Ruffino under the equity method; accordingly, the results of operations of Ruffino from December 3, 2004, are included in the equity in earnings of equity method investees line in the Company’s Consolidated Statements of Income.

<u>Results of Operations</u>

Fiscal 2007 Compared to Fiscal 2006

Net Sales

The following table sets forth the net sales (in millions of dollars) by operating segment of the Company for Fiscal 2007 and Fiscal 2006.

	Fiscal 2007 Compared to Fiscal 2006 Net Sales		
	2007	2006	% Increase
Constellation Wines:			
Branded wine	$ 2,755.7	$ 2,263.4	22%
Wholesale and other	1,087.7	972.0	12%
Constellation Wines net sales	3,843.4	3,235.4	19%
Constellation Beers net sales	1,043.6	1,043.5	N/A
Constellation Spirits net sales	329.4	324.6	1%
Crown Imports net sales	368.8	-	N/A
Consolidations and eliminations	(368.8)	-	N/A
Consolidated Net Sales	$ 5,216.4	$ 4,603.5	13%

Net sales for Fiscal 2007 increased to $5,216.4 million from $4,603.5 million for Fiscal 2006, an increase of $612.9 million, or 13%. This increase was due primarily to $405.8 million of net sales of products acquired in the Vincor acquisition, an increase in base branded wine net sales of $95.7 million (on a constant currency basis) and a favorable foreign currency impact of $66.2 million.

Constellation Wines

Net sales for Constellation Wines increased to $3,843.4 million for Fiscal 2007 from $3,235.4 million in Fiscal 2006, an increase of $608.0 million, or 19%. Branded wine net sales increased $492.3 million primarily due to $379.9 million of net sales of branded wine acquired in the Vincor acquisition and increased base branded wine net sales for North America (primarily the U.S.) of $118.9, partially offset by decreased base branded wine net sales for Europe (primarily the U.K.) of $27.4 million (on a constant currency basis). The increase in base branded wine net sales for the U.S. was driven by both higher average selling prices as the consumer continues to trade up to higher priced premium wines as supported by volume gains in both the premium and super-premium categories as well as volume gains in the wine with fruit category. The decrease in base branded wine net sales for the U.K. was driven primarily by lower pricing due to the highly competitive pricing market for private label and branded wine resulting from the significant oversupply of Australian wine and highly concentrated retail market place. Wholesale and other net sales increased $115.7 million primarily due to an increase of $51.0 million (on a constant currency basis) in the Company’s U.K. wholesale business as a result of a shift in the mix of sales towards higher priced products, a favorable foreign currency impact of $48.9 million and $25.9 million of net sales of non-branded products acquired in the Vincor acquisition.

Constellation Beers

Net sales for Constellation Beers remained comparable for Fiscal 2007 at $1,043.6 million from $1,043.5 million for Fiscal 2006. This is due to the formation of Crown Imports on January 2, 2007, and the accounting for this investment under the equity method of accounting. As such, Fiscal 2007 net sales include only ten months of net sales versus Fiscal 2006 net sales which include twelve months of net sales. However, on a similar year over year period, with ten months of net sales for Fiscal 2006, the Constellation Beers net sales increased 15% primarily due to volume growth in the Company's Mexican beer portfolio from increased retail consumer demand.

Constellation Spirits

Net sales for Constellation Spirits increased slightly to $329.4 million for Fiscal 2007 from $324.6 million for Fiscal 2006, an increase of $4.8 million, or 1%. This increase resulted primarily from an increase in branded spirits net sales of $9.9 million partially offset by a decrease in bulk spirits net sales of $5.1 million.

Gross Profit

The Company's gross profit increased to $1,523.9 million for Fiscal 2007 from $1,324.6 million for Fiscal 2006, an increase of $199.3 million, or 15%. The Constellation Wines segment's gross profit increased $199.1 million primarily from gross profit of $166.8 million due to the Vincor acquisition and the additional gross profit of $36.8 million associated with the increased base branded wine net sales for North America. These amounts were partially offset by a $14.7 million decrease in U.K. and Australia gross profit resulting from the increased competition and promotional activities among suppliers in the U.K. and Australia, reflecting, in part, the effects of the oversupply of Australian wine and the retailer consolidation in the U.K., plus a late March 2006 increase in duty costs in the U.K. The Constellation Beers segment's gross profit was comparable with prior year due to ten months of gross profit for Fiscal 2007 versus twelve months for Fiscal 2006. The Constellation Spirits segment's gross profit was down slightly primarily due to increased material costs for spirits. In addition, unusual items, which consist of certain costs that are excluded by management in their evaluation of the results of each operating segment, were lower by $3.8 million in Fiscal 2007 versus Fiscal 2006. This decrease resulted primarily from decreased flow through of adverse grape cost associated with the acquisition of Robert Mondavi of $19.9 million and decreased accelerated depreciation costs of $6.8 million associated with the Fiscal 2006 Plan and Fiscal 2007 Wine Plan (as each of those terms is defined below in Restructuring and Related Charges), partially offset by increased flow through of inventory step-up of $22.3 million associated primarily with the Vincor acquisition. Gross profit as a percent of net sales increased to 29.2% for Fiscal 2007 from 28.8% for Fiscal 2006 primarily as a result of the factors discussed above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $768.8 million for Fiscal 2007 from $612.4 million for Fiscal 2006, an increase of $156.4 million, or 26%. This increase is due primarily to an increase of $99.7 million in the Constellation Wines segment and a $43.5 million increase in unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment. The increase in the Constellation Wines segment's selling, general and administrative expenses is primarily due to increased advertising expenses of $28.0 million, selling expenses of $40.8 million and general and administrative expenses of $30.9 million resulting primarily from the Vincor acquisition and the recognition of stock-based compensation expense of $8.4 million. The Constellation Beers segment's selling, general and administrative expenses increased $12.1 million primarily due to increased advertising expenses of $12.1 million and general and administrative expenses of $2.7 million, partially offset by decreased selling expenses of $2.5 million and the impact of ten months of selling, general and administrative expenses for Fiscal 2007 compared to twelve months of selling, general and administrative expenses for Fiscal 2006. The Constellation Spirits segment's selling, general and administrative expenses were up slightly primarily due to the recognition of stock-based compensation expense of $1.5 million. The Corporate Operations and Other segment's selling, general and administrative expenses were down slightly, primarily due to costs recognized in Fiscal 2006 associated with professional service fees incurred in connection with the Company's tender offer for Vincor that expired in December 2005 of $4.3 million and lower annual management incentive compensation expense in Fiscal 2007, partially offset by the recognition of stock-based compensation expense in Fiscal 2007 of $4.3 million and expenses associated with the formation of Crown Imports of $1.5 million. The increase in unusual costs was primarily due to the recognition of (i) $16.3 million of other charges associated with the Fiscal 2007 Wine Plan (primarily from the write-down of an Australian winery and certain Australian vineyards to fair value less cost to sell) and the Fiscal 2006 Plan, (ii) a $13.4 million loss on the sale of the Company's branded bottled water business resulting from the write-off of $27.7 million of non-deductible intangible assets, primarily goodwill, (iii) financing costs of $11.9 million related primarily to the Company's new senior credit facility entered into in connection with the Vincor acquisition and (iv) foreign currency losses of $5.4 million on foreign denominated intercompany loan balances associated with the Vincor acquisition. Selling, general and administrative expenses as a percent of net sales increased to 14.7% for Fiscal 2007 as compared to 13.3% for Fiscal 2006 primarily due to the increase in unusual costs and the recognition of stock-based compensation expense of $16.5 million.

Restructuring and Related Charges

The Company recorded $32.5 million of restructuring and related charges for Fiscal 2007 associated primarily with the Company's plan to invest in new distribution and bottling facilities in the U.K. and to streamline certain Australian wine operations (collectively, the "Fiscal 2007 Wine Plan") and the Company's worldwide wine reorganizations announced during Fiscal 2006 and the Company's program to consolidate certain west coast production processes in the U.S. (collectively, the "Fiscal 2006 Plan"). Restructuring and related charges included $5.9 million of employee termination benefit costs (net of reversal of prior accruals of $2.0 million), $25.6 million of contract termination costs and $1.0 million of facility consolidation/relocation costs (net of reversal of prior accruals of $0.4 million). In addition, in connection with the Fiscal 2007 Wine Plan, the Fiscal 2006 Plan and the Company's plan to restructure and integrate the operations of Vincor (the "Vincor Plan"), the Company recorded (i) $6.6 million of accelerated depreciation costs and $0.6 million of inventory write-downs and (ii) $16.3 million of other related costs which were recorded in the cost of product sold line and selling, general and administrative expenses line, respectively, within the Company's Consolidated Statements of Income. The Company recorded $29.3 million of restructuring and related charges for Fiscal 2006 associated primarily with the Fiscal 2006 Plan.

For Fiscal 2008, the Company expects to incur total restructuring and related charges of $4.5 million associated with the Fiscal 2006 Plan, Fiscal 2007 Wine Plan and Vincor Plan. In addition, with respect to these plans, the Company expects to incur total accelerated depreciation costs, other charges and inventory write-downs for Fiscal 2008 of $6.7 million, $1.9 million and $0.3 million, respectively.

Acquisition-Related Integration Costs

Acquisition-related integration costs increased to $23.6 million for Fiscal 2007 from $16.8 million for Fiscal 2006, an increase of $6.8 million, or 40%. Acquisition-related integration costs consisted of costs recorded primarily in connection with the Vincor Plan. Acquisition-related integration costs included $9.8 million of employee-related costs and $13.8 million of facilities and other one-time costs. The Company recorded $16.8 million of acquisition-related integration costs for Fiscal 2006 in connection with the Company's plan to restructure and integrate the operations of The Robert Mondavi Corporation (the "Robert Mondavi Plan").

For Fiscal 2008, the Company expects to incur total acquisition-related integration costs of $10.2 million, including $0.5 million of employee-related costs and $9.7 million of facilities and other one-time costs, primarily in connection with the Vincor Plan.

Operating Income

The following table sets forth the operating income (loss) (in millions of dollars) by operating segment of the Company for Fiscal 2007 and Fiscal 2006.

	Fiscal 2007 Compared to Fiscal 2006 Operating Income (Loss)		
	2007	2006	% Increase (Decrease)
Constellation Wines	$ 629.9	$ 530.4	19 %
Constellation Beers	208.1	219.2	(5)%
Constellation Spirits	65.5	73.4	(11)%
Corporate Operations and Other	(60.9)	(63.0)	3 %
Crown Imports	78.4	-	N/A
Consolidations and eliminations	(78.4)	-	N/A
Total Reportable Segments	842.6	760.0	11 %
Acquisition-Related Integration Costs, Restructuring and Related Charges and Unusual Costs	(143.6)	(93.9)	53 %
Consolidated Operating Income	$ 699.0	$ 666.1	5 %

35

As a result of the factors discussed above, consolidated operating income increased to $699.0 million for Fiscal 2007 from $666.1 million for Fiscal 2006, an increase of $32.9 million, or 5%. Acquisition-related integration costs, restructuring and related charges and unusual costs of $143.6 million for Fiscal 2007 consist of certain costs that are excluded by management in their evaluation of the results of each operating segment. These costs represent restructuring and related charges of $32.5 million associated primarily with the Fiscal 2007 Wine Plan and Fiscal 2006 Plan; the flow through of inventory step-up of $30.2 million associated primarily with the Company's acquisition of Vincor; acquisition-related integration costs of $23.6 million associated primarily with the Vincor Plan; other charges of $16.3 million associated with the Fiscal 2007 Wine Plan and Fiscal 2006 Plan included within selling, general and administrative expenses; loss on the sale of the branded bottled water business of $13.4 million; financing costs of $11.9 million related primarily to the Company's new senior credit facility entered into in connection with the Vincor acquisition; foreign currency losses of $5.4 million on foreign denominated intercompany loan balances associated with the Vincor acquisition; the flow through of adverse grape cost of $3.1 million associated with the acquisition of Robert Mondavi; and accelerated depreciation costs and the write-down of certain inventory of $6.6 million and $0.6 million, respectively, associated primarily with the Fiscal 2006 Plan and Fiscal 2007 Wine Plan. Acquisition-related integration costs, restructuring and related charges and unusual costs of $93.9 million for Fiscal 2006 represent restructuring and related charges of $29.3 million associated primarily with the Fiscal 2006 Plan and the Robert Mondavi Plan; the flow through of adverse grape cost, acquisition-related integration costs, and the flow through of inventory step-up associated primarily with the Company's acquisition of Robert Mondavi of $23.0 million, $16.8 million, and $7.9 million, respectively; accelerated depreciation costs and other charges of $13.4 million and $0.1 million, respectively, associated with the Fiscal 2006 Plan; and costs associated with professional service fees incurred for due diligence in connection with the Company's evaluation of a potential offer for Allied Domecq of $3.4 million.

Equity in Earnings of Equity Method Investees

The Company's equity in earnings of equity method investees increased to $49.9 million in Fiscal 2007 from $0.8 million in Fiscal 2006, an increase of $49.1 million. This increase is primarily due to (i) the January 2, 2007, consummation of the beer joint venture and the reporting of the results of operations of the joint venture since that date under the equity method of accounting of $38.9 million, and (ii) an increase of $8.1 million associated with the Company's investment in Ruffino due primarily to the write-down in Fiscal 2006 of certain pre-acquisition Ruffino inventories.

Gain on Change in Fair Value of Derivative Instrument

In April 2006, the Company entered into a foreign currency forward contract in connection with the acquisition of Vincor to fix the U.S. dollar cost of the acquisition and the payment of certain outstanding indebtedness. For Fiscal 2007, the Company recorded a gain of $55.1 million in connection with this derivative instrument. Under SFAS No. 133, a transaction that involves a business combination is not eligible for hedge accounting treatment. As such, the gain was recognized separately on the Company's Consolidated Statements of Income.

Interest Expense, Net

Interest expense, net of interest income of $5.4 million and $4.2 million for Fiscal 2007 and Fiscal 2006, respectively, increased to $268.7 million for Fiscal 2007 from $189.6 million for Fiscal 2006, an increase of $79.1 million, or 41.7%. The increase resulted from both higher average borrowings in Fiscal 2007 (primarily as a result of the financing of the Vincor acquisition) and higher average interest rates.

Provision for Income Taxes

The Company's effective tax rate increased to 38.0% for Fiscal 2007 from 31.8% for Fiscal 2006, an increase of 6.2%. In Fiscal 2007, the Company sold its branded bottled water business that resulted in the write-off of $27.7 million of non-deductible intangible assets, primarily goodwill. The provision for income taxes on the sale of the branded bottled water business increased the Company's effective tax rate for Fiscal 2007. In addition, the effective tax rate for Fiscal 2006 reflected the benefits recorded for adjustments to income tax accruals of $16.2 million in connection with the completion of various income tax examinations as well as the preliminary conclusion regarding the impact of the American Jobs Creation Act of 2004 on planned distributions of certain foreign earnings.

Net Income

As a result of the above factors, net income increased to $331.9 million for Fiscal 2007 from $325.3 million for Fiscal 2006, an increase of $6.6 million, or 2%.

Fiscal 2006 Compared to Fiscal 2005

Net Sales

The following table sets forth the net sales (in millions of dollars) by operating segment of the Company for Fiscal 2006 and Fiscal 2005.

	Fiscal 2006 Compared to Fiscal 2005 Net Sales		
	2006	2005	% Increase (Decrease)
Constellation Wines:			
Branded wine	$ 2,263.4	$ 1,830.8	24 %
Wholesale and other	972.0	1,020.6	(5)%
Constellation Wines net sales	3,235.4	2,851.4	13 %
Constellation Beers net sales	1,043.5	922.9	13 %
Constellation Spirits net sales	324.6	313.3	4 %
Consolidated Net Sales	$ 4,603.5	$ 4,087.6	13 %

Net sales for Fiscal 2006 increased to $4,603.5 million from $4,087.6 million for Fiscal 2005, an increase of $515.9 million, or 13%. This increase resulted primarily from an increase in branded wine net sales of $440.1 million (on a constant currency basis) and imported beer net sales of $120.5 million, partially offset by an unfavorable foreign currency impact of $35.5 million.

Constellation Wines

Net sales for Constellation Wines increased to $3,235.4 million for Fiscal 2006 from $2,851.4 million in Fiscal 2005, an increase of $384.0 million, or 13%. Branded wine net sales increased $432.6 million primarily from $337.5 million of net sales of the acquired Robert Mondavi brands and $43.6 million of net sales of Ruffino brands, which the Company began distributing in the U.S. on February 1, 2005, as well as a $51.5 million increase in branded wine net sales (excluding sales of Robert Mondavi and Ruffino brands). The $51.5 million increase is due primarily to growth in the Company's branded wine net sales in the U.S. of $45.2 million resulting from a $28.2 million benefit from a shift in the mix of sales towards higher priced products and $17.0 million from new product introductions. Wholesale and other net sales decreased $48.5 million ($20.5 million on a constant currency basis) as constant currency growth in the U.K. wholesale business of $13.0 million was more than offset by a decrease in other net sales of $33.5 million. The decrease in other net sales is primarily due to the Company's Fiscal 2004 decision to exit the commodity concentrate business during Fiscal 2005.

Constellation Beers

Net sales for Constellation Beers increased to $1,043.5 million for Fiscal 2006 from $922.9 million for Fiscal 2005, an increase of $120.6 million, or 13%. This increase resulted from volume growth in the Company's Mexican beer portfolio resulting from increased retail consumer demand.

Constellation Spirits

Net sales for Constellation Spirits increased to $324.6 million for Fiscal 2006 from $313.3 million for Fiscal 2005, an increase of $11.3 million, or 4%. This increase is attributable primarily to an increase in the Company's contract production net sales for Fiscal 2006.

Gross Profit

The Company's gross profit increased to $1,324.6 million for Fiscal 2006 from $1,140.6 million for Fiscal 2005, an increase of $184.0 million, or 16%. The Constellation Wines segment's gross profit increased $191.0 million primarily due to the additional gross profit of $171.7 million from the Robert Mondavi acquisition and additional gross profit of $50.4 million from branded wine net sales in the U.S. primarily due to the favorable mix of sales towards higher margin products and new product introductions, partially offset by reduced gross profit of $41.5 million from the decrease in other net sales. The Constellation Beers segment's gross profit increased $18.1 million primarily due to volume growth in the Company's Mexican beer portfolio of $37.4 million, partially offset by higher Mexican beer product costs of $9.5 million and transportation costs of $4.0 million. However, in connection with certain supply arrangements, the higher Mexican beer product costs were offset by a corresponding decrease in advertising expenses resulting in no impact to operating income. The Constellation Spirits segment's gross profit increased $2.9 million. In addition, unusual items, which consist of certain costs that are excluded by management in their evaluation of the results of each operating segment, were higher by $28.1 million in Fiscal 2006 versus Fiscal 2005. This increase resulted primarily from accelerated depreciation costs associated with the Fiscal 2006 Plan (as defined below) of $13.4 million and increased flow through of adverse grape cost associated with the Robert Mondavi acquisition of $13.2 million. Gross profit as a percent of net sales increased to 28.8% for Fiscal 2006 from 27.9% for Fiscal 2005 primarily due to sales of higher-margin wine brands acquired in the Robert Mondavi acquisition, partially offset by the higher unusual items and higher Mexican beer product costs and transportation costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $612.4 million for Fiscal 2006 from $555.7 million for Fiscal 2005, an increase of $56.7 million, or 10%. The Constellation Wines segment's selling, general and administrative expenses increased $67.2 million primarily due to increased selling expenses of $31.6 million, general and administrative expenses of $26.8 million, and advertising expenses of $8.8 million to support the growth in the segment's business, primarily due to the costs related to the brands acquired in the Robert Mondavi acquisition. Included in the increase in general and administrative expenses was an expense of $6.4 million associated with the segment's U.K. defined benefit pension plan related to a reduction in the period over which unrecognized actuarial losses are amortized. The Constellation Beers segment's selling, general and administrative expenses decreased $4.3 million due to lower advertising expenses of $8.3 million, partially offset by increased selling expenses of $3.1 million and general and administrative expenses of $0.9 million. The Constellation Spirits segment's selling, general and administrative expenses increased $9.0 million due primarily to increased advertising expenses of $5.2 million and selling expenses of $4.2 million. The Corporate Operations and Other segment's selling, general and administrative expenses increased $7.0 million primarily due to costs associated with professional service fees incurred in connection with the Company's tender offer for Vincor that expired in December 2005 of $4.3 million and increased general and administrative expenses of $2.7 million to support the Company's growth. Lastly, there was a decrease of $22.1 million of unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment. Fiscal 2006 included costs associated primarily with professional service fees incurred for due diligence in connection with the Company's evaluation of a potential offer for Allied Domecq of $3.4 million. Fiscal 2005 costs included $31.7 million of financing costs recorded in Fiscal 2005 related to (i) the Company's redemption of its $200.0 million aggregate principal amount of 8 1/2% Senior Subordinated Notes due March 2009 (the "Senior Subordinated Notes") of $10.3 million and (ii) the Company's new senior credit facility entered into in connection with the Robert Mondavi acquisition of $21.4 million, partially offset by net gains of $6.1 million recorded in Fiscal 2005 on the sales of non-strategic assets of $3.1 million and the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture of $3.0 million. Selling, general and administrative expenses as a percent of net sales decreased to 13.3% for Fiscal 2006 as compared to 13.6% for Fiscal 2005 primarily due to the decrease in unusual costs.

Restructuring and Related Charges

The Company recorded $29.3 million of restructuring and related charges for Fiscal 2006 associated with the restructuring plans of the Constellation Wines segment. Restructuring and related charges resulted from (i) the further realignment of business operations and the Company's plan to exit the commodity concentrate product line in the U.S., both announced during fiscal 2004, (the "Fiscal 2004 Plan"), (ii) the Robert Mondavi Plan, and (iii) the Fiscal 2006 Plan. Restructuring and related charges recorded in connection with the Fiscal 2004 Plan included $0.7 million of employee termination benefit costs and $1.3 million of facility consolidation and relocation costs. Restructuring and related charges recorded in connection with the Robert Mondavi Plan included $1.6 million of employee termination benefit costs, $0.7 million of contract termination costs and $0.5 million of facility consolidation and relocation costs. Restructuring and related charges recorded in connection with the Fiscal 2006 Plan included $24.3 million of employee termination benefit costs and $0.2 million of facility consolidation and relocation costs. In addition, in connection with the Fiscal 2006 Plan, the Company recorded (i) $13.4 million of accelerated depreciation costs in connection with the Company's investment in new assets and reconfiguration of certain existing assets under the plan and (ii) $0.1 million of other related costs which were recorded in the cost of product sold line and the selling, general and administrative expenses line, respectively, within the Consolidated Statements of Income. The Company recorded $7.6 million of restructuring and related charges for Fiscal 2005 associated with the Fiscal 2004 Plan and the Robert Mondavi Plan.

Acquisition-Related Integration Costs

The Company recorded $16.8 million of acquisition-related integration costs for Fiscal 2006 in connection with the Robert Mondavi Plan. Acquisition-related integration costs included $5.3 million of employee-related costs and $11.5 million of facilities and other one-time costs. The Company recorded $9.4 million of acquisition-related integration costs for Fiscal 2005 in connection with the Robert Mondavi Plan.

Operating Income

The following table sets forth the operating income (loss) (in millions of dollars) by operating segment of the Company for Fiscal 2006 and Fiscal 2005.

	Fiscal 2006 Compared to Fiscal 2005 Operating Income (Loss)		
	2006	2005	% Increase (Decrease)
Constellation Wines	$ 530.4	$ 406.6	30 %
Constellation Beers	219.2	196.8	11 %
Constellation Spirits	73.4	79.3	(7)%
Corporate Operations and Other	(63.0)	(56.0)	13 %
Total Reportable Segments	760.0	626.7	21 %
Acquisition-Related Integration Costs, Restructuring and Related Charges and Net Unusual Costs	(93.9)	(58.8)	60 %
Consolidated Operating Income	$ 666.1	$ 567.9	17 %

As a result of the factors discussed above, consolidated operating income increased to $666.1 million for Fiscal 2006 from $567.9 million for Fiscal 2005, an increase of $98.2 million, or 17%. Acquisition-related integration costs, restructuring and related charges and unusual costs of $93.9 million for Fiscal 2006 consist of certain costs that are excluded by management in their evaluation of the results of each operating segment. These costs represent restructuring and related charges of $29.3 million associated primarily with the Fiscal 2006 Plan and the Robert Mondavi Plan; the flow through of adverse grape cost, acquisition-related integration costs, and the flow through of inventory step-up associated primarily with the Company's acquisition of Robert Mondavi of $23.0 million, $16.8 million, and $7.9 million, respectively; accelerated depreciation costs and other charges of $13.4 million and $0.1 million, respectively, associated with the Fiscal 2006 Plan; and costs associated with professional service fees incurred for due diligence in connection with the Company's evaluation of a potential offer for Allied Domecq of $3.4 million. Acquisition-related integration costs, restructuring and related charges and unusual costs of $58.8 million for Fiscal 2005 consist of financing costs associated with the redemption of the Company's Senior Subordinated Notes and the repayment of the Company's prior senior credit facility in connection with the Robert Mondavi acquisition of $31.7 million; the flow through of adverse grape cost and acquisition-related integration costs associated with the Robert Mondavi acquisition of $9.8 million and $9.4 million, respectively; restructuring and related charges of $7.6 million associated with the Fiscal 2004 Plan and the Robert Mondavi Plan; and the flow through of inventory step-up associated primarily with the acquisition of all of the outstanding capital stock of BRL Hardy Limited, now known as Hardy Wine Company Limited (the "Hardy Acquisition") of $6.4 million; partially offset by a net gain on the sale of non-strategic assets of $3.1 million and a gain related to the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture of $3.0 million.

40

Equity in Earnings of Equity Method Investees

The Company's equity in earnings of equity method investees decreased to $0.8 million in Fiscal 2006 from $1.8 million in Fiscal 2005, a decrease of $0.9 million due primarily to a $5.0 million loss from the Company's investment in Ruffino, partially offset by an increase in earnings of $4.1 million associated primarily with the Company's investment in Opus One as a result of the Robert Mondavi acquisition. The $5.0 million loss from the Company's investment in Ruffino is due primarily to the write-down of certain pre-acquisition Ruffino inventories.

Interest Expense, Net

Interest expense, net of interest income of $4.2 million and $2.3 million for Fiscal 2006 and Fiscal 2005, respectively, increased to $189.7 million for Fiscal 2006 from $137.7 million for Fiscal 2005, an increase of $52.0 million, or 38%. The increase resulted primarily from higher average borrowings in Fiscal 2006 primarily due to the Robert Mondavi acquisition and the investment in Ruffino in the fourth quarter of fiscal 2005.

Provision for Income Taxes

The Company's effective tax rate was 31.8% for Fiscal 2006 and 36.0% for Fiscal 2005, a decrease of 4.2%. This decrease was primarily due to a non-cash reduction in the Company's provision for income taxes of $16.2 million, or 3.4%, as a result of adjustments to income tax accruals in connection with the completion of various income tax examinations plus the income tax benefit the Company recorded under the repatriation provisions of the "American Jobs Creation Act of 2004" in connection with distributions of certain foreign earnings.

Net Income

As a result of the above factors, net income increased to $325.3 million for Fiscal 2006 from $276.5 million for Fiscal 2005, an increase of $48.8 million, or 18%.

Financial Liquidity and Capital Resources

General

The Company's principal use of cash in its operating activities is for purchasing and carrying inventories and carrying seasonal accounts receivable. The Company's primary source of liquidity has historically been cash flow from operations, except during annual grape harvests when the Company has relied on short-term borrowings. In the United States, the annual grape crush normally begins in August and runs through October. In Australia, the annual grape crush normally begins in February and runs through May. The Company generally begins taking delivery of grapes at the beginning of the crush season with payments for such grapes beginning to come due one month later. The Company's short-term borrowings to support such purchases generally reach their highest levels one to two months after the crush season has ended. Historically, the Company has used cash flow from operating activities to repay its short-term borrowings and fund capital expenditures. The Company will continue to use its short-term borrowings to support its working capital requirements. The Company believes that cash provided by operating activities and its financing activities, primarily short-term borrowings, will provide adequate resources to satisfy its working capital, scheduled principal and interest payments on debt, and anticipated capital expenditure requirements for both its short-term and long-term capital needs.

Fiscal 2007 Cash Flows

Operating Activities

Net cash provided by operating activities for Fiscal 2007 was $313.2 million, which resulted from $331.9 million of net income, plus $199.8 million of net non-cash items charged to the Consolidated Statement of Income, less $163.4 million representing the net change in the Company's operating assets and liabilities and $55.1 million of proceeds from maturity of derivative instrument reflected in investing activities.

The net non-cash items consisted primarily of depreciation of property, plant and equipment, the deferred tax provision and equity in earnings of equity method investments. The net change in operating assets and liabilities resulted primarily from a decrease in other accrued expenses and liabilities of $157.2 million and an increase in inventories of $85.1 million, partially offset by a decrease in prepaid expenses and other current assets of $44.3 million. The decrease in other accrued expenses and liabilities is primarily due to the settlement of an outstanding marketing accrual in connection with the Company's prior Mexican beers distribution agreement, settlement of restructuring accruals, increased income tax payments, and payments of non-recurring liabilities assumed in connection with the Vincor acquisition. The increase in inventories was primarily due to the build-up of the imported beer inventories prior to the Company's contribution of the beer business to Crown Imports. As Crown Imports began selling and importing under the Importer Agreement in the 50 states of the United States of America, the District of Columbia and Guam on January 2, 2007, it was necessary to increase inventory levels in order to ensure there were adequate inventory levels to support the additional territories. The decrease in prepaid expenses and other current assets is primarily due to a decrease in prepaid marketing expense due to the settlement of the outstanding marketing accrual in connection with the Company's prior Mexican beers distribution agreement noted above.

Investing Activities

Net cash used in investing activities for Fiscal 2007 was $1,197.1 million, which resulted primarily from $1,093.7 million for the purchase of a business and $192.0 million of capital expenditures, partially offset by $55.1 million of proceeds from maturity of derivative instrument entered into to fix the U.S. dollar cost of the acquisition of Vincor.

Financing Activities

Net cash provided by financing activities for Fiscal 2007 was $925.2 million resulting primarily from proceeds from issuance of long-term debt of $3,705.4 million, net proceeds of $63.4 million from the exercise of employee stock options and net proceeds of $47.1 million from notes payable partially offset by principal payments of long-term debt of $2,786.9 million and purchases of treasury stock of $100.0 million.

Fiscal 2006 Cash Flows

Operating Activities

Net cash provided by operating activities for Fiscal 2006 was $436.0 million, which resulted from $325.3 million of net income, plus $167.2 million of net non-cash items charged to the Consolidated Statements of Income and $48.8 million of cash proceeds credited to accumulated other comprehensive income ("AOCI") within the Consolidated Balance Sheet, less $105.2 million representing the net change in the Company's operating assets and liabilities.

The net non-cash items consisted primarily of depreciation of property, plant and equipment and deferred tax provision. The cash proceeds credited to AOCI consisted of $30.3 million in proceeds from the unwinding of certain interest rate swaps (see discussion below under Senior Credit Facilities) and $18.5 million in proceeds from the early termination of certain foreign currency derivative instruments related to the Company's change in its structure of certain of its cash flow hedges of forecasted foreign currency denominated transactions. As the forecasted transactions are still probable, this amount was recorded to AOCI and will be reclassified from AOCI into earnings in the same periods in which the original hedged items are recorded in the Consolidated Statements of Income. The net change in operating assets and liabilities resulted primarily from an increase in inventories of $121.9 million and decreases in restructuring accruals and accrued advertising and promotion of $31.8 million and $19.2 million, respectively, partially offset by a decrease in accounts receivable of $44.2 million. The increase in inventories was due primarily to higher than expected yields for the 2005 calendar grape harvests for both the U.S. and Australia. The decreases in restructuring accruals and accrued advertising and promotion accruals were primarily due to timing of cash payments. The decrease in accounts receivable was due primarily to efforts in the Company's U.K. business to reduce the number of days sales outstanding in its accounts receivables.

Investing Activities

Net cash used in investing activities for Fiscal 2006 was $15.6 million, which resulted primarily from $132.5 million of capital expenditures and net cash paid of $45.9 million for purchases of businesses, partially offset by $173.5 million of net proceeds from sales of assets, equity method investment, and businesses, primarily attributable to sales of non-strategic Robert Mondavi assets.

Financing Activities

Net cash used in financing activities for Fiscal 2006 was $426.2 million resulting primarily from principal payments of long-term debt of $527.6 million partially offset by net proceeds of $63.8 million from notes payable and $31.5 million of proceeds from employee stock option exercises.

Share Repurchase Programs

During February 2006, the Company's Board of Directors replenished a June 1998 Board of Directors authorization to repurchase up to $100.0 million of the Company's Class A Common Stock and Class B Common Stock. During Fiscal 2007, the Company repurchased 3,894,978 shares of Class A Common Stock at an aggregate cost of $100.0 million, or at an average cost of $25.67 per share. The Company used revolver borrowings under the June 2006 Credit Agreement to pay the purchase price for these shares. No shares were repurchased during Fiscal 2006 or Fiscal 2005. During February 2007, the Company's Board of Directors authorized the repurchase of up to $500.0 million of the Company's Class A Common Stock and Class B Common Stock. Between the end of Fiscal 2007 and April 27, 2007, the Company repurchased 2,457,200 shares of Class A Common Stock pursuant to this authorization in open market transactions. The aggregate cost of these shares was $55.1 million, or an average cost of $22.44 per share. The Company used revolver borrowings under the 2006 Credit Agreement to pay the purchase price for these shares. The Company may finance future share repurchases through cash generated from operations or through revolver borrowings under the 2006 Credit Agreement. The repurchased shares will become treasury shares.

Debt

Total debt outstanding as of February 28, 2007, amounted to $4,185.5 million, an increase of $1,375.7 million from February 28, 2006. The ratio of total debt to total capitalization increased to 55.1% as of February 28, 2007, from 48.6% as of February 28, 2006, primarily as a result of the additional borrowings in the second quarter of fiscal 2007 to finance the acquisition of Vincor. If the Company's financing of the Svedka Acquisition, the repurchase of shares and the proceeds from the Matthew Clark joint venture had occurred as of February 28, 2007, the Company's ratio of total debt to total capitalization would have increased to 56.9%.

Senior Credit Facility

2006 Credit Agreement

In connection with the acquisition of Vincor, on June 5, 2006, the Company and certain of its U.S. subsidiaries, JPMorgan Chase Bank, N.A. as a lender and administrative agent, and certain other agents, lenders, and financial institutions entered into a new credit agreement (the "June 2006 Credit Agreement"). On February 23, 2007, the June 2006 Credit Agreement was amended (the "February Amendment"). The June 2006 Credit Agreement together with the February Amendment is referred to as the "2006 Credit Agreement". The 2006 Credit Agreement provides for aggregate credit facilities of $3.9 billion, consisting of a $1.2 billion tranche A term loan facility due in June 2011, a $1.8 billion tranche B term loan facility due in June 2013, and a $900 million revolving credit facility (including a sub-facility for letters of credit of up to $200 million) which terminates in June 2011. Proceeds of the June 2006 Credit Agreement were used to pay off the Company's obligations under its prior senior credit facility, to fund the acquisition of Vincor and to repay certain indebtedness of Vincor. The Company uses its revolving credit facility under the 2006 Credit Agreement for general corporate purposes, including working capital, on an as needed basis.

The tranche A term loan facility and the tranche B term loan facility were fully drawn on June 5, 2006. In August 2006, the Company used proceeds from the August 2006 Senior Notes (as defined below) to repay $180.0 million of the tranche A term loan and $200.0 million of the tranche B term loan. In addition, the Company prepaid an additional $100.0 million on the tranche B term loan in August 2006. As of February 28, 2007, the required principal repayments of the tranche A term loan and the tranche B term loan for each of the five succeeding fiscal years and thereafter are as follows:

(in millions)	Tranche A Term Loan	Tranche B Term Loan	Total
2008	$ 90.0	$ 7.6	$ 97.6
2009	210.0	15.2	225.2
2010	270.0	15.2	285.2
2011	300.0	15.2	315.2
2012	150.0	15.2	165.2
Thereafter	-	1,431.6	1,431.6
	$ 1,020.0	$ 1,500.0	$ 2,520.0

The rate of interest on borrowings under the 2006 Credit Agreement is a function of LIBOR plus a margin, the federal funds rate plus a margin, or the prime rate plus a margin. The margin is fixed with respect to the tranche B term loan facility and is adjustable based upon the Company's debt ratio (as defined in the 2006 Credit Agreement) with respect to the tranche A term loan facility and the revolving credit facility. As of February 28, 2007, the LIBOR margin for the revolving credit facility and the tranche A term loan facility is 1.25%, while the LIBOR margin on the tranche B term loan facility is 1.50%.

The February Amendment amended the June 2006 Credit Agreement to, among other things, (i) increase the revolving credit facility from $500.0 million to $900.0 million, which increased the aggregate credit facilities from $3.5 billion to $3.9 billion; (ii) increase the aggregate amount of cash payments the Company is permitted to make in respect or on account of its capital stock; (iii) remove certain limitations on the application of proceeds from the incurrence of senior unsecured indebtedness; (iv) increase the maximum permitted total “Debt Ratio” and decrease the required minimum “Interest Coverage Ratio”; and (v) eliminate the “Senior Debt Ratio” covenant and the “Fixed Charges Ratio” covenant.

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

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

As of February 28, 2007, under the 2006 Credit Agreement, the Company had outstanding tranche A term loans of $1.0 billion bearing an interest rate of 6.6%, tranche B term loans of $1.5 billion bearing an interest rate of 6.9%, revolving loans of $30.0 million bearing an interest rate of 6.6%, outstanding letters of credit of $50.9 million, and $819.1 million in revolving loans available to be drawn.

As of April 27, 2007, reflecting the Company's activities subsequent to February 28, 2007, the Company had outstanding tranche A term loans of $1.0 billion bearing an interest rate of 6.6%, tranche B term loans of $1.5 billion bearing an interest rate of 6.9%, revolving loans of $337.5 million bearing an interest rate of 6.6%, outstanding letters of credit of $40.7 million, and $521.8 million in revolving loans available to be drawn, under the 2006 Credit Agreement.

In March 2005, the Company replaced its then outstanding five year interest rate swap agreements with new five year delayed start interest rate swap agreements effective March 1, 2006, which are outstanding as of February 28, 2007. These delayed start interest rate swap agreements extended the original hedged period through fiscal 2010. The swap agreements fixed LIBOR interest rates on $1,200.0 million of the Company’s floating LIBOR rate debt at an average rate of 4.1% over the five year term. The Company received $30.3 million in proceeds from the unwinding of the original swaps. This amount will be reclassified from Accumulated Other Comprehensive Income (“AOCI”) ratably into earnings in the same period in which the original hedged item is recorded in the Consolidated Statements of Income. For Fiscal 2007 and Fiscal 2006, the Company reclassified $5.9 million and $3.6 million, respectively, from AOCI to Interest Expense, net in the Company’s Consolidated Statements of Income. This non-cash operating activity is included in the Other, net line in the Company’s Consolidated Statements of Cash Flows.

Senior Notes

On August 4, 1999, the Company issued $200.0 million aggregate principal amount of 8 5/8% Senior Notes due August 2006 (the “August 1999 Senior Notes”). On August 1, 2006, the Company repaid the August 1999 Senior Notes with proceeds from its revolving credit facility under the June 2006 Credit Agreement.

As of February 28, 2007, the Company had outstanding £1.0 million ($2.0 million) aggregate principal amount of 8 1/2% Series B Senior Notes due November 2009 (the "Sterling Series B Senior Notes"). In addition, as of February 28, 2007, the Company had outstanding £154.0 million ($302.1 million, net of $0.3 million unamortized discount) aggregate principal amount of 8 1/2% Series C Senior Notes due November 2009 (the "Sterling Series C Senior Notes"). The Sterling Series B Senior Notes and Sterling Series C Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

Also, as of February 28, 2007, the Company had outstanding $200.0 million aggregate principal amount of 8% Senior Notes due February 2008 (the "February 2001 Senior Notes"). The February 2001 Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

On August 15, 2006, the Company issued $700.0 million aggregate principal amount of 7 1/4% Senior Notes due September 2016 at an issuance price of $693.1 million (net of $6.9 million unamortized discount, with an effective interest rate of 7.4%) (the "August 2006 Senior Notes"). The net proceeds of the offering ($685.6 million) were used to reduce a corresponding amount of borrowings under the Company's June 2006 Credit Agreement. Interest on the August 2006 Senior Notes is payable semiannually on March 1 and September 1 of each year, beginning March 1, 2007. The August 2006 Senior Notes are redeemable, in whole or in part, at the option of the Company at any time at a redemption price equal to 100% of the outstanding principal amount and a make whole payment based on the present value of the future payments at the adjusted Treasury rate plus 50 basis points. The August 2006 Senior Notes are senior unsecured obligations and rank equally in right of payment to all existing and future senior unsecured indebtedness of the Company. Certain of the Company's significant operating subsidiaries guarantee the August 2006 Senior Notes, on a senior basis. As of February 28, 2007, the Company had outstanding $693.4 million (net of $6.6 million unamortized discount) aggregate principal amount of August 2006 Senior Notes.

Senior Subordinated Notes

As of February 28, 2007, the Company had outstanding $250.0 million aggregate principal amount of 8 1/8% Senior Subordinated Notes due January 2012 (the "January 2002 Senior Subordinated Notes"). The January 2002 Senior Subordinated Notes are currently redeemable, in whole or in part, at the option of the Company.

Subsidiary Credit Facilities

In addition to the above arrangements, the Company has additional credit arrangements totaling $386.1 million as of February 28, 2007. These arrangements primarily support the financing needs of the Company's domestic and foreign subsidiary operations. Interest rates and other terms of these borrowings vary from country to country, depending on local market conditions. As of February 28, 2007, and February 28, 2006, amounts outstanding under these arrangements were $188.0 million and $69.8 million, respectively.

Contractual Obligations and Commitments

The following table sets forth information about the Company's long-term contractual obligations outstanding at February 28, 2007. It brings together data for easy reference from the consolidated balance sheet and from individual notes to the Company's consolidated financial statements. See Notes 8, 9, 11, 12, 13 and 14 to the Company's consolidated financial statements located in Item 8 of this Annual Report on Form 10-K for detailed discussion of items noted in the following table.

	PAYMENTS DUE BY PERIOD				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
(in millions)					
Contractual obligations					
Notes payable to banks	$ 153.3	$ 153.3	$ -	$ -	$ -
Interest payments on notes payable to banks[1]	10.3	10.3	-	-	-
Long-term debt (excluding unamortized discount)	4,039.1	317.3	841.2	736.0	2,144.6
Interest payments on long-term debt[2]	1,386.9	275.6	473.7	361.0	276.6
Operating leases	540.3	72.9	122.9	73.8	270.7
Other long-term liabilities	303.9	76.3	88.5	61.6	77.5
Unconditional purchase obligations[3]	2,320.7	466.7	692.3	414.3	747.4
Total contractual obligations	$ 8,754.5	$ 1,372.4	$ 2,218.6	$ 1,646.7	$ 3,516.8

(1) Interest payments on notes payable to banks include interest on both revolving loans under the Company's senior credit facility and on foreign subsidiary facilities. The weighted average interest rate on the revolving loans under the Company's senior credit facility was 6.6% as of February 28, 2007. Interest rates on foreign subsidiary facilities range from 1.8% to 9.2% as of February 28, 2007.

(2) Interest rates on long-term debt obligations range from 6.4% to 8.5%. Interest payments on long-term debt obligations include amounts associated with the Company's outstanding interest rate swap agreements to fix LIBOR interest rates on $1,200.0 million of the Company's floating LIBOR rate debt. Interest payments on long-term debt do not include interest related to capital lease obligations or certain foreign credit arrangements, which represent approximately 1.6% of the Company's total long-term debt, as amounts are not material.

(3) Total unconditional purchase obligations consist of $26.0 million for contracts to purchase various spirits over the next six fiscal years, $2,182.2 million for contracts to purchase grapes over the next eighteen fiscal years, $82.5 million for contracts to purchase bulk wine over the next four fiscal years and $30.0 million for processing contracts over the next four fiscal years. See Note 14 to the Company's consolidated financial statements located in Item 8 of this Annual Report on Form 10-K for a detailed discussion of these items.

Capital Expenditures

During Fiscal 2007, the Company incurred $192.0 million for capital expenditures. The Company plans to spend approximately $165 million for capital expenditures in Fiscal 2008. In addition, the Company continues to consider the purchase, lease and development of vineyards and may incur additional expenditures for vineyards if opportunities become available. See "Business - Sources and Availability of Raw Materials" under Item 1 of this Annual Report on Form 10-K. Management reviews the capital expenditure program periodically and modifies it as required to meet current business needs.

Effects of Inflation and Changing Prices

The Company's results of operations and financial condition have not been significantly affected by inflation and changing prices. The Company has been able, subject to normal competitive conditions, to pass along rising costs through increased selling prices and identifying on-going cost savings initiatives. There can be no assurances, however, that the Company will continue to be able to pass along rising costs through increased selling prices.

Critical Accounting Policies

The Company's significant accounting policies are more fully described in Note 1 to the Company's consolidated financial statements located in Item 8 of this Annual Report on Form 10-K. However, certain of the Company's accounting policies are particularly important to the portrayal of the Company's financial position and results of operations and require the application of significant judgment by the Company's management; as a result they are subject to an inherent degree of uncertainty. In applying those policies, the Company's management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on the Company's historical experience, the Company's observance of trends in the industry, information provided by the Company's customers and information available from other outside sources, as appropriate. On an ongoing basis, the Company reviews its estimates to ensure that they appropriately reflect changes in the Company's business. The Company's critical accounting policies include:

- *Accounting for promotional activities.* Sales reflect reductions attributable to consideration given to customers in various customer incentive programs, including pricing discounts on single transactions, volume discounts, promotional and advertising allowances, coupons, and rebates. Certain customer incentive programs require management to estimate the cost of those programs. The accrued liability for these programs is determined through analysis of programs offered, historical trends, expectations regarding customer and consumer participation, sales and payment trends, and experience with payment patterns associated with similar programs that had been previously offered. If assumptions included in the Company's estimates were to change or market conditions were to change, then material incremental reductions to revenue could be required, which would have a material adverse impact on the Company's financial statements. Promotional costs were $635.6 million, $501.9 million and $390.9 million for Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively. Accrued promotion costs were $150.3 million and $135.4 million as of February 28, 2007, and February 28, 2006, respectively.

- *Inventory valuation.* Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out method. The Company assesses the valuation of its inventories and reduces the carrying value of those inventories that are obsolete or in excess of the Company's forecasted usage to their estimated net realizable value. The Company estimates the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements. Reductions to the carrying value of inventories are recorded in cost of product sold. If the future demand for the Company's products is less favorable than the Company's forecasts, then the value of the inventories may be required to be reduced, which could result in material additional expense to the Company and have a material adverse impact on the Company's financial statements. Inventories were $1,948.1 million and $1,704.4 million as of February 28, 2007, and February 28, 2006, respectively.

- *Accounting for business combinations.* The acquisition of businesses is an important element of the Company's strategy. Under the purchase method, the Company is required to record the net assets acquired at the estimated fair value at the date of acquisition. The determination of the fair value of the assets acquired and liabilities assumed requires the Company to make estimates and assumptions that affect the Company's financial statements. For example, the Company's acquisitions typically result in goodwill and other intangible assets; the value and estimated life of those assets may affect the amount of future period amortization expense for intangible assets with finite lives as well as possible impairment charges that may be incurred. Amortization expense for amortizable intangible assets was $2.8 million, $1.9 million and $2.8 million for Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively. Amortizable intangible assets were $39.3 million and $11.9 million as of February 28, 2007, and February 28, 2006, respectively.

- *Impairment of goodwill and intangible assets with indefinite lives.* Intangible assets with indefinite lives consist primarily of trademarks as well as agency relationships. The Company is required to analyze its goodwill and other intangible assets with indefinite lives for impairment on an annual basis as well as when events and circumstances indicate that an impairment may have occurred. Certain factors that may occur and indicate that an impairment exists include, but are not limited to, operating results that are lower than expected and adverse industry or market economic trends. The impairment testing requires management to estimate the fair value of the assets or reporting unit and record an impairment loss for the excess of the carrying value over the fair value. The estimate of fair value of the assets is generally determined on the basis of discounted future cash flows. The estimate of fair value of the reporting unit is generally determined on the basis of discounted future cash flows supplemented by the market approach. In estimating the fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings and other factors. The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and other intangible assets and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. If these estimates or their related assumptions change in the future, the Company may be required to record an impairment loss for these assets. The recording of any resulting impairment loss could have a material adverse impact on the Company's financial statements. The most significant assumptions used in the discounted future cash flows calculation to determine the fair value of the Company's reporting units and the fair value of intangible assets with indefinite lives in connection with impairment testing are: (i) the discount rate, (ii) the expected long-term growth rate and (iii) the annual cash flow projections. If the Company used a discount rate that was 50 basis points higher or used an expected long-term growth rate that was 50 basis points lower or used annual cash flow projections that were 100 basis points lower in its impairment testing of goodwill, then each change individually would not have resulted in the carrying value of the net assets of the reporting unit, including its goodwill, exceeding the fair value. If the Company used a discount rate that was 50 basis points higher or used an expected long-term growth rate that was 50 basis points lower or used annual cash flow projections that were 100 basis points lower in its impairment testing of intangible assets with indefinite lives, then the changes individually, for only the discount rate and the expected long-term growth rate, would have resulted in only one unit of accounting's carrying value exceeding the fair value by an immaterial amount. For this sensitivity analysis, the Company excluded reporting units and units of accounting acquired during Fiscal 2007 and reporting units disposed of after the annual testing date.

The Company recorded an immaterial impairment loss for Fiscal 2007 for intangible assets with indefinite lives associated with assets held-for-sale. No impairment loss was recorded in Fiscal 2006 and Fiscal 2005. With regard to goodwill, no impairment loss was recorded in Fiscal 2007, Fiscal 2006 and Fiscal 2005. Intangible assets with indefinite lives were $1,096.1 million and $872.0 million as of February 28, 2007, and February 28, 2006, respectively. Goodwill was $3,083.9 million and $2,193.6 million as of February 28, 2007, and February 28, 2006, respectively.

· *Accounting for Stock-Based Compensation.* The Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective transition method on March 1, 2006. Under the fair value recognition provisions of SFAS No. 123(R), stock-based compensation cost is calculated at the grant date based on the fair value of the award and is recognized as expense, net of estimated pre-vesting forfeitures, ratably over the vesting period of the award. In addition, SFAS No. 123(R) requires additional accounting related to the income tax effects and disclosure regarding the cash flow effects resulting from stock-based payment arrangements. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107, which provided supplemental implementation guidance for SFAS No. 123(R). The Company selected the Black-Scholes option-pricing model as the most appropriate fair value method for its awards granted after March 1, 2006. The calculation of fair value of stock-based awards requires the input of assumptions, including the expected term of the stock-based awards and the associated stock price volatility. The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, then stock-based compensation expense could be materially different in the future. If the Company used an expected term of the stock-based awards that was one year longer, the fair value of the stock-based awards would have increased by $5.9 million, resulting in an increase of $1.2 million of stock-based compensation expense for Fiscal 2007. If the Company used an expected term of the stock-based awards that was one year shorter, the fair value of the stock-based awards would have decreased by $6.3 million, resulting in a decrease of $1.3 million of stock-based compensation expense for Fiscal 2007. The total amount of stock-based compensation recognized under SFAS 123(R) was $18.1 million for Fiscal 2007, of which $16.5 million was expensed for Fiscal 2007 and $1.6 million was capitalized in inventory as of February 28, 2007.

Accounting Pronouncements Not Yet Adopted

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN No. 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company is required to adopt FIN No. 48 for fiscal years beginning March 1, 2007, with the cumulative effect of applying the provisions of FIN No. 48 reported as an adjustment to opening retained earnings. The Company is continuing to evaluate the financial impact of adopting FIN No. 48 on its consolidated financial statements. However, the Company does not expect the adoption of FIN No. 48 to have a material impact on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS No. 157"), "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing the asset or liability. The Company is required to adopt SFAS No. 157 for fiscal years and interim periods beginning March 1, 2008. The Company is currently assessing the financial impact of SFAS No. 157 on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 ("SFAS No. 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company has adopted this provision of SFAS No. 158 and has provided the required disclosures as of February 28, 2007. SFAS No. 158 also requires companies to measure the funded status of a plan as of the date of the company's fiscal year-end (with limited exceptions), which provision the Company is required to adopt as of February 28, 2009. The Company does not expect the adoption of the remaining provision of SFAS No. 158 to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("SFAS No. 159"), "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 allows companies to choose to measure eligible items at fair value at specified election dates. The Company will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (i) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (ii) is irrevocable (unless a new election date occurs); and (iii) is applied only to entire instruments and not to portions of instruments. The Company is required to adopt SFAS No. 159 for fiscal years beginning after February 28, 2009. The Company does not expect the adoption of SFAS No. 159 to have a material impact on its consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company, as a result of its global operating, acquisition and financing activities, is exposed to market risk associated with changes in foreign currency exchange rates and interest rates. To manage the volatility relating to these risks, the Company periodically purchases and/or sells derivative instruments including foreign currency exchange contracts and interest rate swap agreements. The Company uses derivative instruments solely to reduce the financial impact of these risks and does not use derivative instruments for trading purposes.

Foreign currency forward contracts are or may be used to hedge existing foreign currency denominated assets and liabilities, forecasted foreign currency denominated sales both to third parties as well as intercompany sales, intercompany principal and interest payments, and in connection with acquisitions or joint venture investments outside the U.S. As of February 28, 2007, the Company had exposures to foreign currency risk primarily related to the Australian dollar, euro, New Zealand dollar, British pound sterling, Canadian dollar and Mexican peso.

As of February 28, 2007, and February 28, 2006, the Company had outstanding foreign exchange derivative instruments with a notional value of $2,383.3 million and $1,254.7 million, respectively. Approximately 69% of the Company's total exposures were hedged as of February 28, 2007. Using a sensitivity analysis based on estimated fair value of open contracts using forward rates, if the contract base currency had been 10% weaker as of February 28, 2007, and February 28, 2006, the fair value of open foreign exchange contracts would have been decreased by $161.8 million and $77.5 million, respectively. Losses or gains from the revaluation or settlement of the related underlying positions would substantially offset such gains or losses on the derivative instruments.

The fair value of fixed rate debt is subject to interest rate risk, credit risk and foreign currency risk. The estimated fair value of the Company's total fixed rate debt, including current maturities, was $1,589.3 million and $1,010.5 million as of February 28, 2007, and February 28, 2006, respectively. A hypothetical 1% increase from prevailing interest rates as of February 28, 2007, and February 28, 2006, would have resulted in a decrease in fair value of fixed interest rate long-term debt by $69.6 million and $26.9 million, respectively.

As of February 28, 2007, and February 28, 2006, the Company had outstanding interest rate swap agreements to minimize interest rate volatility. The swap agreements fix LIBOR interest rates on $1,200.0 million of the Company's floating LIBOR rate debt at an average rate of 4.1% over the five year term. A hypothetical 1% increase from prevailing interest rates as of February 28, 2007, and February 28, 2006, would have increased the fair value of the interest rate swaps by $36.7 million and $43.8 million, respectively.

In addition to the $1,589.3 million and $1,010.5 million estimated fair value of fixed rate debt outstanding as of February 28, 2007, and February 28, 2006, respectively, the Company also had variable rate debt outstanding (primarily LIBOR based) as of February 28, 2007, and February 28, 2006, of $2,688.7 million and $1,856.1 million, respectively. Using a sensitivity analysis based on a hypothetical 1% increase in prevailing interest rates over a 12-month period, the approximate increase in cash required for interest as of February 28, 2007, and February 28, 2006, is $26.9 million and $18.6 million, respectively.

Item 8. Financial Statements and Supplementary Data

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 2007

The following information is presented in this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Constellation Brands, Inc.:

We have audited the accompanying consolidated balance sheets of Constellation Brands, Inc. and subsidiaries as of February 28, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended February 28, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Constellation Brands, Inc. and subsidiaries as of February 28, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended February 28, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1, effective March 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Constellation Brands, Inc.'s internal control over financial reporting as of February 28, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 30, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Rochester, New York
April 30, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Constellation Brands, Inc.:

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Constellation Brands, Inc. maintained effective internal control over financial reporting as of February 28, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Constellation Brands, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Constellation Brands, Inc. maintained effective internal control over financial reporting as of February 28, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Constellation Brands, Inc. maintained, in all material respects, effective internal control over financial reporting as of February 28, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As described in Management’s Annual Report on Internal Control Over Financial Reporting, management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company’s system of internal control over financial reporting was effective as of February 28, 2007. This evaluation excluded the internal control over financial reporting of the Canadian operations of Vincor International Inc., which the Company acquired on June 5, 2006. As of February 28, 2007, total assets, net sales and income before income taxes of the Canadian operations of Vincor International Inc. not evaluated with respect to the effectiveness of internal control over financial reporting comprised 9.4%, 4.7%, and 3.1% of the consolidated total assets, net sales, and income before income taxes of the Company. Our audit of internal control over financial reporting of Constellation Brands, Inc. also excluded an evaluation of the internal control over financial reporting of the Canadian operations of Vincor International Inc.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Constellation Brands, Inc. and subsidiaries as of February 28, 2007 and 2006, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended February 28, 2007, and our report dated April 30, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Rochester, New York
April 30, 2007

Management's Annual Report on Internal Control Over Financial Reporting

Management of Constellation Brands, Inc. (together with its subsidiaries, the "Company") is responsible for establishing and maintaining an adequate system of internal control over financial reporting. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as of February 28, 2007. This evaluation excluded the internal control over financial reporting of the Canadian operations of Vincor International Inc., which the Company acquired on June 5, 2006. As of February 28, 2007, total assets, net sales and income before income taxes of the Canadian operations of Vincor International Inc. not evaluated with respect to the effectiveness of internal control over financial reporting comprised 9.4%, 4.7%, and 3.1% of the consolidated total assets, net sales, and income before income taxes of the Company.

Management's assessment of the effectiveness of the Company's internal control over financial reporting has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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

	February 28, 2007	February 28, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash investments	$ 33.5	$ 10.9
Accounts receivable, net	881.0	771.9
Inventories	1,948.1	1,704.4
Prepaid expenses and other	160.7	213.7
Total current assets	3,023.3	2,700.9
PROPERTY, PLANT AND EQUIPMENT, net	1,750.2	1,425.3
GOODWILL	3,083.9	2,193.6
INTANGIBLE ASSETS, net	1,135.4	883.9
OTHER ASSETS, net	445.4	196.9
Total assets	$ 9,438.2	$ 7,400.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable to banks	$ 153.3	$ 79.9
Current maturities of long-term debt	317.3	214.1
Accounts payable	376.1	312.8
Accrued excise taxes	73.7	76.7
Other accrued expenses and liabilities	670.7	614.6
Total current liabilities	1,591.1	1,298.1
LONG-TERM DEBT, less current maturities	3,714.9	2,515.8
DEFERRED INCOME TAXES	474.1	371.2
OTHER LIABILITIES	240.6	240.3
COMMITMENTS AND CONTINGENCIES (NOTE 14)		
STOCKHOLDERS' EQUITY:		
Preferred Stock, $.01 par value- Authorized, 1,000,000 shares; Issued, none at February 28, 2007, and 170,500 shares at February 28, 2006	-	-
Class A Common Stock, $.01 par value- Authorized, 300,000,000 shares; Issued, 219,090,309 shares at February 28, 2007, and 203,651,535 shares at February 28, 2006	2.2	2.0
Class B Convertible Common Stock, $.01 par value- Authorized, 30,000,000 shares;	0.3	0.3

Issued, 28,831,138 shares at February 28, 2007, and 28,863,138 shares at February 28, 2006				
Additional paid-in capital		1,271.1		1,159.4
Retained earnings		1,919.3		1,592.3
Accumulated other comprehensive income		349.1		247.4
		3,542.0		3,001.4
Less-Treasury stock-				
Class A Common Stock, 8,046,370 shares at February 28, 2007, and 4,474,371 shares at February 28, 2006, at cost		(122.3)		(24.0)
Class B Convertible Common Stock, 5,005,800 shares at February 28, 2007, and February 28, 2006, at cost		(2.2)		(2.2)
		(124.5)		(26.2)
Total stockholders' equity		3,417.5		2,975.2
Total liabilities and stockholders' equity	$	9,438.2	$	7,400.6

The accompanying notes are an integral part of these statements.

59

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

	For the Years Ended February 28, 2007	February 28, 2006	February 28, 2005
SALES	$ 6,401.8	$ 5,707.0	$ 5,139.8
Less - Excise taxes	(1,185.4)	(1,103.5)	(1,052.2)
Net sales	5,216.4	4,603.5	4,087.6
COST OF PRODUCT SOLD	(3,692.5)	(3,278.9)	(2,947.0)
Gross profit	1,523.9	1,324.6	1,140.6
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(768.8)	(612.4)	(555.7)
RESTRUCTURING AND RELATED CHARGES	(32.5)	(29.3)	(7.6)
ACQUISITION-RELATED INTEGRATION COSTS	(23.6)	(16.8)	(9.4)
Operating income	699.0	666.1	567.9
EQUITY IN EARNINGS OF EQUITY METHOD INVESTEES	49.9	0.8	1.8
GAIN ON CHANGE IN FAIR VALUE OF DERIVATIVE INSTRUMENTS	55.1	-	-
INTEREST EXPENSE, net	(268.7)	(189.6)	(137.7)
Income before income taxes	535.3	477.3	432.0
PROVISION FOR INCOME TAXES	(203.4)	(152.0)	(155.5)
NET INCOME	331.9	325.3	276.5
Dividends on preferred stock	(4.9)	(9.8)	(9.8)
INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 327.0	$ 315.5	$ 266.7
SHARE DATA:			
Earnings per common share:			
Basic - Class A Common Stock	$ 1.44	$ 1.44	$ 1.25
Basic - Class B Common Stock	$ 1.31	$ 1.31	$ 1.14
Diluted - Class A Common Stock	$ 1.38	$ 1.36	$ 1.19
Diluted - Class B Common Stock	$ 1.27	$ 1.25	$ 1.09