MONDAVI ROBERT CORP
Form 10-Q
February 14, 2001

1

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, 2000

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, 2001, there were issued and outstanding 8,775,598 shares of the issuer's Class A Common Stock and 7,187,057 shares of the issuer's Class B Common Stock.

2

PART I

ITEM 1. FINANCIAL STATEMENTS.

THE ROBERT MONDAVI CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

	DECEMBER 31, 2000 UNAUDITED	JUNE 30, 2000
Current assets:		
Cash and cash equivalents	$ --	$ 3,00
Accounts receivable--trade, net	91,089	77,66
Inventories	403,372	298,48
Prepaid expenses and other current assets	12,300	4,33
Total current assets	506,761	383,48
Property, plant and equipment, net	329,669	312,06
Investments in joint ventures	33,642	32,72
Other assets	10,485	6,67
Total assets	$ 880,557	$ 734,94

LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 31, 2000 UNAUDITED	JUNE 30, 2000
Current liabilities:		
Book overdraft	$ 1,582	$ -
Notes payable to banks	76,628	19,70
Accounts payable--trade	66,735	24,54
Employee compensation and related costs	15,645	13,72
Other accrued expenses	10,269	7,25
Current portion of long-term debt	15,968	10,10
Deferred income taxes	--	9
Total current liabilities	186,827	75,41
Long-term debt, less current portion	270,639	280,79
Deferred income taxes	29,209	21,85
Deferred executive compensation	9,127	8,57
Other liabilities	3,806	15
Total liabilities	499,608	386,77
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--8,744,797 and 8,274,235 shares	88,810	83,16
Class B Common Stock, without par value:		

Authorized--12,000,000 shares;		
issued and outstanding--7,187,057 and 7,306,012 shares	11,543	11,73
Paid-in capital	9,608	5,78
Retained earnings	273,095	249,10
Accumulated other comprehensive income:		
Cumulative translation adjustment	(2,107)	(1,61
	380,949	348,16
Total liabilities and shareholders' equity	$ 880,557	$ 734,94

See Notes to Consolidated Financial Statements.

2

3

THE ROBERT MONDAVI CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED DECEMBER 31,		SI
	2000	1999	20
Gross revenues	$ 155,309	$ 127,990	$ 257
Less excise taxes	6,927	5,824	11
Net revenues	148,382	122,166	245
Cost of goods sold	79,989	66,029	132
Gross profit	68,393	56,137	112
Selling, general and administrative expenses	41,741	33,886	70
Operating income	26,652	22,251	42
Other income (expense):			
Interest	(4,987)	(3,484)	(9
Equity income from joint ventures	1,658	2,582	7
Other	(330)	2,433	
Income before income taxes	22,993	23,782	39
Provision for income taxes	8,852	9,157	15
Net income	$ 14,141	$ 14,625	$ 23
Earnings per share--Basic	$ .90	$ .94	$
Earnings per share--Diluted	$ .87	$ .92	$
Weighted average number of shares outstanding--Basic	15,792	15,490	15

Weighted average number of shares outstanding--Diluted	16,333	15,978	16

See Notes to Consolidated Financial Statements.

THE ROBERT MONDAVI CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED, IN THOUSANDS)

	SIX MONTHS ENDED DECEMBER 31, 2000	1999
Cash flows from operating activities:		
Net income	$ 23,990	$ 23,888
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income taxes	2,033	1,126
Depreciation and amortization	10,027	9,126
Equity income from joint ventures	(7,099)	(5,455)
Other	32	(2,411)
Changes in assets and liabilities		
Accounts receivable--trade	(12,770)	10,734
Inventories	(85,460)	(73,022)
Other assets	(3,969)	(12,188)
Accounts payable--trade and accrued expenses	46,532	34,411
Deferred executive compensation	552	840
Other liabilities	(344)	(309)
Net cash used in operating activities	(26,476)	(13,260)
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(28,112)	(33,314)
Proceeds from sale of assets	2,370	--
Business acquisition	(14,191)	--
Distributions from joint ventures	5,190	4,425
Contributions to joint ventures	(580)	(12,586)
Net cash used in investing activities	(35,323)	(41,475)
Cash flows from financing activities:		
Book overdraft	1,582	3,401
Net additions under notes payable to banks	56,800	60,600
Principal repayments of long-term debt	(5,101)	(14,612)
Proceeds from issuance of Class A Common Stock	255	275
Exercise of Class A Common Stock options	5,205	743

Other	56	(216)
Net cash provided by financing activities	58,797	50,191
Net decrease in cash and cash equivalents	(3,002)	(4,544)
Cash and cash equivalents at the beginning of the period	3,002	4,544
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, 2000, its results of operations for the three and six month periods ended December 31, 2000 and 1999 and its cash flows for the six month periods ended December 31, 2000 and 1999. 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, 2000, on file at the Securities and Exchange Commission. Certain fiscal 2000 balances have been reclassified to conform with current year presentation.

NOTE 2 ACQUISITION

On July 13, 2000, the Company acquired 100% of the outstanding shares of Arrowood Vineyards & Winery (Arrowood). The acquisition has been accounted for using the purchase method of accounting with the allocation of purchase price to assets and liabilities acquired made using estimated fair values at the date of acquisition. The Company also has the option to purchase certain tangible assets, including vineyards and winery facilities, within the next five years for $12,000. In addition, the Company entered into a long-term licensing agreement for use of the Arrowood and Grand Archer brand names that includes an option to purchase the brand names for approximately $15,000, which will be adjusted for certain financial performance measures, in 2010.

NOTE 3 INVENTORIES

Inventories consist of the following:

	DECEMBER 31,	JUNE 30,

	2000	2000
	UNAUDITED	
Wine in production	$290,915	$186,609
Bottled wine	102,325	92,162
Crop costs and supplies	10,132	19,716
	$403,372	$298,487

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, 2000, was $12,661 of inventory cost step-up remaining from applying purchase accounting to the acquisition of Arrowood.

NOTE 4 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 investments in debt and equity securities. Comprehensive income for the three and six months ended December 31, 2000 and 1999 was as follows:

	UNAUDITED		
	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS DECEMBE
	2000	1999	2000
Net income	$ 14,141	$ 14,625	$ 23,990
Foreign currency translation adjustment, net of tax	212	277	(497)
Comprehensive income	$ 14,353	$ 14,902	$ 23,493

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

The Company recorded inventory step-up charges associated with business acquisitions in fiscal 2001 and 2000. Under purchase accounting, the purchase price is allocated to the assets and liabilities of the acquired company based on their estimated fair market values at the time of the transaction. When the inventory acquired is subsequently sold in the normal course of business, costs of the inventory are charged to cost of goods sold, including the amount of the inventory step-up (the difference between the original book value of the inventory and the fair market value of the inventory upon acquisition). The inventory step-up charges reduce the Company's reported net income. The adjusted figures discussed throughout this report, which better reflect the results of the Company's ongoing operations, exclude inventory step-up charges, as well as a net gain primarily related to the sale of vineyards in fiscal 2000.

SECOND QUARTER OF FISCAL 2001 COMPARED TO SECOND QUARTER OF FISCAL 2000

NET REVENUES Net revenues increased by 21.5%, reflecting a 17.4% increase in sales volume that was driven by the Woodbridge and Robert Mondavi Coastal brands. Net revenues per case increased by 3.4% to $50.21, reflecting increased retail revenues and price increases that were partially offset by the shift in sales mix to Woodbridge and Robert Mondavi Coastal, which have lower net revenues per case.

COST OF GOODS SOLD Cost of goods sold as reported increased by 21.1%. Adjusted cost of goods sold increased by 19.0%, reflecting increased sales volume combined with a shift in sales mix to wines with higher average costs per case.

GROSS PROFIT As a result of the above factors, the reported gross profit percentage was 46.1% compared to 46.0% reported last year. The adjusted gross profit percentage increased to 47.0% from 46.0% last year.

OPERATING EXPENSES Operating expenses increased by 23.2% and the ratio of operating expenses to net revenues increased to 28.1% from 27.7% a year ago. These increases were primarily due to increased promotional spending, start-up costs related to the Golden Vine Winery and the addition of operating expenses from recent business acquisitions.

INTEREST Interest expense increased by 43.1% due to increased average borrowings outstanding associated with facility expansion, business acquisitions and the To-Kalon and Golden Vine Winery projects.

EQUITY INCOME FROM JOINT VENTURES Equity income from joint ventures as reported decreased by 35.8% to $1.7 million due mainly to a difference in the timing of the Opus One fall release and inventory step-up charges related to the Company's investment in Ornellaia. Adjusted equity income from joint ventures decreased by 21.8% to $2.0 million due mainly to the timing of the Opus One fall release.

OTHER "Other" primarily consists of miscellaneous non-operating income and expense items. "Other" as reported includes a $2.5 million net gain primarily related to the sale of vineyards in fiscal 2000. Adjusted "other" expenses totaled $0.3 million compared to $0.1 million last year.

PROVISION FOR INCOME TAXES The Company's effective tax rate remained unchanged from the prior year at 38.5%.

NET INCOME AND EARNINGS PER SHARE As a result of the above factors, net income as reported totaled $14.1 million, or $0.87 per diluted share, compared to $14.6 million, or $0.92 per diluted share, a year ago. Adjusted net income totaled $15.2 million, or $0.93 per diluted share, compared to $13.1 million, or $0.82 per diluted share, a year ago.

FIRST SIX MONTHS OF FISCAL 2001 COMPARED TO FIRST SIX MONTHS OF FISCAL 2000

NET REVENUES Net revenues increased by 20.9%, reflecting a 19.5% increase in sales volume that was driven by the Woodbridge and Robert Mondavi Coastal brands. Net revenues per case increased by 1.3% to $49.93, reflecting increased retail revenues and price increases that were partially offset by the shift in sales mix to Woodbridge and Robert Mondavi Coastal, which have lower net revenues per case.

COST OF GOODS SOLD Cost of goods sold as reported increased by 22.4%. Adjusted cost of goods sold increased 20.1%, reflecting increased sales volume combined with a shift in sales mix to wines with higher average costs per case.

GROSS PROFIT As a result of the above factors, the reported gross profit percentage was 45.9% compared to 46.6% reported last year. The adjusted gross profit percentage increased to 46.9% from 46.6% last year.

OPERATING EXPENSES Operating expenses increased by 24.3% and the ratio of operating expenses to net revenues increased to 28.8% from 28.0% a year ago. These increases were primarily due to increased promotional spending, start-up costs related to the Golden Vine Winery and the addition of operating expenses from recent business acquisitions.

INTEREST Interest expense increased by 38.5% due to increased average borrowings outstanding associated with facility expansion, business acquisitions and the To-Kalon and Golden Vine Winery projects.

EQUITY INCOME FROM JOINT VENTURES Equity income from joint ventures as reported increased by 30.1% to $7.1 million due mainly to improved profitability from the Opus One joint venture that was partially offset by inventory step-up charges related to the Company's investment in Ornellaia. Adjusted equity income from joint ventures increased by 60.8% to $8.8 million, reflecting the Opus One improvement and adjusted equity income from Ornellaia.

OTHER "Other" primarily consists of miscellaneous non-operating income and expense items. "Other" as reported includes a $2.5 million net gain primarily related to the sale of vineyards in fiscal 2000. Adjusted "other" expenses totaled $0.9 million compared to $0.3 million last year.

PROVISION FOR INCOME TAXES The Company's effective tax rate remained unchanged from the prior year at 38.5%.

NET INCOME AND EARNINGS PER SHARE As a result of the above factors, net income as reported totaled $24.0 million, or $1.48 per diluted share, compared to $23.9 million, or $1.50 per diluted share, a year ago. Adjusted net income totaled $26.6 million, or $1.64 per diluted share, compared to $22.3 million, or $1.40 per diluted share, a year ago.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by $3.0 million during the first six months of fiscal 2001 as cash used in investing and operating activities exceeded cash provided by financing activities. Cash used in operations totaled $26.5 million, reflecting a seasonal 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. Cash used in investing activities totaled $35.3 million, reflecting the Arrowood acquisition, vineyard development and facility expansion and renovation. Cash provided by financing activities totaled $58.8 million, reflecting an increase in borrowings, net of cash, and stock option exercises.

On July 13, 2000, the Company acquired 100% of the outstanding shares of Arrowood Vineyards & Winery. The acquisition was accounted for using the purchase method of accounting.

The Company maintains master lease facilities that provide the capacity to fund up to $148.0 million. The combined facilities enable the Company to lease certain real property to be constructed or acquired. At December 31, 2000, $60.4 million of the combined facilities had been utilized.

The Company has unsecured short-term and long-term credit lines that have a maximum credit availability of $151.5 million and $60.0 million, respectively. The short-term credit lines expire as follows: $35.0 million expires on February 28, 2001; $25.0 million expires on March 31, 2001; $55.0 million expires on December 20, 2001 and $36.5 million expires on December 22, 2001. The long-term credit lines expire on December 31, 2003.

On January 30, 2001, the Company entered into unsecured term loans totaling $55.0 million. The proceeds from these loans were used to pay down credit line borrowings.

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 or the results of its operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Company's Annual Meeting of Shareholders was held on November 3, 2000, at the Woodbridge Winery, Acampo, 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, 2001; and amendments of the Company's stock plans to reserve an additional 600,000 shares of Class A Common Stock for issuance under the 1993 Equity Incentive Plan and an additional 50,000 shares of Class A Common Stock for issuance under the 1993 Non-Employee Directors' Stock Option Plan.

Philip Greer and Frank Farella were nominated as Class A directors. 7,097,063 Class A shares were voted for Mr. Greer and 78,892 shares were withheld. 7,094,160 Class A shares were voted for Mr. Farella and 81,795 shares were withheld. Accordingly, Messrs. Greer and Farella were re-elected as Class A directors.

Robert G. Mondavi, R. Michael Mondavi, Marcia Mondavi Borger, Timothy J. Mondavi, Bartlett R. Rhoades and Anthony Greener were nominated as Class B directors. 7,291,797 Class B shares were voted for each of them. Accordingly, each of the Class B nominees was re-elected to the Board.

80,076,963 votes were cast in favor of the ratification of PricewaterhouseCoopers LLP, 13,456 votes were cast against and 3,506 votes abstained. Accordingly, the selection of PricewaterhouseCoopers LLP as independent auditors was ratified.

75,469,588 votes were cast in favor of the ratification of the amendments to the stock plans, 3,503,607 votes were cast against and 41,724 votes abstained. Accordingly, the amendments of the stock plans were adopted as proposed.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

1) Exhibits:

Exhibit 27 Financial Data Schedule

2) Form 8-K:

No reports on Form 8-K were filed during the quarter ended December 31, 2000.

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, 2001

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, the premium wine grape market, the premium wine industry and the Company's anticipated future investment in vineyards and other capital projects. Actual results may differ materially from these expectations. Among other things, reduced consumer spending or a change in consumer preferences could reduce demand for the Company's wines. Similarly, competition from numerous domestic and foreign vintners could affect the Company's volume and revenue growth outlook, as could attendance projections at Disney's California Adventure theme park. 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 increase 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, 2000, 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.

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
Exhibit 27	Financial Data Schedule