

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

MONDAVI ROBERT CORP
Form 10-Q
February 14, 2003

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

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2002

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, 2003, there were issued and outstanding 9,618,152 shares of the issuer's Class A Common Stock and 6,646,734 shares of the issuer's Class B Common Stock.

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

PART I

Item 1. Financial Statements.

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

ASSETS	December 31, 2002 ----- Unaudited	June 20 --
Current assets:		
Accounts receivable--trade, net	\$ 94,914	\$ 92,
Inventories	441,949	388,
Prepaid expenses and other current assets	14,360	12,
	-----	-----
Total current assets	551,223	493,
Property, plant and equipment, net	311,464	323,
Assets held for sale	7,748	
Investments in joint ventures	28,901	27,
Other assets	11,062	11,
	-----	-----
Total assets	\$ 910,398	\$855,
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Book overdraft	\$ 3,423	\$ 2,
Notes payable to banks	9,900	4,
Accounts payable--trade	62,726	23,
Employee compensation and related costs	13,790	11,
Other accrued expenses	26,450	21,
Current portion of long-term debt	9,145	12,
	-----	-----
Total current liabilities	125,434	74,
Long-term debt, less current portion	298,810	316,
Deferred income taxes	26,169	24,
Deferred executive compensation	6,328	5,
Other liabilities	3,351	3,
	-----	-----
Total liabilities	460,092	424,
	-----	-----
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--9,615,902 and 9,566,102 shares	94,550	93,
Class B Common Stock, without par value:		
Authorized--12,000,000 shares;		
issued and outstanding--6,646,734 and 6,647,647 shares	10,676	10,
Paid-in capital	11,302	11,

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

Retained earnings	335,907	317,
Accumulated other comprehensive income (loss):		
Cumulative translation adjustment	(1,812)	(1,
Forward contracts	(317)	(
	-----	-----
Total shareholders' equity	450,306	431,
	-----	-----
Total liabilities and shareholders' equity	\$ 910,398	\$ 855,
	=====	=====

See Notes to Consolidated Financial Statements.

2

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

	Three Months Ended		Six Mo
	December 31,		Dec
	2002	2001	2002
	----	----	----
Revenues	\$148,288	\$137,822	\$ 251,748
Less excise taxes	7,194	6,711	12,048
	-----	-----	-----
Net revenues	141,094	131,111	239,700
Cost of goods sold	81,047	72,914	138,320
	-----	-----	-----
Gross profit	60,047	58,197	101,380
Selling, general and administrative expenses	36,716	34,873	66,622
Special charges	3,110	1,040	3,110
	-----	-----	-----
Operating income	20,221	22,284	31,648
Other income (expense):			
Interest	(5,377)	(5,415)	(10,512)
Equity income from joint ventures	1,074	15	8,395
Other	(304)	(482)	(972)
	-----	-----	-----
Income before income taxes	15,614	16,402	28,559
Provision for income taxes	5,777	6,150	10,567
	-----	-----	-----
Net income	\$ 9,837	\$ 10,252	\$ 17,992
	=====	=====	=====
Earnings per share-Basic	\$.61	\$.64	\$ 1.11
	=====	=====	=====
Earnings per share-Diluted	\$.60	\$.63	\$ 1.10
	=====	=====	=====
Weighted average number of shares outstanding-Basic	16,235	16,040	16,225

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

	=====	=====	=====
Weighted average number of shares outstanding-Diluted	16,383	16,305	16,372
	=====	=====	=====

See Notes to Consolidated Financial Statements.

3

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

	Six De 2002 ----
Cash flows from operating activities:	
Net income	\$ 17,992
Adjustments to reconcile net income to net cash flows from operating activities:	
Deferred income taxes	188
Depreciation and amortization	11,907
Equity income from joint ventures	(8,395)
Distributions from joint ventures	7,619
Special charges and asset write-downs	3,110
Other	1,102
Changes in assets and liabilities:	
Accounts receivable--trade	(2,359)
Inventories	(52,457)
Other assets	(651)
Accounts payable--trade and accrued expenses	48,605
Deferred executive compensation	671
Other liabilities	(318)
Net cash flows from operating activities	27,014
Cash flows from investing activities:	
Acquisitions of property, plant and equipment	(11,343)
Proceeds from sale of assets	-
Contributions to joint ventures	(1,468)
Net cash flows from investing activities	(12,811)
Cash flows from financing activities:	
Book overdraft	689
Net additions (repayments) under credit lines	(6,500)
Principal repayments of long-term debt	(8,782)
Proceeds from issuance of Class A Common Stock	260
Exercise of Class A Common Stock options	462

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

Other	(332)
Net cash flows from financing activities	(14,203)
Net change in cash and cash equivalents	-
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	\$ -

See Notes to Consolidated Financial Statements.

4

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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, 2002, its results of operations for the three and six month periods ended December 31, 2002 and 2001 and its cash flows for the six month periods ended December 31, 2002 and 2001. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America 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 for the fiscal year ended June 30, 2002, on file at the Securities and Exchange Commission.

Earnings per share

Diluted earnings per share is computed by dividing net income by the sum of the weighted average number of Class A and Class B common shares outstanding plus the dilutive effect, if any, of common share equivalents for stock option awards.

In computing basic earnings per share for all periods presented, no adjustments have been made to net income (numerator) or weighted-average shares outstanding (denominator). The computation of diluted earnings per share for all periods is identical to the computation of basic earnings per share except that the weighted-average shares outstanding (denominator) has been increased by 148,000 and 265,000, respectively, for the three months ended December 31, 2002 and 2001, and by 147,000 and 316,000, respectively, for the six months ended December 31, 2002 and 2001 to include the dilutive effect of stock options outstanding.

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

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, 2002, the Company had outstanding forward exchange contracts, hedging primarily Australian purchases of software and forecasted receipts of Canadian dollars and European euros, with notional amounts totaling \$12,909. Using exchange rates outstanding as of December 31, 2002, the U.S. dollar equivalent of the contracts totaled \$13,430.

New accounting pronouncements

During January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." Under this new Interpretation, the Company will be required to include in its consolidated financial statements the majority of the \$151,392 of assets leased under its master lease facilities during the first quarter of fiscal 2004. The Company is currently evaluating the accounting and financing implications of this new Interpretation.

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

During December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation--Transition and Disclosure." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company uses the intrinsic value based method of accounting for stock-based employee compensation in accordance with Accounting Principles Board Opinion No. 25 and its related Interpretations. The Company plans to adopt the new disclosure requirements of SFAS 148 as required during the third quarter of fiscal 2003.

During November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This new Interpretation clarifies the accounting and disclosure requirements for certain types of guarantees. The Company plans to complete the adoption of this Interpretation as required during the third quarter of fiscal 2003. The adoption of this Interpretation is not expected to have a material impact on the Company's consolidated financial

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

statements.

NOTE 2 INVENTORIES

Inventories consist of the following:

	December 31, 2002 ----	June 30, 2002 ----
	Unaudited	
Wine in production	\$ 299,668	\$ 237,934
Bottled wine	133,736	130,831
Crop costs and supplies	8,545	19,809
	-----	-----
	\$ 441,949	\$ 388,574
	=====	=====

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, 2002 and June 30, 2002, respectively, was \$4,324 and \$6,234 of inventory cost step-up remaining from applying purchase accounting to the fiscal year 2001 acquisition of Arrowood.

NOTE 3 ASSETS HELD FOR SALE

During the second quarter of fiscal 2003, the Company completed a strategic business review of its brands and determined that certain of the Company's vineyard assets were no longer expected to fit its long-term grape sourcing needs or meet its long-term financial objectives. Vineyard assets with a combined book value of \$47,042 have been identified for potential future sale. These assets are expected to be held and used while the Company develops a plan to sell the assets. The Company believes that the carrying value of these assets is recoverable and it does not exceed fair value, with one exception. As of December 31, 2002, the Company had agreed to sell one of its vineyard properties for an amount lower than its book value, less costs required to sell the property. As a result, the Company recorded an asset impairment charge of \$3,110 during the second quarter of fiscal 2003, which was included in special charges in the consolidated statements of income. The sale of this property is expected to be completed by the end of fiscal 2003.

6

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

NOTE 4 INVESTMENTS IN JOINT VENTURES

Investments in joint ventures are summarized below. The Company's interest in income and losses for each joint venture is stated within parentheses.

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

	December 31, 2002 ----	June 30, 2002 ----
	Unaudited	
Opus One (50%)	\$ 12,240	\$ 12,680
Chile (50%)	6,268	5,564
Italy (50%)	5,894	4,918
Ornellaia (50%)	2,447	2,844
Australia (50%)	2,051	823
Other	1	391
	-----	-----
	\$ 28,901	\$ 27,220
	=====	=====

NOTE 5 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 a business relationship with Disney and maintains a presence at the theme park. As a result of this change, the Company recorded special charges totaling \$12,240 during the first six months of fiscal 2002, primarily reflecting fixed asset write-offs, employee separation expenses and lease cancellation fees.

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 in inventory and fixed asset write-downs during the first quarter of fiscal 2002 that were classified as cost of goods sold.

NOTE 6 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, 2002 and 2001 was as follows:

	Unaudited			
	Three Months Ended December 31,		Six Months Ended December 31,	
	2002 ----	2001 ----	2002 ----	2001 ----
Net income	\$ 9,837	\$ 10,252	\$ 17,992	\$ 7,776
Foreign currency translation adjustment, net of tax	355	(193)	(96)	(321)

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

Forward contracts, net of tax	(19)	(58)	132	(58)
	-----	-----	-----	-----
Comprehensive income	\$ 10,173	\$ 10,001	\$ 18,028	\$ 7,397
	=====	=====	=====	=====

7

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

INTRODUCTION

During the second quarter of fiscal 2003, the Company recorded \$3.1 million in special charges related to the impairment of certain vineyards assets held for sale. During fiscal 2002, the Company recorded \$12.2 million in special charges related to operational changes in its Disney California Adventure project and \$3.8 million of inventory and fixed asset write-downs as a result of lowering its sales volume growth projections for the fiscal year. The adjusted figures discussed throughout this report exclude the special charges and asset write-downs, as well as inventory step-up charges associated with business acquisitions for all periods presented.

The Company has included these adjusted figures in its discussion and analysis of financial condition and results of operations to provide a clearer picture of its ongoing operating performance as compared to its reported results. The adjusted figures should not be considered an alternative to financial statements prepared under accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS (In thousands, except per share data)

	Three Months Ended December 31,		
	Reported		
	2002	2001	2002
	-----	-----	-----
Cases sold	3,031	2,823	3,031
Net revenues	\$ 141,094	\$ 131,111	\$ 141,094
Cost of goods sold	81,047	72,914	79,847
Gross profit	60,047	58,197	61,247
Gross profit %	42.6%	44.4%	43.4%
Selling, general & administrative exp.	36,716	34,873	36,716
Special charges	3,110	1,040	-
Operating income	20,221	22,284	24,531
Other income (expense):			
Interest	(5,377)	(5,415)	(5,377)
Equity income from joint ventures	1,074	15	1,296
Other	(304)	(482)	(304)
Income before income taxes	15,614	16,402	20,146
Provision for income taxes	5,777	6,150	7,454
Net income	9,837	10,252	12,692
Earnings per share - Diluted	\$.60	\$.63	\$.77

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

	Six Months Ended December 31,		
	Reported		
	2002	2001	2002
Cases sold	5,120	4,492	5,120
Net revenues	\$ 239,700	\$ 212,014	\$ 239,700
Cost of goods sold	138,320	120,319	136,410
Gross profit	101,380	91,695	103,290
Gross profit %	42.3%	43.2%	43.1%
Selling, general & administrative exp.	66,622	63,614	66,622
Special charges	3,110	12,240	- -
Operating income	31,648	15,841	36,668
Other income (expense):			
Interest	(10,512)	(10,563)	(10,512)
Equity income from joint ventures	8,395	7,799	10,007
Other	(972)	(636)	(972)
Income before income taxes	28,559	12,441	35,191
Provision for income taxes	10,567	4,665	13,021
Net income	17,992	7,776	22,170
Earnings per share - Diluted	\$ 1.10	\$.48	\$ 1.35

8

RESULTS OF OPERATIONS

Second Quarter of Fiscal 2003 Compared to Second Quarter of Fiscal 2002

Net Revenues Net revenues increased by 7.6%, reflecting a 7.4% increase in sales volume. The sales volume increase was primarily driven by the Company's popular and super premium wines, as luxury wine sales continue to improve at a slower rate than the other categories. Sales volume of the Company's wines grew at a slower rate than last quarter due to price reductions taken by competing brands and due to the introduction of significantly lower priced wines sourced from the depressed bulk wine market.

Cost of Goods Sold Cost of goods sold as reported increased by 11.2%, including inventory step-up charges associated with the Arrowood acquisition of \$1.2 million and \$0.9 million, respectively, for the second quarter of fiscal 2003 and 2002. Adjusted cost of goods sold increased by 11.0%. The increase in both reported and adjusted cost of goods sold reflects increased sales volume and the negative impact of balancing inventories through bulk wine sales and by utilizing higher cost surplus wines in the Company's popular and super premium brands.

Gross Profit As a result of the above factors, the reported gross profit percentage was 42.6% compared to 44.4% reported last year. The adjusted gross profit percentage was 43.4% compared to 45.1% last year.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased by 5.3%, reflecting increased advertising expenses and higher costs associated with changes in the Company's sales organization. The ratio of selling, general and administrative expenses to net revenues decreased to 26.0% from 26.6% a year ago, reflecting the favorable impact of sales volume leverage and cost cutting efforts.

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

Special Charges During the second quarter of fiscal 2003, the Company recorded \$3.1 million in special charges related to the impairment of certain vineyard assets as a result of its decision to sell one of its vineyard properties that was no longer expected to meet its long-term financial objectives, nor fit its long-term grape sourcing requirements.

During the second quarter of fiscal 2002, the Company recorded \$1.0 million in special charges related primarily to employee separation expenses associated with operational changes made in the Disney California Adventure project at the end of the first quarter of fiscal 2002.

Interest Interest expense was essentially unchanged from the prior year, despite a decrease in average borrowings outstanding, due to a decrease in capitalized interest resulting from the completion of certain capital and vineyard development projects.

Equity Income from Joint Ventures Equity income from joint ventures as reported included \$0.2 million of inventory step-up associated with the Ornellaia acquisition for both the second quarter of fiscal 2003 and 2002. The increase in both reported and adjusted equity income from joint ventures was primarily due to improved income from Opus One and the Chilean joint venture during the period. The improvement in income from Opus One was mainly due to a difference in the timing of wine shipments. The improvement in income from Chile was mainly due to cost reductions implemented at the joint venture level.

Provision for Income Taxes The Company's effective tax rate was 37.0% compared to 37.5% last year. The lower effective tax rate was primarily the result of an increase in certain manufacturing tax credits.

Net Income and Earnings Per Share As a result of the above factors, reported net income totaled \$9.8 million, or \$0.60 per diluted share, compared to \$10.3 million, or \$0.63 per diluted share, a year ago. Adjusted net income totaled \$12.7 million, or \$0.77 per diluted share, compared to \$11.6 million, or \$0.71 per diluted share, a year ago.

First Six Months of Fiscal 2003 Compared to the First Six Months of Fiscal 2002

Net Revenues Net revenues increased by 13.1%, reflecting a 14.0% increase in sales volume that was partially offset by a 0.8% decrease in net revenues per case. Prior year net revenues and sales volume reflected the negative impact of a sharp decline in the travel and entertainment sectors that began during September 2001. The sales volume increase was primarily driven by the Company's popular and super premium wines, as luxury wine sales continue to improve at a slower rate than the other categories. The shift in sales mix combined with higher promotional spending per case contributed to the decrease in net revenues per case.

Cost of Goods Sold Cost of goods sold as reported increased by 15.0%, including inventory step-up charges associated with the Arrowood acquisition of \$1.9 million and \$1.8 million, respectively, for the first six months of fiscal 2003 and 2002, as well as inventory and fixed asset write-downs totaling \$3.8 million during the first six months of fiscal 2002. Adjusted cost of goods sold increased by 18.8%. The increase in both reported and adjusted cost of goods sold reflects increased sales volume and the negative impact of balancing

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

inventories through bulk wine sales and by utilizing higher cost surplus wines in the Company's popular and super premium brands.

Gross Profit As a result of the above factors, the reported gross profit percentage was 42.3% compared to 43.2% reported last year. The adjusted gross profit percentage was 43.1% compared to 45.9% last year.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased by 4.7%, reflecting increased advertising expenses and higher costs associated with changes in the Company's sales organization that were partially offset by the elimination of operating expenses associated with the Disney California Adventure project. The ratio of selling, general and administrative expenses to net revenues decreased to 27.8% from 30.0% a year ago, reflecting the favorable impact of sales volume leverage and cost cutting efforts.

Special Charges As discussed earlier, the Company recorded \$3.1 million in special charges related to the impairment of certain vineyard assets held for sale during the second quarter of fiscal 2003.

During the first quarter of fiscal 2002, 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 a business relationship with Disney and maintains a presence at the theme park. As a result of this change, the Company recorded special charges totaling \$12.2 million during the first six months of fiscal 2002, primarily reflecting fixed asset write-offs, employee separation expenses and lease cancellation fees.

Interest Interest expense was essentially unchanged from the prior year, despite decreases in the Company's average interest rate and average borrowings outstanding, due to a decrease in capitalized interest resulting from the completion of certain capital and vineyard development projects.

Equity Income from Joint Ventures Equity income from joint ventures as reported included \$1.6 million and \$1.5 million, respectively, of inventory step-up associated with the Ornellaia acquisition for the first six months of fiscal 2003 and 2002. The increase in both reported and adjusted equity income from joint ventures was primarily due to improved income from Ornellaia and the Chilean joint venture during the period. The improvement in income from Ornellaia was mainly due to a difference in the timing of wine shipments. The improvement in income from Chile was mainly due to cost reductions implemented at the joint venture level.

Provision for Income Taxes The Company's effective tax rate was 37.0% compared to 37.5% last year. The lower effective tax rate was primarily the result of an increase in certain manufacturing tax credits.

Net Income and Earnings Per Share As a result of the above factors, reported net income totaled \$18.0 million, or \$1.10 per diluted share, compared to \$7.8 million, or \$0.48 per diluted share, a year ago. Adjusted net income totaled \$22.2 million, or \$1.35 per diluted share, compared to \$19.8 million, or \$1.21 per diluted share, a year ago.

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

The Company had a book overdraft, representing the float on outstanding checks, of \$3.4 million at December 31, 2002, compared to a book overdraft of \$2.7 million at June 30, 2002. Cash provided by operations totaled \$27.0 million, reflecting net income of \$33.0 million (before depreciation, amortization, special charges and asset write-downs) and seasonal increases in inventories and accounts payable to growers. Cash used in investing activities totaled \$12.8 million, reflecting purchases of production equipment and vineyard development costs. Cash used in financing activities totaled \$14.2 million, primarily reflecting net repayments of debt.

The Company maintains master lease facilities that provide the capacity to fund up to \$186.7 million, of which \$151.4 million had been utilized as of December 31, 2002. The 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 \$130.0 million as of December 31, 2002. The assets leased under these facilities have historically been included in the financial covenants of the Company's debt agreements and in the evaluation of the Company's creditworthiness by its banks.

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 \$25.0 million outstanding under its long-term credit lines as of December 31, 2002.

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. The Company had \$9.9 million outstanding under this credit facility as of December 31, 2002.

NEW ACCOUNTING PRONOUNCEMENTS

During January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." Under this new Interpretation, the Company will be required to include in its consolidated financial statements the majority of the \$151.4 million of assets leased under its master lease facilities during the first quarter of fiscal 2004. The Company is currently evaluating the accounting and financing implications of this new Interpretation.

During December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation--Transition and Disclosure." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company uses the intrinsic value based method of accounting for stock-based employee compensation in accordance with Accounting Principles Board Opinion No. 25 and its related Interpretations. The Company plans to adopt the new disclosure requirements of SFAS 148 as required during the third quarter of fiscal 2003.

During November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This new Interpretation clarifies the accounting and disclosure requirements for certain types of guarantees. The

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

Company plans to complete the adoption of this Interpretation as required during the third quarter of fiscal 2003. The adoption of this Interpretation is not expected to have a material impact on the Company's consolidated financial statements.

11

Item 4. Controls and Procedures.

Included below in this report are the Certifications by the Chief Executive Officer and Chief Financial Officer required by the instructions to SEC Form 10-Q. In order to provide their certifications the CEO and the CFO have reviewed, as of January 22, 2003, the effectiveness of the Company's disclosure controls and procedures. These are the controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. They include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the issuer's management, including its principal executive officer and principal financial officer, as appropriate to allow timely disclosure decisions regarding required disclosure. Based on their review, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective for the foregoing purposes. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

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 8, 2002, 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, 2003; and an amendment of the 1993 Equity Incentive Plan to extend the term of the plan by ten years to February 25, 2013.

Philip Greer, Anthony Greener and Bartlett Rhoades were nominated as Class A directors. 7,913,321 Class A shares were voted for Mr. Greer and 305,306 shares were withheld. 7,822,284 Class A shares were voted for Mr. Greener and 396,343 shares were withheld. 7,821,284 Class A shares were voted for Mr. Rhoades and 397,343 shares were withheld. Accordingly, Messrs. Greer, Greener and Rhoades were re-elected as Class A directors.

Robert G. Mondavi, R. Michael Mondavi, Marcia Mondavi Borger, Timothy J. Mondavi, Frank E. Farella, Gregory M. Evans, John M. Thompson and Adrian Bellamy were nominated as Class B directors. 6,647,647 Class B shares were voted for each of them. Accordingly, each of the Class B nominees was re-elected to the

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

Board.

74,358,087 votes were cast in favor of the ratification of PricewaterhouseCoopers LLP, 330,865 votes were cast against and 6,144 votes abstained. Accordingly, the selection of PricewaterhouseCoopers LLP as independent auditors was ratified.

68,913,302 votes were cast in favor of the ratification of the amendment to the 1993 Equity Incentive Plan, 3,984,108 votes were cast against and 18,101 votes abstained. Accordingly, the amendment of the plan was adopted as proposed.

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

- 1) Exhibits:
10.55 Amended and Restated 1993 Equity Incentive Plan
- 2) Form 8-K:
No reports on Form 8-K were filed during the quarter ended December 31, 2002.

12

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 14, 2003

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, a soft economy, a downturn in the travel and entertainment sector, reduced consumer spending, or changes in consumer preferences could reduce demand for the Company's wines. Similarly, increased competition or changes in tourism to our California properties could affect the Company's volume and revenue growth outlook. The supply and price of grapes, the Company's most important raw material, are beyond the Company's control. A shortage of grapes might constrict the supply of wine available for sale and cause higher grape costs that put more pressure on gross profit margins. A surplus of grapes might allow for greater

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

sales and lower grape costs, but it might also result in more competition and pressure on selling prices or marketing spending. 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, 2002, 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.

13

CERTIFICATION

I, GREGORY M. EVANS, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Robert Mondavi Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record,

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ GREGORY M. EVANS

Gregory M. Evans
President / CEO

14

CERTIFICATION

I, HENRY J. SALVO, JR., certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Robert Mondavi Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the

Edgar Filing: MONDAVI ROBERT CORP - Form 10-Q

effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ HENRY J. SALVO, JR.

Henry J. Salvo, Jr.
Executive Vice President / CFO