MONDAVI ROBERT CORP
Form 10-Q
February 13, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended December 31, 2001

or

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

For the transition period from ______________ to ______________

Commission File Number: 33-61516

THE ROBERT MONDAVI CORPORATION

Incorporated under the laws of the State of California	I.R.S. Employer Identification: 94-2765451

Principal Executive Offices:
7801 St. Helena Highway
Oakville, CA 94562
Telephone: (707) 259-9463

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 ______

As of January 31, 2002, there were issued and outstanding 9,202,914 shares of the issuer's Class A Common Stock and 6,852,647 shares of the issuer's Class B Common Stock.

PART I

Item 1. Financial Statements.

THE ROBERT MONDAVI CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

ASSETS

	December 3 2001 ---- Unaudite
Current assets:	
Cash and cash equivalents	$ -
Accounts receivable--trade, net	82,563
Inventories	437,088
Prepaid expenses and other current assets	8,973
Total current assets	528,624
Property, plant and equipment, net	323,983
Investments in joint ventures	33,971
Other assets	13,435
Total assets	$900,013

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Book overdraft	$ 5,304
Notes payable to banks	-
Accounts payable--trade	52,235
Employee compensation and related costs	15,821
Other accrued expenses	16,337
Current portion of long-term debt	9,673
Total current liabilities	99,370
Long-term debt, less current portion	356,994
Deferred income taxes	23,470
Deferred executive compensation	6,182
Other liabilities	3,676
Total liabilities	489,692
Commitments and contingencies	
Shareholders' equity:	
Preferred Stock:	
Authorized--5,000,000 shares; issued and outstanding--no shares	-
Class A Common Stock, without par value:	
Authorized--25,000,000 shares;	
issued and outstanding--9,200,559 and 9,151,217 shares	91,676
Class B Common Stock, without par value:	

Authorized--12,000,000 shares;	
issued and outstanding--6,852,647 and 6,885,717 shares	11,006
Paid-in capital	10,593
Retained earnings	300,175
Accumulated other comprehensive income:	
Cumulative translation adjustment	(3,071
Forward contracts	(58
	410,321
Total liabilities and shareholders' equity	$ 900,013

See Notes to Consolidated Financial Statements.

THE ROBERT MONDAVI CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited) (in thousands, except per share data)

	Three Months Ended December 31,		Si
	2001	2000	200
Gross revenues	$137,822	$147,406	$222,601
Less excise taxes	6,711	6,927	10,587
Net revenues	131,111	140,479	212,014
Cost of goods sold	72,914	79,989	120,319
Gross profit	58,197	60,490	91,695
Selling, general and administrative expenses	34,873	33,838	63,614
Special charges	1,040	-	12,240
Operating income	22,284	26,652	15,841
Other income (expense):			
Interest	(5,415)	(4,987)	(10,563
Equity income from joint ventures	15	1,658	7,799
Other	(482)	(330)	(636
Income before income taxes	16,402	22,993	12,441
Provision for income taxes	6,150	8,852	4,665
Net income	$ 10,252	$ 14,141	$ 7,776
Earnings per share-Basic	$ .64	$ .90	$ .48
Earnings per share-Diluted	$ .63	$ .87	$ .48

Weighted average number of shares outstanding-Basic	16,040	15,792	16,038
Weighted average number of shares outstanding-Diluted	16,305	16,333	16,354

See Notes to Consolidated Financial Statements.

THE ROBERT MONDAVI CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six De 2001
Cash flows from operating activities:	
Net income	$ 7,776
Adjustments to reconcile net income to net cash used in operating activities:	
Deferred income taxes	(1,542
Depreciation and amortization	11,313
Equity income from joint ventures	(7,799
Special charges and asset write-downs	14,070
Other	448
Changes in assets and liabilities, net of acquisitions:	
Accounts receivable--trade	21,992
Inventories	(82,426
Other assets	3,301
Accounts payable--trade and accrued expenses	22,325
Deferred executive compensation	1,054
Other liabilities	(91
Net cash used in operating activities	(9,579
Cash flows from investing activities:	
Acquisitions of property, plant and equipment	(20,142
Proceeds from sale of assets	12,327
Business acquisition	-
Distributions from joint ventures	7,092
Contributions to joint ventures	(1,018
Net cash used in investing activities	(1,741
Cash flows from financing activities:	
Book overdraft	5,304
Net additions under notes payable to banks	10,000
Principal repayments of long-term debt	(10,926

Proceeds from issuance of Class A Common Stock	296
Exercise of Class A Common Stock options	113
Other	(656
Net cash provided by financing activities	4,131
Net decrease in cash and cash equivalents	(7,189
Cash and cash equivalents at the beginning of the period	7,189
Cash and cash equivalents at the end of the period	$ -

See Notes to Consolidated Financial Statements.

THE ROBERT MONDAVI CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

NOTE 1 BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's financial position at December 31, 2001, its results of operations for the three and six month periods ended December 31, 2001 and 2000 and its cash flows for the six month periods ended December 31, 2001 and 2000. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from the accompanying consolidated financial statements. For further information, reference should be made to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K (the 10-K) for the fiscal year ended June 30, 2001, on file at the Securities and Exchange Commission. Certain fiscal 2001 balances have been reclassified to conform with current year presentation.

Effective July 1, 2001, the Company implemented Emerging Issues Task Force (EITF) Issue No. 00-14 (EITF 00-14) and Issue No. 00-25 (EITF 00-25), which require certain sales incentives and fees paid to retailers to be recorded as reductions of revenue. The Company previously reported these expenses as selling, general and administrative expenses. Prior period financial statements have been restated to reflect this change in classification. The restatement resulted in a $7,903 and $10,541 decrease in both revenues and selling, general and administrative expenses for the three months and six months ended December 31, 2000, respectively.

NOTE 2 INVENTORIES

Inventories consist of the following:

	December 2001

	Unaudite
Wine in production	$ 315,246
Bottled wine	118,778
Crop costs and supplies	3,064
	$ 437,088

Inventories are valued at the lower of cost or market and inventory costs are determined using the first-in, first-out (FIFO) method. Costs associated with growing crops are recorded as inventory and are recognized as wine inventory costs in the year in which the related crop is harvested. Included in inventory at December 31, 2001, was $8,464 of inventory cost step-up remaining from applying purchase accounting to the acquisition of Arrowood.

NOTE 3 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company has only a limited involvement with derivative instruments and does not use them for trading purposes. Forward exchange contracts, generally with average maturities of less than one year, are used as protection against the risk that the eventual U.S. dollar cash flows resulting from certain unrecognized firm purchase commitments and forecasted transactions denominated in foreign currencies will be adversely affected by changes in exchange rates. The derivative financial instruments associated with unrecognized firm purchase commitments are designated as fair-value hedges. The derivative financial instruments associated with forecasted transactions are designated as cash-flow hedges.

At December 31, 2001, the Company had outstanding forward exchange contracts, hedging primarily European euro purchases of barrels and corks and forecasted receipts of Canadian dollars and European euros, with notional amounts totaling $19,419. Using exchange rates outstanding as of December 31, 2001, the U.S. dollar equivalent of the contracts totaled $19,372.

NOTE 4 OPERATIONAL CHANGES

During the first quarter of fiscal 2002, the Company implemented a number of operational changes aimed at improving its competitiveness in the slowing economy. These included changes in the Company's Disney California Adventure project and the write-down of certain inventories and fixed assets due to lowered volume growth expectations.

The Company changed from an operator to a sponsor role at Disney's California Adventure. With this change, the Company eliminated any further operational risk associated with the project while it continues its business relationship with Disney and maintains a presence at the theme park. As a result of this change, the Company has recorded special charges to date totaling $12,240, or $0.47 per diluted share, primarily reflecting fixed asset write-offs, employee separation expenses and lease cancellation fees. As of December 31, 2001, the Company has remaining accruals totaling $820 for a lease cancellation fee and employee separation expenses for one employee. The amounts accrued for these exit costs were paid in full during January 2002.

During the first quarter of fiscal 2002, the Company also revised its volume growth expectations for the fiscal year to reflect the continued economic slowdown and a significant decrease in on-premise (i.e., hotel and restaurant) sales. As a result of these lowered volume growth expectations, the Company

recorded $3,750, or $0.14 per diluted share, in inventory and fixed asset write-downs during the first quarter that were classified as cost of goods sold.

NOTE 5 COMPREHENSIVE INCOME

Comprehensive income includes revenues, expenses, gains and losses that are excluded from net income, including foreign currency translation adjustments and unrealized gains and losses on certain derivative financial instruments designated as cash-flow hedges. Comprehensive income for the three and six months ended December 31, 2001 and 2000 were as follows:

	Unaudited		
	Three Months Ended December 31,		Six M De
	2001	2000	2001
Net income	$ 10,251	$ 14,141	$ 7,776
Foreign currency translation adjustment, net of tax	(193)	212	(321
Forward contracts, net of tax	(58)	-	(58
Comprehensive income	$ 10,000	$ 14,353	$ 7,397

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

During the first six months of fiscal 2002, the Company recorded $12.2 million, or $0.47 per diluted share, in special charges related to operational changes in its Disney California Adventure project. During the first quarter of fiscal 2002, the Company also recorded inventory and fixed asset write-downs, totaling $3.8 million, or $0.14 per diluted share, as a result of lowering its sales volume growth projections for the fiscal year. The adjusted figures discussed throughout this report, which better reflect the results of the Company's ongoing operations, exclude the special charges and asset write-downs, as well as inventory step-up charges associated with business acquisitions for all periods presented.

Effective July 1, 2001, the Company implemented Emerging Issues Task Force (EITF) Issue No. 00-14 (EITF 00-14) and Issue No. 00-25 (EITF 00-25), which require certain sales incentives and fees paid to retailers to be recorded as reductions of revenue. The Company previously reported these expenses as selling, general and administrative expenses. Prior period financial statements have been restated to reflect this change in classification. The restatement resulted in a $7.9 million and $10.5 million decrease in both revenues and selling, general and administrative expenses for the three months and six months ended December 31, 2000, respectively.

Second Quarter of Fiscal 2002 Compared to Second Quarter of Fiscal 2001

NET REVENUES Sales volume decreased by 4.5% and net revenues decreased by 6.7%,

reflecting the impact of the continued economic downturn combined with a sharp decline in the travel and entertainment sectors that began in September. Net revenues per case decreased by 2.3% to $46.44, reflecting a shift in sales mix to wines with lower net revenues per case.

COST OF GOODS Sold Cost of goods sold as reported decreased by 8.8%. Adjusted cost of goods sold decreased by 8.4%, reflecting decreased sales volume combined with lower grape costs.

GROSS PROFIT As a result of the above factors, the reported gross profit percentage was 44.4% compared to 43.1% reported last year. The adjusted gross profit percentage increased to 45.1% from 44.1% last year.

OPERATING EXPENSES Operating expenses as reported increased by 6.1% and the reported ratio of operating expenses to net revenues increased to 27.4% from 24.1% a year ago. Adjusted operating expenses increased by 3.1% and the adjusted ratio of operating expenses to net revenues increased to 26.6% from 24.1% a year ago. The increase in the adjusted operating expense ratio primarily reflects increased promotional spending per case.

INTEREST Interest expense increased by 8.6%, even though average borrowings outstanding were relatively consistent with the prior year, reflecting a reduction of capitalized interest due to the completion of certain capital and vineyard development projects.

EQUITY INCOME FROM JOINT VENTURES Equity income from joint ventures as reported decreased by 99.1% and adjusted equity income from joint ventures decreased by 89.6%. The decrease in both the reported and adjusted figures was due mainly to an earlier Opus One fall release, which was essentially complete during the first quarter of fiscal 2002.

PROVISION FOR INCOME TAXES The Company's effective tax rate was 37.5% compared to 38.5% last year. The lower effective tax rate was primarily the result of an increase in certain deductible expenses and manufacturing tax credits.

NET INCOME AND EARNINGS PER SHARE As a result of the above factors, net income as reported totaled $10.3 million, or $0.63 per diluted share, compared to $14.1 million, or $0.87 per diluted share, a year ago. Adjusted net income totaled $11.6 million, or $0.71 per diluted share, compared to $15.2 million, or $0.93 per diluted share, a year ago.

First Six Months of Fiscal 2002 Compared to First Six Months of Fiscal 2001

NET REVENUES Sales volume decreased by 8.7% and net revenues decreased by 9.8%, reflecting the impact of the continued economic downturn combined with a sharp decline in the travel and entertainment sectors that began in September. Net revenues per case decreased by 1.2% to $47.20 per case, reflecting lower a shift in sales mix to wines with lower net revenues per case. Due to the continued economic slowdown and the recent decline in the travel and entertainment sectors, the Company expects sales volume, net revenues and net income to decrease compared to prior year levels for the fiscal year.

COST OF GOODS SOLD Cost of goods sold as reported decreased by 9.4%. Adjusted cost of goods sold decreased 11.9%, reflecting decreased sales volume combined with lower grape costs.

GROSS PROFIT As a result of the above factors, the reported gross profit percentage was 43.2% compared to 43.5% reported last year. The adjusted gross profit percentage increased to 45.9% from 44.6% last year.

OPERATING EXPENSES Operating expenses as reported increased by 26.0% and the reported ratio of operating expenses to net revenues increased to 35.8% from 25.6% a year ago. Adjusted operating expenses increased by 5.7% and the adjusted ratio of operating expenses to net revenues increased to 30.0% from 25.6% a year ago. The increase in the adjusted operating expense ratio primarily reflects increased promotional spending per case and $1.8 million of operating expenses from the Company's Disney California Adventure project that were incurred during the first quarter of fiscal 2002, prior to the project's operational changes.

INTEREST Interest expense increased by 14.3%, even though average borrowings outstanding were relatively consistent with the prior year, reflecting a reduction in capitalized interest due to the completion of certain capital and vineyard development projects.

EQUITY INCOME FROM JOINT VENTURES Equity income from joint ventures as reported increased by 9.9% and adjusted equity income from joint ventures increased by 6.0%. The increase in both the reported and adjusted figures was due mainly to improved profitability from the Opus One joint venture.

PROVISION FOR INCOME TAXES The Company's effective tax rate was 37.5% compared to 38.5% last year. The lower effective tax rate was primarily the result of an increase in certain deductible expenses and manufacturing tax credits.

NET INCOME AND EARNINGS PER SHARE As a result of the above factors, net income as reported totaled $7.8 million, or $0.48 per diluted share, compared to $24.0 million, or $1.48 per diluted share, a year ago. Adjusted net income totaled $19.8 million, or $1.21 per diluted share, compared to $26.6 million, or $1.64 per diluted share, a year ago.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by $7.2 million during the first six months of fiscal 2002 as cash used in operating and investing activities exceeded cash provided by financing activities. Cash used in operations totaled $9.6 million, reflecting an increase in inventories that was partially offset by net income, as well as the non-cash impact on pre-tax income of depreciation and amortization, and a seasonal increase in accounts payable. The increase in inventories reflects a seasonal increase in inventories subsequent to harvest, as well as a build up of inventories resulting from grape commitments that were made prior to the Company lowering its sales forecast due to softening demand and a sharp decline in the travel and entertainment sectors. Cash used in investing activities totaled $1.7 million, reflecting purchases of production equipment and vineyard development cost that were partially offset by proceeds from the sale of certain vineyard assets and distributions from joint ventures. Cash provided by financing activities totaled $4.1 million, reflecting net repayments of debt and a book overdraft of $5.3 million, which represents the float on outstanding checks.

The Company maintains master lease facilities that provide the capacity to fund up to $189.0 million. The combined facilities enable the Company to lease certain real property and equipment to be constructed or acquired. The leases are classified as operating leases and they have initial terms of three to seven years, after a construction period, with options to renew. The Company may, at its option, purchase the property under lease during or at the end of the lease term. If the Company does not exercise the purchase option, the Company will guarantee a residual value of the property under lease, which was approximately $114.8 million as of December 31, 2001. At December 31, 2001, $138.3 million of the combined facilities had been utilized.

The Company has unsecured long-term credit lines that have maximum credit

availability of $150.0 million and expire on December 14, 2004. The Company had $71.0 million outstanding under its long-term credit lines as of December 31, 2001.

The Company also has the ability to borrow up to $35.0 million under an uncommitted credit facility with a bank. The Company may request advances under this credit facility, and if approved by the bank, the advance must be repaid in no more than 180 days from the date of the advance. No amounts were outstanding under this credit facility as of December 31, 2001.

PART II

Item 1. Legal Proceedings.

The Company is subject to litigation in the ordinary course of its business. In the opinion of management, the ultimate outcome of existing litigation will not have a material adverse effect on the Company's consolidated financial condition, the results of its operations or its cash flows.

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

The Company's Annual Meeting of Shareholders was held on November 2, 2001, at the Napa Valley Marriott, Napa, California. Three matters were submitted to a vote of shareholders: election of directors; ratification of PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending June 30, 2002; and amendments of the 1993 Non-Employee Directors' Stock Option Plan to authorize discretionary grants of options in addition to the non-discretionary grants authorized previously, to extend the term of the plan by ten years to February 25, 2013, and to make certain technical changes to conform the plan with recent changes in the federal securities laws.

Philip Greer, Frank Farella and Bartlett Rhoades were nominated as Class A directors. 7,338,983 Class A shares were voted for Mr. Greer and 111,391 shares were withheld. 7,337,419 Class A shares were voted for Mr. Farella and 112,955 shares were withheld. 7,336,654 Class A shares were voted for Mr. Rhoades and 113,720 shares were withheld. Accordingly, Mssrs. Greer, Farella and Rhoades were re-elected as Class A directors.

Robert G. Mondavi, R. Michael Mondavi, Marcia Mondavi Borger, Timothy J. Mondavi, Anthony Greener, and Gregory M. Evans were nominated as Class B directors. 7,067,681 Class B shares were voted for each of them. Accordingly, each of the Class B nominees was re-elected to the Board.

78,114,948 votes were cast in favor of the ratification of PricewaterhouseCoopers LLP, 7,787 votes were cast against and 4,449 votes abstained. Accordingly, the selection of PricewaterhouseCoopers LLP as independent auditors was ratified.

75,611,513 votes were cast in favor of the ratification of the amendments to the 1993 Non-Employee Directors' Stock Option Plan, 2,449,150 votes were cast against and 16,521 votes abstained. Accordingly, the amendments of the stock plan were adopted as proposed.

Item 6. Exhibits and Reports on Form 8-K.

1) Exhibits:
None

2) Form 8-K:
No reports on Form 8-K were filed during the quarter ended December 31, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE ROBERT MONDAVI CORPORATION

Dated: February 13, 2002 By /s/ HENRY J. SALVO, JR.

Henry J. Salvo, Jr.
Chief Financial Officer

Forward-looking Statements

The above Form 10-Q and other information provided from time to time by the Company contain historical information as well as forward-looking statements about the Company, the premium wine industry and general business and economic conditions. Such forward-looking statements include, for example, projections or predictions about the Company's future growth, consumer demand for its wines, including new brands and brand extensions, margin trends, anticipated future investment in vineyards and other capital projects, the premium wine grape market and the premium wine industry generally. Actual results may differ materially from the Company's present expectations. Among other things, reduced consumer spending, a change in consumer preferences or the length and severity of the current economic downturn in some of the Company's key markets, including in particular the depressed travel and entertainment sectors, could reduce demand for the Company's wines. Similarly, competition from numerous domestic and foreign vintners, coupled with changes in foreign currency valuations, could affect the Company's volume and revenue growth outlook. The price of grapes, the Company's single largest product cost, is beyond the Company's control and higher grape costs may put more pressure on the Company's gross profit margin than is currently forecast. Interest rates and other business and economic conditions could change significantly the cost and risks of projected capital spending. For additional cautionary statements identifying important factors that could cause actual results to differ materially from such forward-looking information, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, on file with the Securities and Exchange Commission. For these and other reasons, no forward-looking statement by the Company can nor should be taken as a guarantee of what will happen in the future.