

REPORT
of
Brown-Forman Distillery Company
April 30, 1935

1950

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1953

BROWN-FORMAN DISTILLERY COMPANY
INCORPORATED

LOUISVILLE, KY., July 12, 1935.

To the Stockholders:

There are appended hereto the Condensed Consolidated Balance Sheet and the Condensed Consolidated Profit and Loss and Surplus Accounts of your Corporation, and its wholly owned subsidiary, for the year ended April 30, 1935, as certified by Messrs. Lybrand, Ross Bros. & Montgomery. The Condensed Consolidated Income Account as prepared by these accountants sets forth the results of operations by semi-annual periods for comparative purposes.

It will be recalled that in connection with the publication of the Profit and Loss Statement for the first half of the fiscal year now under review, I stated that I felt confident that the major difficulties under which the Company had labored, had in large part been overcome. This confidence was based on my knowledge of the superior quality of our whiskey and in some measure upon the progress of a sales campaign commenced last Fall, featuring certain new whiskey brands. Our leading sellers today include:

- "Bottoms Up" (A Straight Kentucky Whiskey)
- "Here's Luck" (A Blend)
- "Old Forester" (Bottled in Bond)

It is gratifying to note that net profits before Federal income taxes for the six months ended April 30, 1935, were \$185,100.18, which contrasts with a loss of \$144,329.56 for the preceding six months. There is, of course, a seasonal factor in the whiskey business which must be taken into account, but, in this connection, I am pleased to state that from the standpoint of both sales and profits, April 1935 made the best showing of any month during the fiscal year.

The results for the last half of the past fiscal year were particularly encouraging, as they were attained despite the fact that two of our leading brands, "Bottoms Up" and "Here's Luck," were theretofore unknown to either the consuming public or the trade. It has been the Company's policy to charge all development, promotional and other expenses incident to the introduction of these new brands against operations, and no such expense items have been capitalized or deferred. Public acceptance accorded our products, as evidenced by increasing sales, makes the future appear hopeful.

The Consolidated Balance Sheet as of April 30, 1935, showed current assets of \$2,578,387.42, against total current liabilities of \$882,110.76, a ratio of nearly 3 to 1.

The physical properties of the Company have been maintained in good condition and during the year certain additional equipment was installed, which has resulted in a reduction of operating costs. The Management presently proposes to let bids for the construction of a new 50,000-barrel warehouse on property now owned by your Company adjacent to the Distillery.

In my letter to Stockholders dated January 14, 1935, it was suggested that not later than the annual Stockholders' meeting to be held on July 23, 1935, consideration be given to the question of changing 10,000 shares of the present Preferred Stock into shares of Preferred Stock of small par value and making such shares convertible into Common Stock, at the option of the Stockholder, on the basis of one (1) share of Common stock for each \$20.00 par value of such Preferred Stock. It is thought to be desirable that this question be submitted and considered at a special meeting of both Preferred Stockholders and Common Stockholders. That course meets with my approval, and it is contemplated that such special meeting will be called and held within the near future.

Your Board of Directors desires to record its appreciation of the loyal support and wholehearted co-operation of the Company's employees during the past year.

Respectfully submitted,

By order of the Board of Directors.

OWSLEY BROWN, *President.*

BROWN-FORMAN DISTILLERY COMPANY (a Delaware Corporation)

CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS:

Current:		
Cash in banks and on hand		\$ 248,620.98
Accounts receivable, trade.....	\$ 417,446.81	
Less, Allowance for doubtful accounts.....	24,071.02	
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		393,375.79
Inventories:		
Finished stock:		
Barrelled whiskey consists of 39,954 bbls. in bond and subject to withdrawal tax payments upon withdrawal and 12 bbls. tax paid. Bases of valuations as enumerated below, carrying charges added. (Warehouse certificates covering a portion of the inventory have been issued, as classified below, and pledged on notes payable, <i>contra</i>)		
At acquisition cost (2,250 bbls. pledged)	717,455.52	
At purchase cost.....	101,461.91	
At production cost (8,650 bbls. pledged)	787,933.72	
It is the present intention of the company to hold in reserve a portion of the inventory to be aged.		
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	1,606,851.15	
Cased goods, at the lower of cost or market..	205,458.80	
Dried grain	204.23	
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	1,812,514.18	
In process, at cost.....	29,364.85	
Raw materials and supplies, at lower of cost or market ..	63,037.74	
Merchandise in transit, at cost.....	9,094.42	
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		1,914,011.19
Accrued storage, miscellaneous accounts receivable and deposits ..		22,379.46
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Total current assets.....		2,578,387.42
Cash surrender value, life insurance.....		5,746.55
Notes receivable, past due, and sundry investments, net of allowance for possible loss.....		11,992.99
Deposit in closed bank.....		640.45
Plant and property at cost at date of organization, with subsequent additions, at cost. Land includes an appraisal value of \$106,100 as at organization as reported by Sanderson & Porter, Engineers.		
Land ..	128,335.79	
Buildings and equipment.....	\$549,569.15	
Less, Allowance for depreciation	43,423.75	506,145.40
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		634,481.19
Prepaid insurance and other deferred charges.....		63,015.42
Brands and trade-marks, at cost.....		7,261.05
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		<u>\$3,301,525.07</u>

are Corporation) AND SUBSIDIARY COMPANY
 BALANCE SHEET, APRIL 30, 1935

LIABILITIES:

Current:

Notes payable:

Banks (warehouse certificates pledged as col-
 lateral, *contra*)\$ 465,000.00
 For purchase of property secured by purchase
 money lien on property purchased..... 2,500.00

Accounts payable \$ 467,500.00
 Accrued commissions, taxes, etc. 322,837.23
 Federal income and capital stock taxes, estimated..... 48,043.77
 43,729.76
 Total current liabilities..... 882,110.76

Notes payable, long term:

For purchase of property secured by purchase
 money lien on property purchased; \$2,500
 notes due on April 30, 1937 and 1938..... 5,000.00
 Officer, unsecured, due February 1, 1940..... 125,000.00
 130,000.00

Reserve, non-operating:

Federal income taxes, residual amount of accrual
 at reorganization date, not reportable until
 sale of acquired whiskey..... 93,274.79

Contingent liability:

The company was contingently liable at April 30,
 1935 for \$103,070.85 of notes discounted.
 These notes are secured by barreled whiskey
 in custody of the company.

CAPITAL:

Preferred stock, no par value, \$6 cumulative, au-
 thorized and issued 15,000 shares at stated value
 of \$100 each..... 1,500,000.00
 Common stock \$1 par value authorized 300,000
 shares, issued 200,000 shares (98,000 shares
 registered under the securities act of 1933).... 200,000.00
 Capital surplus, paid in..... 419,668.73
 2,119,668.73
 Surplus, as annexed..... 76,470.79
 2,196,139.52
 \$3,301,525.07

CONDENSED CONSOLIDATED EARNED SURPLUS ACCOUNT

For the Year Ended April 30, 1935

Earned surplus, May 1, 1934.....	\$ 135,500.31
Net profit for year ended April 30, 1935, as annexed.....	30,970.62
	166,470.93
Dividends on preferred stock (cash).....	90,000.14
	\$ 76,470.79

CONDENSED CONSOLIDATED INCOME ACCOUNT

For the Six Months' Periods Ended October 31, 1934, and April 30, 1935,
And for the Year Ended April 30, 1935

	Six months ended Oct. 31, 1934	Six months ended Apr. 30, 1935	Year ended Apr. 30, 1935
Net sales, less freight out and freight on returned sales.....	\$1,459,201.06	\$2,427,996.46	\$3,887,197.52
Cost of sales.....	1,253,472.53	1,662,412.86	2,915,885.39
	205,728.53	765,583.60	971,312.13
Gross profit on sales.....			
Other operating income:			
Storage and handling, etc.	8,517.04	9,632.33	18,149.37
	214,245.57	775,215.93	989,461.50
Gross profit			
Selling, administrative and general expenses	358,183.78	588,092.85	946,276.63
	143,938.21	187,123.08	43,184.87
Operating profit or <i>loss</i>			
Income credits:			
Discount earned	2,021.89	3,604.14	5,626.03
	\$ 141,916.32	\$ 190,727.22	\$ 48,810.90
Gross income or <i>loss</i>			
Income charges:			
Discount allowed and interest paid, etc.	\$ 2,413.24	\$ 5,627.04	\$ 8,040.28
	\$ 144,329.56	\$ 185,100.18	\$ 40,770.62
Profit or <i>loss</i> before federal in- come taxes			
Federal income taxes, estimated.....	9,800.00	9,800.00
	\$ 144,329.56	\$ 175,300.18	\$ 30,970.62
Net profit or <i>loss</i> for periods..			

Note—Italics denote loss.

CERTIFICATE

*The President and Board of Directors,
Brown-Forman Distillery Company,
Louisville, Kentucky.*

We have made an examination of the consolidated balance sheet of

BROWN-FORMAN DISTILLERY COMPANY

and its wholly owned subsidiary, as at April 30, 1935, and of the related statement of income and surplus for the year then ended. Our verification of finished stock did not include an actual count of the barrels and cases, nor did it include an analysis or inspection of the contents thereof. We made sufficient tests of perpetual inventory records to satisfy us as to their substantial accuracy and compared these records with the records of whiskey in bond maintained by the government agent, and with the physical count made by the company, under our supervision, of whiskey not in bond and supplies on hand. Stocks of whiskey held in public warehouses were confirmed by correspondence with the depositaries. Valuations are not in excess of current price-lists less allowance for selling expenses.

We examined or tested accounting records of the companies and other supporting evidence and considered information and explanations obtained from officers and employees of the companies, including, without detailed audit, a general review of the accounting methods.

In our opinion, based upon such examination, the condensed consolidated balance sheet and condensed consolidated statement of income and surplus fairly present, in accordance with accepted accounting principles, consistently maintained by the companies during the year under review, their condensed consolidated financial position at April 30, 1935, and the results of their operations for the year then ended.

LYBBAND, ROSS BROS. & MONTGOMERY.

Louisville, Kentucky,
July 6, 1935.

