

Edgar Filing: PENNEXX FOODS INC - Form 10QSB/A

PENNEXX FOODS INC  
Form 10QSB/A  
April 09, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-QSB/A  
(Amendment No. 2)

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2001  
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Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-31148  
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PINNACLE FOODS, INC.

-----  
(Exact Name of Small Business Issuer as Specified in Its Charter)

Pennsylvania

23-3008972

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification No.)

980 Glasgow Street, Pottstown, PA 19464

-----  
(Address of Principal Executive Offices)

610-705-3620

-----  
(Issuer's Telephone Number, Including Area Code)

-----  
(Former Name, Former Address and Former Fiscal Year, if Changed  
Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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  
-----      -----

APPLICABLE ONLY TO ISSUERS INVOLVED IN  
BANKRUPTCY PROCEEDINGS DURING THE  
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

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Yes \_\_\_\_\_ No \_\_\_\_\_

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 26,006,988

Transitional Small Business Disclosure Format (check one):

Yes \_\_\_\_\_ No \_\_\_\_\_

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

PINNACLE FOODS, INC.
Balance Sheet
September 30, 2001
(Unaudited)

ASSETS

Current Assets:

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Cash	\$ 1,969,968
Trade Receivables, less Allowance of \$25,595	3,728,273
Inventory	926,325
Prepaid Expenses	131,115
	-----
Total Current Assets	6,755,681
	-----
Fixed Assets:	
Property and Equipment	4,080,680
Less Accumulated Depreciation	(810,761)
	-----
Total Fixed Assets	3,269,919
	-----
Other Assets:	33,494
	-----
Total Assets:	\$ 10,059,094
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Current Installments on Capital Lease Obligations	\$ 264,903
Accounts Payable	2,297,613
Accrued Expenses	414,118
	-----
Total Current Liabilities	2,976,634
	-----
Long Term Liabilities	
Capital Lease Obligations Less Current Installments	731,814
Notes Payable	2,500,000
	-----
Total Long Term Liabilities	3,231,814
	-----
Stockholders' Equity:	
Common Stock	264,249
Additional Paid-In Capital	12,106,681
Deficit	(8,180,131)
Deferred Compensation	(340,153)
	-----
Total Stockholders Equity	3,850,646
	-----
Total Liabilities and Stockholders' Equity	\$ 10,059,094
	=====

See notes to condensed financial statements.

PINNACLE FOODS, INC.  
Statements of Operations  
(Unaudited)

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	For the Three Month Period Ended September 30		For the Nine Sep
	2001	2000	2001
Sales	\$ 11,919,282	\$ 3,833,319	\$ 30,887,775
Cost of Goods Sold	11,914,058	4,165,099	30,571,897
Gross Profit	5,224	(331,780)	315,878
Operating Expenses	1,286,692	672,320	2,877,113
Loss from Operations	(1,281,468)	(1,004,100)	(2,561,235)
Other Expenses		158,985	135,880
Interest (Net)	18,826		
Net Loss	\$ (1,300,294)	\$ (1,163,085)	\$ (2,697,115)
Loss Per Share			
Basic	\$ (0.05)	\$ (0.12)	\$ (0.16)
Diluted	\$ (0.05)	\$ (0.12)	\$ (0.16)
Weighted Average Shares Outstanding			
Basic			
Diluted	26,006,988	9,323,380	17,217,513
	26,006,988	9,323,380	17,217,513

See notes to condensed financial statements.

PINNACLE FOODS, INC.  
Statements of Cash Flows  
(Unaudited)

	For the Nine Month September
	2001
Cash Flows Used for Operating Activities	

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Net Loss	\$	(2,697,115)
Adjustments		
Provision for Doubtful Accounts		-
Depreciation and Amortization		449,466
Deferred Compensation		78,497
Common Stock Issued for:		
Interest		31,318
Consulting		128,000
Compensation		-
Changes in Assets and Liabilities		
Trade Receivables		(2,438,079)
Other Receivables		95,410
Inventory		(448,560)
Prepaid Expenses		(81,281)
Accounts Payable		(590,262)
Accrued Expenses		137,813
		-----
Net Cash Used for Operating Activities		(5,334,793)
		-----
Cash Flows Used for Investing Activities		
Purchase of Property and Equipment		(868,331)
Other Assets		(3,347)
		-----
Net Cash Used for Investing Activities		(871,678)
		-----
Cash Flows From Financing Activities		
Proceeds from Issuance of Common Stock, Net		5,909,567
Proceeds from Issuance of Convertible Debt		-
Proceeds from Issuance of Debt		2,500,000
Repayments on Debt		-
Repayments on Capital Lease Obligations		(233,128)
		-----
Net Cash Provided by Financing Activities		8,179,439
		-----
Net Increase in Cash		1,969,968
Cash, Beginning of Year		-
		-----
Cash, End of Period	\$	1,969,968
		=====

PINNACLE FOODS, INC.  
Statements of Cash Flows  
(Unaudited)  
(Continued)

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Supplemental Disclosures of Cash Flow Information

Interest Paid during the Period	\$ 116,512	\$ 58,63
Non-cash Items		
Purchase of Equipment under Capital Lease Agreements	\$ 181,775	\$ 819,43
Debt Converted into Common Stock	400,000	-
Forgiveness of Debt from Shareholder	-	270,00
Common Stock issued for Equipment	-	311,32

See notes to condensed financial statements.

PINNACLE FOODS, INC.  
Statement of Stockholders' Equity  
Nine Month Period Ended September 30, 2001  
(Unaudited)

	Common stock \$.01 par value 50,000,000 shares authorized				
	Shares issued or issuable	Amount	Additional paid-in capital	Deficit	Defer Compens
Balance, January 1, 2001	13,367,298	\$ 133,673	\$ 5,768,372	\$ (5,483,016)	\$ (418
Net Loss				(2,697,115)	
Grant of Compensatory Options					7
Common Stock Issued or Issuable For:					
Cash, Net	12,510,161	125,102	5,784,465		
Consulting	160,000	1,600	126,400		
Interest	20,696	207	31,111		
Convertible Debt	366,667	3,667	396,333		
Balance, September 30, 2001	26,424,822	\$ 264,249	\$ 12,106,681	\$ (8,180,131)	\$ (340

See notes to condensed financial statements.

PINNACLE FOODS, INC.  
 Notes to Condensed Financial Statements  
 September 30, 2001

1. Basis of Presentation.  
 -----

The unaudited condensed financial statements have been produced by Pinnacle Foods, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such SEC rules and regulations; nevertheless, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements and the notes hereto should be read in conjunction with the financial statements and notes thereto included in the Company's Registration Statement on Form 10-SB, as amended. In the opinion of the Company, all adjustments, including normal recurring adjustments, necessary to present fairly the financial position of the Company as of September 30, 2001 and the results of its operations and cash flows for the three and nine month periods ended September 30, 2001 have been included. The results of operations for the interim period are not necessarily indicative of the results for the year.

2. Accounting Policies.  
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There have been no changes in accounting policies used by the Company during the quarter ended September 30, 2001.

3. Summary of Business.  
 -----

The Company, incorporated on July 20, 1999 in the Commonwealth of Pennsylvania, prepares case-ready meats for distribution to retailers in the Northeastern United States. It grants credit to its customers without requiring collateral.

4. Inventory.  
 -----

The Company's inventories are valued at the lower of first-in, first-out or market. Inventories at September 30, 2001 consist of the following:

Beef, pork, veal, lamb	\$ 265,476
Packaging supplies	463,364
Finished goods	197,485
	-----
	\$ 926,325
	=====

5. Notes Payable.

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During 2001, the Company repaid \$400,000 of convertible bonds with its common stock. The conversion ratio for these borrowings ranged between \$1.00 and \$1.50 per share.

### 6. Stock Options. -----

During 2001, the Company granted 375,000 stock options. The exercise price of these stock options range between \$1.00 to \$1.25 per share. In addition, options to purchase 25,000 shares were forfeited.

### 7. Stockholders' Equity. -----

In June of 2001, the Company entered into an agreement with Smithfield Foods, Inc. ("Smithfield") in which Smithfield purchased shares of the Company which resulted in Smithfield's owning 50% of the issued and outstanding shares upon completion of the transaction for \$6,000,000. In addition, Smithfield provided the Company with a \$30,000,000 revolving line of credit. Moneys dues under the line of credit bear interest at 1% above prime and are secured by all of the Company's assets. The loan will mature in five years.

### 8. Net Income (Loss) Per Share. -----

Basic loss per share (LPS) is computed using the weighted average number of common shares outstanding during the period. Diluted LPS is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of common stock issuable upon exercise of stock options. No adjustments to earnings were made for purposes of per share calculations. There were no dilutive potential common shares in 2000 or 2001 because the assumed exercise of the options would be anti-dilutive.

## Item 2. Management's Discussion and Analysis or Plan of Operation

Sales for the nine-month period ended September 30, 2001 were \$30.9 million, representing an increase of approximately \$25.0 million over sales of \$5.9 million from the corresponding period of 2000. This increase was primarily the result of the increase in the volume of products handled (due in part to increasing sales to existing customers as well as sales to new customers) but was also partially due to a change in the mix of products sold in favor of higher priced items. As the diversity of services that the Company offers continues to grow, customers are increasing both the range of products as well as the quantity ordered.

Cost of goods sold for the nine-month period ended September 30, 2001 was \$30.6 million which resulted in a gross profit of approximately \$0.3 million. By comparison, cost of goods sold for the nine-month period ended September 30, 2000 was \$6.4 million, which resulted in a gross loss of approximately \$0.5 million. Operating expenses for the nine-month period ended



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September 30, 2001 were \$2.9 million as compared to \$1.5 for the comparable period of the prior year. This increase of \$1.4 million resulted from the increase in freight and commission expenses. The Company leased three trucks in 2001 as compared to the prior year in which it leased two trucks. The move of the majority of operations to the Pottstown facility in the first quarter and subsequently, the move of all operations to Pottstown in the second quarter was initiated to control costs more effectively. The Philadelphia facility is currently being used as a storage facility.

Interest expense (net) for the nine-month period ended September 30, 2001 was approximately \$0.1 million compared to approximately \$0.2 million for the comparable period of 2000. This decrease in interest expense is due to the repayment of loans in late 2000 as well as an increase in interest earned on investments. The net loss for the nine-month period of 2001 was approximately \$2.7 million as compared to \$2.2 million for 2000.

The Company has lost money continually since inception; however, the loss in September, 2001 was significantly lower than the losses in both July and August of 2001. The principal reason for the magnitude of the loss in July and August is the Company's agreement to adopt a branded program for one of its major customers that resulted in significant operational changes and processes which have now been overcome.

### Liquidity and Capital Resources

Until the closing of the Smithfield transactions in June 2001, the Company had been chronically undercapitalized. Although the Company had a line of credit with a small bank for a short time period, the line was supported by personal guarantees of shareholders or officers. The Company's minimal equity position of \$379 at December 31, 2000 resulted from start-up expenses that were funded through operations and private offerings of capital stock or convertible debt. The Company currently has no convertible debt outstanding. On May 17, 2001, Smithfield loaned the Company \$2.0 million, which the Company repaid on the closing date of the Smithfield transactions, June 27, 2001.

Although the Company's liquidity problem prior to the closing of the Smithfield transactions had not prevented the Company from filling orders (i.e.

by preventing the Company from purchasing necessary raw materials or paying its workforce), it had caused the Company to seek capital infusions repeatedly since commencement of business and has required the indulgence periodically of Company vendors.

Generally, the Company maintains an inventory of meat supplies using the trade credit programs of its suppliers, which allow the Company to purchase meat supplies with payment due within seven days. The Company's liquidity difficulty prior to the closing of the Smithfield transactions was exacerbated by the requirement that it pay for meat supplies sooner than it was able to get paid by its customers, and because, in the case of the Company's largest customer, its meat supplier was also the paying agent for the customer. This paying agent deducted current meat purchases from prior amounts owed to the Company by the customer before remitting payment to the Company.

By completing the Smithfield transactions, the Company addressed its liquidity problem in two ways. First, the Company's immediate need for capital was addressed by the \$6 million purchase price paid by Smithfield for its equity stake in the Company. Second, the Company received a \$30 million line of credit through Smithfield on terms that the Company had not been able to obtain before

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establishing the relationship with Smithfield. The Smithfield transactions should allow the Company to meet its capital needs for sufficient capital in the immediate future. Management is cautiously optimistic that operations will improve in the future; however, if they do not, there is no assurance that the Smithfield transactions will provide sufficient capital for the Company to operate successfully on a long-term basis.

Because of the liquidity provided by the purchase of the shares sold to Smithfield, as well as the working capital available under the Smithfield line of credit, the Company has terminated the prior arrangement by which it dealt with a meat supplier that was also acting as paying agent for a large Company customer. The combination of cash availability under the Smithfield line and the change referred to in the preceding sentence has increased Company liquidity significantly. Nonetheless, the Company continues to consume significant amounts of cash to fund ongoing operating losses and increases in accounts receivable in excess of the sum of the increase in accounts payable plus the amounts available under the Smithfield line.

At September 30, 2001, the Company had \$2.0 million of cash (and cash equivalents). The Company's current ratio at September 30, 2001 was 2.27. If the Company continues to consume cash at the rate which prevailed during the first nine months of 2001, the Company will deplete its cash resources by the spring or early summer of 2002.

### PART II OTHER INFORMATION

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

The Company filed no Current Reports on Form 8-K during the three month period ended September 30, 2001.

### SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PENNEXX FOODS, INC. f/k/a  
PINNACLE FOODS, INC.

Date: April 8, 2002

By: /s/ Michael D. Queen

-----  
Michael D. Queen, President

By: /s/ Thomas K. McGreal

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Thomas K. McGreal,  
Principal Financial Officer