

**BROWN-FORMAN
DISTILLERY COMPANY**

INCORPORATED

ANNUAL REPORT

APRIL 30, 1937

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DISTILLERY COMPANY

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OLD FORESTER

EARLY TIMES

BOTTOMS UP

OLD TUCKER

KING OF KENTUCKY

OLD POLK

OLD HAWTHORNE

OLD FORMAN

BROWN-FORMAN DISTILLERY COMPANY

INCORPORATED

Louisville, Kentucky
July 10, 1937.

To the Stockholders:

There is presented herewith the report of your Corporation, and its wholly-owned subsidiary, for the year ended April 30, 1937. Profits were reduced to a very material extent as a result of the unprecedented flood conditions in Louisville in January and February of this year. Operating profit for the year under review, before losses and charges attributable to the flood, was \$694,125.16. Such losses and expenses due to the flood are estimated to have amounted to \$217,052.80. Giving effect to these charges and other income charges and credits as shown by the accompanying report, net profit before provision for income taxes was \$353,270.02, and after Federal and State income taxes, \$288,693.90, equivalent to about \$0.70 per share on the 280,000 shares of Common Stock now outstanding, after deducting Preferred dividend charges of \$90,000.32.

In addition to the warehouse referred to in our 1936 report, there was completed in November 1936, a fireproof warehouse costing approximately \$221,000.00 with a storage capacity of 54,468 barrels. This warehouse is situated immediately outside the city limits of Louisville on a tract of 25 acres of land which the Company has owned for a number of years. Investments in other improvements and in labor saving devices in our distilling and bottling departments amounted to an additional \$60,000.00.

It is gratifying to note that despite the unusually heavy drain upon cash resources of the Company brought about by the flood and expenditures for capital improvements referred to above, the Company's working capital position continues to be satisfactory. Current assets as at April 30, 1937, stood at \$4,772,179.35, against total current liabilities (exclusive of renewable notes) of \$890,867.66. It should be noted also that the Company's whiskey inventory is carried at cost, which is substantially below its current market value.

During the year, the Company offered to its shareholders, rights to subscribe to 80,000 additional shares of common stock at \$5.75 per share, and I am pleased to report that rights were exercised on all but 342 shares, which small unsubscribed balance was taken by the underwriters.

In the accompanying statement no consideration is given to profits which the Company would have earned during the period of approximately four weeks in which selling and shipping of merchandise was suspended on account of flood conditions.

I wish to take this opportunity of thanking our stockholders for the support they have given us during the past year and our organization for the loyalty and efficiency which they have consistently displayed.

Respectfully submitted,
By order of the Board of Directors,
OWSLEY BROWN, *President*

BROWN FORMAN DISTILLERS
 (INCORPORATED IN DELAWARE)
 AND ITS WHOLLY OWNED
 CONSOLIDATED BALANCE SHEET

ASSETS:

Cash and demand deposits		\$ 217,428.08 ✓
Notes and acceptances receivable, trade		47,466.21 ✓
Accounts receivable, trade	\$1,229,825.72	
Less, Allowance for doubtful accounts	50,533.85	
		1,179,291.87 ✓
Inventories:		
Finished stock:		
Barreled whiskey, at cost, including carrying charges (subject to withdrawal taxes) (Warehouse certificates representing barreled whiskey at a purchase cost of approximately \$291,000 deposited as collateral to notes payable, contra)	2,991,819.19	
It is the present intention of the company to hold in reserve a portion of the inventory to be aged.		
Cased goods, at lower of cost or market	164,979.09	
Dried grain, at cost	674.01	
		3,157,472.29
In process, at cost	45,369.27	
Raw materials and supplies, at lower of cost or market....	51,256.07	
Merchandise in transit, at lower of cost or market.....	28,895.38	
		3,282,993.01 ✓
Accrued storage, claims receivable and deposits		27,505.56
Accounts receivable, officers and employees		17,494.62
Total current assets		4,772,179.35
Cash surrender value, life insurance		34,976.65
Land, buildings and equipment, 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 and Porter, Engineers.		
Land	149,243.79	
Buildings and equipment	\$1,228,156.50	
Less, Allowance for depreciation	102,141.86	
		1,126,014.64
		1,275,258.43 ✓
Prepaid insurance, and other deferred charges		68,801.04 ✓
Brands and trade-marks, at cost		11,448.05
		\$6,162,663.52

(Note 1) Promissory notes due within one year to four Banks, parties to an agreement under which the company has agreed to pay on or before September 1, 1938 and thereafter in amounts decreasing \$250,000.00 each quarter to the due date as provided in the agreement (including advances under the line of credit as a current liability) does not exceed the total amount of the liabilities (excluding advances under credit line and undelinquent income taxes) does not exceed \$6,162,663.52.

DISTILLERY COMPANY

(INCORPORATED IN DELAWARE)

WHOLLY OWNED SUBSIDIARY

FINANCIAL STATEMENT SHEET, APRIL 30, 1937

LIABILITIES:

Notes payable:

To Vendors, for whiskey purchased, with Warehouse certificates deposited as collateral (Contra)	\$ 206,000.00
To Bank, for building equipment purchased (current portion)	5,661.90
Accounts payable, trade and miscellaneous	444,328.23
Accounts payable, officers and employees	3,086.18
Accrued commissions, taxes, etc.	102,498.46
Accrued federal income and capital stock taxes and state income taxes, estimated	129,292.89
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Total current liabilities other than notes payable to banks shown below	890,867.66

Notes payable:

To Banks, due December 1, 1937 to February 7, 1938 (Note 1)	\$2,000,000.00
To Officer, due February 1, 1940	125,000.00
To Bank, for building equipment purchased, due in monthly installments to March 30, 1941 (current portion above)	18,574.80
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	2,143,574.80

CAPITAL:

Preferred stock, no par value, liquidation value \$100 per share plus accrued and unpaid dividends, \$6 cumulative, authorized and issued 15,000 shares (2,700 shares registered under the securities act of 1933, as amended)....	1,500,000.00
Common stock, \$1 par value, authorized 300,000 shares, issued 280,000 shares (178,000 shares registered under the securities act of 1933, as amended)	280,000.00
Capital surplus, as annexed	710,368.25
Earned surplus, as annexed	637,852.81
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	3,128,221.06
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	<u>\$6,162,663.52</u>

For which the Company has a right to renewal and is guaranteed a credit line of \$2,000,000.00 to September 30, 1938, the due date three years after the beginning of the line of credit, provided the net quick assets as defined (liability) do not fall below \$1,600,000.00 and further provided that the aggregate of the current liabilities do not exceed \$900,000.00.

CONSOLIDATED CAPITAL SURPLUS ACCOUNT
FOR THE YEAR ENDED APRIL 30, 1937

Balance May 1, 1936	\$397,510.37
Proceeds in excess of par value of 80,000 shares of common stock sold, less registration expense	312,857.88
Balance April 30, 1937	\$710,368.25

CONSOLIDATED EARNED SURPLUS ACCOUNT
FOR THE YEAR ENDED APRIL 30, 1937

Balance May 1, 1936	\$439,159.23
Net income for the year ended April 30, 1937 as annexed	288,693.90
Dividends on preferred stock, cash	727,853.13 90,000.32
Balance April 30, 1937	\$637,852.81

CONSOLIDATED INCOME ACCOUNT
FOR THE YEAR ENDED APRIL 30, 1937

Sales, less returns, allowances and freight out	\$8,618,141.24 6,103,676.23
Cost of sales	2,514,465.01
Gross profit on sales.....	8,209.38
Storage, handling and bottling for others	2,522,674.39
Selling expenses (see portion below)	\$1,641,493.58
Administrative and general expenses	187,055.65
Operating profit	1,828,549.23
Flood loss:	694,125.16
Rehabilitation expenses, loss on fixed assets and materials damaged, idle plant expense, etc.	89,052.80
Selling expenses in excess of normal cost per case, estimated	128,000.00
Other income:	217,052.80
Discounts earned	477,072.36
Other expenses:	22,038.45
Discounts allowed	499,110.81
Interest, net	37,896.13
Miscellaneous	105,414.58
Miscellaneous	2,530.08
Profit before provision for in- come taxes	145,840.79
Provision for federal and state income tax- es, estimated	353,270.02
Net income	64,576.12
	\$ 288,693.90

Note: No provision for surtax on undistributed profits was considered necessary because of a contractual restriction of the payment of dividends.

LYBRAND, ROSS BROS. & MONTGOMERY

ACCOUNTANTS AND AUDITORS

HEYBURN BUILDING
LOUISVILLE

BROWN-FORMAN DISTILLERY COMPANY,
LOUISVILLE, KENTUCKY.

We have made an examination of the consolidated balance sheet of BROWN-FORMAN DISTILLERY COMPANY (Incorporated in Delaware) and its Wholly Owned Subsidiary as at April 30, 1937 and of the consolidated statements of income, earned surplus, and capital surplus for the fiscal year ended April 30, 1937. In connection therewith, we examined or tested accounting records of the Companies and other supporting evidence and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the fiscal year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related consolidated statements of income, earned surplus, and capital surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the fiscal year under review, its consolidated position at April 30, 1937, and the consolidated results of its operations for the fiscal year then ended.

LYBRAND, ROSS BROS. & MONTGOMERY

LOUISVILLE, KENTUCKY,
July 1, 1937.