

PERFORMANCE FOOD GROUP CO
Form 10-Q/A
May 03, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
AMENDMENT NO. 1

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

Commission File No.: 0-22192

PERFORMANCE FOOD GROUP COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Tennessee

54-0402940

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification Number)

12500 West Creek Parkway

Richmond, Virginia

(Address of Principal Executive Offices)

23238

(Zip Code)

Registrant's Telephone Number, Including
Area Code

(804) 484-7700

6800 Paragon Place, Suite 500

Richmond, Virginia 23230

(Former Name, Former Address And Former Fiscal Year,

If Changed Since Last Report)

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

No

As of August 10, 2001, 36,646,075 shares of the Registrant's Common Stock were outstanding.

EXPLANATORY NOTE

Unless this Form 10-Q/A indicates otherwise or the context otherwise requires, the terms "we," "our," "us," or "Performance Food Group" as used in this Form 10-Q/A refer to Performance Food Group Company and its subsidiaries. References in this Form 10-Q/A to the 2001 and 2000 quarters and periods refer to our restated fiscal quarters and our restated six-month periods ended June 30, 2001 and July 1, 2000, respectively, unless otherwise expressly stated or the context otherwise requires.

Performance Food Group is filing this Form 10-Q/A as a result of the matters discussed in Note 2, "Restatement of Condensed Consolidated Financial Statements" to the unaudited condensed consolidated financial statements included in this Form 10-Q/A.

Independent Accountants' Review Report

The Board of Directors and Shareholders
Performance Food Group Company:

We have reviewed the accompanying condensed consolidated balance sheet of Performance Food Group Company and subsidiaries (the Company) as of June 30, 2001, and the related condensed consolidated statements of earnings for the three-month and six-month periods ended June 30, 2001 and July 1, 2000 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2001 and July 1, 2000. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the restated consolidated balance sheet of Performance Food Group Company and subsidiaries as of December 30, 2000, and the related restated consolidated statements of earnings, shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 26, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 30, 2000 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/KPMG LLP

Richmond, Virginia

July 30, 2001, except as to the effect of matters discussed in Note 2 which is as of March 26, 2002

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

PERFORMANCE FOOD GROUP COMPANY AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands)	June 30, <u>2001</u> (restated)	December 30, <u>2000</u> (restated)
ASSETS		
Current assets:		
Cash	\$ 9,791	\$ 18,530
Trade accounts and notes receivable, net	161,459	167,814
Inventories	143,732	123,586
Other current assets	<u>15,067</u>	<u>14,696</u>
Total current assets	330,049	324,626
Property, plant and equipment, net	147,256	143,142
Intangible assets, net	303,228	239,311
Other assets	<u>1,640</u>	<u>3,192</u>
Total assets	\$ 782,173	\$ 710,271
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Outstanding checks in excess of deposits	\$ 20,747	\$ 36,724
Current installments of long-term debt	14,898	1,966
Trade accounts payable	149,964	133,285
Other current liabilities	<u>62,051</u>	<u>57,079</u>
Total current liabilities	247,660	229,054

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Long-term debt, excluding current installments	127,604	114,492
Deferred income taxes	<u>9,701</u>	<u>9,701</u>
Total liabilities	<u>384,965</u>	<u>353,247</u>
Shareholders' equity	<u>397,208</u>	<u>357,024</u>
Total liabilities and shareholders' equity	\$ 782,173	\$ 710,271

See accompanying notes to unaudited condensed consolidated financial statements.

PERFORMANCE FOOD GROUP COMPANY AND SUBSIDIARIES

Condensed Consolidated Statement of Earnings (Unaudited

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(In thousands, except per share amounts)	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	June 30, <u>2001</u> (restated)	July 1, <u>2000</u> (restated)	June 30, <u>2001</u> (restated)	July 1, <u>2000</u> (restated)
Net sales	\$ 794,822	\$ 654,603	1,518,297	\$ 1,234,353
Cost of goods sold	<u>686,366</u>	<u>567,975</u>	<u>1,316,244</u>	<u>1,070,316</u>
Gross profit	108,456	86,628	202,053	164,037
Operating expenses	<u>88,446</u>	<u>74,591</u>	<u>172,035</u>	<u>144,436</u>
Operating profit	20,010	12,037	30,018	19,601
Other income (expense), net:				
Interest expense	(2,161)	(1,499)	(3,803)	(2,888)
Other, net	<u>(474)</u>	<u>(29)</u>	<u>(458)</u>	<u>40</u>
Other expense, net	<u>(2,635)</u>	<u>(1,528)</u>	<u>(4,261)</u>	<u>(2,848)</u>
Earnings before income taxes	17,375	10,509	25,757	16,753

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Income tax expense		<u>6,602</u>	<u>3,993</u>	<u>9,787</u>	<u>6,366</u>
Net earnings	\$	10,773	\$	6,516	\$ 10,387
Weighted average common shares outstanding		36,542		27,648	36,066
Basic net earnings per common share	\$	0.29	\$	0.24	\$ 0.37
Weighted average common shares and dilutive potential common shares outstanding		37,857		28,770	37,383
Diluted net earnings per common share	\$	0.28	\$	0.23	\$ 0.36

See accompanying notes to unaudited condensed consolidated financial statements.

PERFORMANCE FOOD GROUP COMPANY AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows (Unaudited)

(In thousands)	<u>Six Months Ended</u>	
	June 30, <u>2001</u>	July 1, <u>2000</u>
	(restated)	(restated)
Cash flows from operating activities:		
Net earnings	\$ 15,970	\$ 10,387
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	8,645	6,405
Amortization	4,257	1,876
ESOP contributions applied to principal of ESOP debt	285	273
Loss (gain) on disposal of property, plant and equipment	697	(2)
Change in operating assets and liabilities, net	<u>16,554</u>	<u>(8,775)</u>
Net cash provided by operating activities	<u>46,408</u>	<u>10,164</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(13,791)	(16,923)

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Net cash paid for acquisitions	(43,806)	(2,299)
Proceeds from sale of property, plant and equipment	1,027	619
Decrease in intangibles and other assets	<u>1,002</u>	<u>171</u>
Net cash used in investing activities	<u>(55,568)</u>	<u>(18,432)</u>
Cash flows from financing activities:		
Increase (decrease) in outstanding checks in excess of deposits	(15,977)	5,772
Net borrowings on notes payable to banks	13,002	9,554
Proceeds from issuance of long-term debt	906	3,455
Principal payments on long-term debt	(1,464)	(338)
Repurchases of common stock	-	(11,907)
Employee stock option, incentive and purchase plans and related income tax benefits	<u>3,954</u>	<u>2,154</u>
Net cash provided by financing activities	<u>421</u>	<u>8,690</u>
Net increase (decrease) in cash	(8,739)	422
Cash, beginning of period	<u>18,530</u>	<u>5,606</u>
Cash, end of period	\$ 9,791	\$ 6,028

See accompanying notes to unaudited condensed consolidated financial statements.

PERFORMANCE FOOD GROUP COMPANY AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2001 and July 1, 2000

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Performance Food Group Company and subsidiaries (the "Company") as of June 30, 2001 and for the three months and six months ended June 30, 2001 and July 1, 2000 are unaudited. The unaudited December 30, 2000 condensed consolidated balance sheet was derived from the restated audited consolidated balance sheet as of December 30, 2000 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001. The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting, and in accordance with Rule 10-01 of Regulation S-X.

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In the opinion of management, the unaudited condensed consolidated financial statements contained in this report reflect all adjustments, consisting of only normal recurring accruals, which are necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. References in this Form 10-Q/A to the 2001 and 2000 quarters and periods refer to the restated fiscal quarters and the restated six-month periods ended June 30, 2001 and July 1, 2000, respectively.

On April 11, 2001, the Company's Board of Directors declared a 2-for-1 stock split effected as a 100% stock dividend. The record date of the stock dividend was April 23, 2001, and the stock dividend was distributed to shareholders on April 30, 2001. All references to the number of common shares and per common share amounts in this Form 10-Q/A have been restated to give retroactive effect to the stock split for all periods presented.

These unaudited condensed consolidated financial statements, note disclosures and other information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001.

2. Restatement of Condensed Consolidated Financial Statements

In March 2002, the Company announced that it had identified certain accounting errors at one of its operating subsidiaries in its broadline segment. The errors resulted primarily from the failure of the accounting staff at this subsidiary to properly reconcile its accounting records to supporting detail and their failure to appropriately account for intercompany transactions with a division of this subsidiary, which resulted in an understatement of cost of goods sold for the subsidiary. The effect of the correction of the errors was to reduce previously reported net earnings by approximately \$99,000 and \$1.2 million for the 2001 quarter and period, respectively. The effect of the correction of the errors for both the 2000 quarter and period reduced previously reported net earnings by approximately \$217,000. The condensed consolidated balance sheets as of June 30, 2001 and December 30, 2000, the condensed consolidated statements of earnings for the three-month and six-month periods ended June 30, 2001 and July 1, 2000 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2001 and July 1, 2000 and notes thereto included in this Form 10-Q/A have been restated to include the effects of the corrections of these errors, as follows:

Condensed Consolidated Balance Sheets (In thousands)	<u>June 30, 2001</u>		<u>December 30, 2000</u>	
	As previously <u>reported</u>	<u>Restated</u>	As previously <u>reported</u>	<u>Restated</u>
Trade accounts and notes receivable, net	\$ 161,459	\$ 161,459	\$ 167,444	\$ 167,814
Total current assets	330,049	330,049	324,256	324,626
Other assets	1,640	1,640	2,987	3,192
Total assets	782,173	782,173	709,696	710,271
Outstanding checks in excess of deposits	\$ 17,139	\$ 20,747	\$ 33,330	\$ 36,724
Trade accounts payable	151,571	149,964	134,986	133,285
Other current liabilities	62,158	62,051	57,504	57,079
	245,766	247,660	227,786	229,054

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Total current liabilities				
Total liabilities	383,071	384,965	351,979	353,247
Shareholders' equity	399,102	397,208	357,717	357,024
Total liabilities and shareholders' equity	782,173	782,173	709,696	710,271

Condensed Consolidated Statement of Earnings	<u>Three Months Ended</u>			
	<u>June 30, 2001</u>		<u>July 1, 2000</u>	
	As previously reported	Restated	As previously reported	Restated
(In thousands, except per share amounts)				
Net sales	\$ 794,822	\$ 794,822	\$ 654,603	\$ 654,603
Cost of goods sold	686,206	686,366	567,624	567,975
Gross profit	108,616	108,456	86,979	86,628
Operating profit	20,170	20,010	12,388	12,037
Earnings before income taxes	17,535	17,375	10,860	10,509
Income tax expense	6,663	6,602	4,127	3,993
Net earnings	10,872	10,773	6,733	6,516
Basic earnings per common share	0.30	0.29	0.24	0.24
Diluted earnings per common share	0.29	0.28	0.23	0.23

Condensed Consolidated Statement of Earnings	<u>Six Months Ended</u>			
	<u>June 30, 2001</u>		<u>July 1, 2000</u>	
	As previously reported	Restated	As previously reported	Restated
(In thousands, except per share amounts)				
Net sales	\$ 1,518,297	\$ 1,518,297	\$ 1,234,353	\$ 1,234,353
Cost of goods sold	1,314,306	1,316,244	1,069,965	1,070,316
Gross profit	203,991	202,053	164,388	164,037
Operating profit	31,956	30,018	19,952	19,601
Earnings before income taxes	27,695	25,757	17,104	16,753
Income tax expense	10,524	9,787	6,500	6,366
Net earnings	17,171	15,970	10,604	10,387
Basic earnings per common share	0.48	0.44	0.38	0.37
Diluted earnings per common share	0.46	0.43	0.37	0.36

3. Business Combinations

On April 2, 2001, the Company acquired all of the outstanding common stock of Empire Seafood Holding Corp. ("Empire"), a privately owned distributor and processor of seafood. Empire markets and distributes a broad array of seafood directly to independent restaurants and other foodservice operators, primarily in Florida.

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On August 4, 2000, the Company acquired all of the outstanding common stock of Carroll County Foods, Inc. ("Carroll County"), a privately owned broadline foodservice distributor based in New Windsor, Maryland. Carroll County provides products and services to traditional foodservice accounts in a region that includes Baltimore, Maryland and Washington, D.C.

On December 13, 2000, the Company acquired all of the outstanding common stock and membership interests of Redi-Cut Foods, Inc. and its affiliates, Kansas City Salad, L.L.C and K. C. Salad Real Estate, L.L.C. (collectively "Redi-Cut,") a privately owned processor of fresh-cut produce with facilities in Franklin Park, Illinois, a suburb of Chicago, and Kansas City, Missouri. Redi-Cut provides fresh-cut produce mainly to third-party distributors for resale primarily to quick-service restaurants such as McDonald's, KFC, Taco Bell, Pizza Hut and Burger King.

The acquisitions of Empire, Carroll County and Redi-Cut have been accounted for using the purchase method; therefore, the acquired assets and liabilities have been recorded at their estimated fair values at the dates of acquisition. The excess of the total purchase price over the total fair value of tangible net assets acquired was approximately \$201.4 million and is being amortized on a straight-line basis over estimated lives ranging from 5 to 40 years. The preliminary allocation of the excess purchase price of the Redi-Cut and Empire acquisitions are subject to final adjustment.

In the 2001 period, the Company paid a total of approximately \$43.8 million in cash and issued a total of approximately 817,000 shares of its common stock for the acquisition of Empire and to the former shareholders of Carroll County, State Hotel Supply Company, Inc. ("State Hotel") and AFFLINK Incorporated (formerly Affiliated Paper Companies, Inc. "AFFLINK"), which were acquired in 2000, 1999 and 1998, respectively, as a result of certain contractual obligations in the purchase agreements relating to those acquisitions. In the 2000 period, the Company paid a total of approximately \$2.3 million in cash and issued a total of approximately 89,000 shares of its common stock to the former shareholders of Dixon Tom-A-Toe Companies, Inc. and AFFLINK, which were acquired in 1999 and 1998, respectively, as a result of certain contractual obligations in the purchase agreements relating to those acquisitions. These payments were recorded as additions to goodwill.

The condensed consolidated statements of earnings and cash flows reflect the results of these acquired companies from the dates of acquisition through June 30, 2001. The unaudited consolidated results of operations on a pro forma basis as though these acquisitions had been consummated as of the beginning of 2000 are as follows:

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	<u>June 30,</u> <u>2001</u> (restated)	<u>July 1,</u> <u>2000</u> (restated)	<u>June 30,</u> <u>2001</u> (restated)	<u>July 1, 2000</u> (restated)
Net sales	\$ 794,822	\$ 728,381	\$ 1,544,405	\$ 1,375,118
Gross profit	108,456	99,261	205,707	188,439
Net earnings	10,773	8,911	16,527	14,938
Basic net earnings per common share	\$ 0.29	\$ 0.25	\$ 0.45	\$ 0.41
Diluted net earnings per common share	0.28	0.24	0.44	0.40

The pro forma results are presented for information purposes only and may not be indicative of the operating results that would have occurred had the Empire, Carroll County and Redi-Cut acquisitions been consummated as of the beginning of 2000.

4. Supplemental Cash Flow Information

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Supplemental disclosures of cash flow information for the 2001 and 2000 periods are as follows:

(In thousands	Six Months Ended	
	<u>June 30, 2001</u>	<u>July 1, 2000</u>
)		
Cash paid during the period for:		
Interest	\$ 4,429	\$ 2,929
Income taxes	\$ 8,476	\$ 5,032

5. Industry Segment Information

The Company has three reportable segments: broadline foodservice distribution ("Broadline"); customized foodservice distribution ("Customized"); and fresh-cut produce processing ("Fresh-Cut"). Broadline markets and distributes more than 31,000 national and proprietary brand food and non-food products to a total of approximately 27,000 street and chain customers. Broadline consists of 13 operating locations that independently design their own product mix, distribution routes and delivery schedules to accommodate the needs of a large number of customers, whose individual purchases vary in size. Customized focuses on serving certain casual-dining chain restaurants. These customers generally prefer a centralized point of contact that facilitates item and menu changes, tailored distribution routing and customer service resolution. The Customized distribution network covers 49 states and several foreign countries from five distribution facilities. Fresh-Cut purchases, processes, packages and distributes a variety of fresh produce, mainly to third-party distributors for resale, primarily to quick-service restaurants located in the Southeastern, Southwestern and Midwestern United States. Fresh-Cut operations are conducted at four processing facilities.

(In thousands)	<u>Broadline</u>	<u>Customized</u>	<u>Fresh-Cut</u>	<u>Corporate & Intersegment</u>	<u>Consolidated</u>
2001 Quarter					
Net external sales	\$ 415,477	\$ 312,396	\$ 66,949	\$ -	\$ 794,822
Intersegment sales	1,820	-	10,083	(11,903)	-
Operating profit (restated)	12,386	3,569	6,360	(2,305)	20,010
Total assets	438,021	123,904	199,209	21,039	782,173
Interest expense (income)	2,827	817	2,482	(3,965)	2,161
Depreciation	2,500	621	1,328	73	4,522
Amortization	1,362	-	1,003	25	2,390
Capital expenditures	4,508	671	739	1,155	7,073

(In thousands)	<u>Broadline</u>	<u>Customized</u>	<u>Fresh-Cut</u>	<u>Corporate & Intersegment</u>	<u>Consolidated</u>
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2000 Quarter

Net external sales	\$ 335,231	\$ 287,261	\$ 32,111	\$ -	\$ 654,603
Intersegment sales	950	-	6,675	(7,625)	-
Operating profit (restated)	8,953	2,835	1,867	(1,618)	12,037
Total assets (restated)	321,096	114,444	51,243	15,595	502,378
Interest expense (income)	1,800	844	415	(1,560)	1,499
Depreciation	2,035	505	620	64	3,224
Amortization	790	-	114	21	925
Capital expenditures	2,710	627	2,453		