PINNACLE FOODS INC
Form 10QSB/A
December 27, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-QSB/A
(Amendment No. 1)

(Mark One)

[X] Quarterly report under Section 13 or 15(d) of he Securities Exchange Act of 1934

For the quarterly period ended September 30, 2001

[ ] Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from ___________ to _________

Commission file number 000-31148

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 ear, 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 _____ No X ______

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.

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:	
Cash	$ 1,969,968
Trade Receivables, less Allowance of $25,595	3,773,012
Inventory	926,325
Prepaid Expenses	143,255
Total Current Assets	6,812,560
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:	$ 10,115,973

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Current Installments on Capital Lease Obligations	$ 264,903
Accounts Payable	2,297,613
Accrued Expenses	412,967
Total Current Liabilities	2,975,483
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	269,134
Additional Paid-In Capital	12,094,296
Deficit	(8,114,601)
Deferred Compensation	(340,153)
Total Stockholders Equity	3,908,676
Total Liabilities and Stockholders' Equity	$ 10,115,973

See notes to condensed financial statements.

PINNACLE FOODS, INC.
Statements of Operations
(Unaudited)

	For the Three Month Period Ended September 30		For the Nine Sep
	2001	2000	2001
Sales	$ 11,964,020	$ 3,833,319	$ 30,932,513
Cost of Goods Sold	11,914,058	4,165,099	30,571,897
Gross Profit	49,962	(331,780)	360,616
Depreciation and Amortization	157,041	113,661	449,466
General and Administrative Expenses	1,116,210	737,140	2,414,206
Operating Expenses	1,273,251	850,801	2,863,672
Loss from Operations	(1,223,289)	(1,182,581)	(2,503,056)
Other Expenses			
Interest (Net)	11,475	158,985	128,529
Net Loss	$ (1,234,764)	$ (1,341,566)	$ (2,631,585)
Loss Per Share			
Basic	$ (0.05)	$ (0.14)	$ (0.15)
Diluted	$ (0.05)	$ (0.14)	$ (0.15)
Weighted Average Shares Outstanding			
Basic	26,006,988	9,323,380	17,217,513
Diluted	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 Septembe
	2001
Cash Flows Used for Operating Activities	
Net Loss	$ (2,631,585)
Adjustments	
Provision for Doubtful Accounts	-
Depreciation and Amortization	449,466
Deferred Compensation	78,497
Common Stock Issued for:	
Interest	23,818
Consulting	128,000
Compensation	-
Changes in Assets and Liabilities	
Trade Receivables	(2,482,818)
Other Receivables	95,410
Inventory	(448,560)
Prepaid Expenses	(93,421)
Accounts Payable	(590,262)
Accrued Expenses	136,662
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	8,176,439
Net Increase in Cash	1,969,968
Cash, Beginning of Year	-
Cash, End of Period	$ 1,969,967

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

Supplemental Disclosures of Cash Flow Information		
Interest Paid during the Period	$ 116,512	$ 58,638
Non-cash Items		
Purchase of Equipment under Capital Lease Agreements	$ 181,775	$ 819,438
Debt Converted into Common Stock	400,000	-
Forgiveness of Debt from Shareholder	-	270,000
Common Stock issued for Equipment	-	311,325

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	C
Balance, January 1, 2001	13,367,298	$ 133,673	$ 5,768,372	$ (5,483,016)	$
Net Loss				(2,631,585)	
Grant of Compensatory Options					
Common Stock Issued or Issuable For:					
Cash, Net	13,003,494	130,035	5,779,532		
Consulting	160,000	1,600	126,400		
Interest	15,879	159	23,659		
Convertible Debt	366,667	3,667	396,333		

Balance, September 30, 2001	26,913,338	$ 269,134	$ 12,094,296	$ (8,114,601)	$

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.

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. 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 a purchase price of $6,000,000.

6. Notes Payable.

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. In conjunction with the Smithfield transaction noted above, Smithfield provided the Company with a $30,000,000 revolving line of credit. The Company's outstanding balance under the line of credit bears interest at 1% above prime and is secured by all of the Company's assets. The loan will mature in five years. At September 30, 2001, the Company's outstanding balance under the line of credit was $2.5 million.

7. Stock Options.

During the first nine months of 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.

8. Net Loss Per Share.

Basic loss per share ("EPS") is computed using the weighted average number of common shares outstanding during the period. Diluted EPS 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 2001 or 2000 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 almost exclusively the result of the increase in the volume of products handled, but 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. Although the Company perceives an increasing demand for its services, its existing facilities limit the revenues which can be generated from its operations. Consequently, the Company has been searching for alternative or additional production space for some time. Several properties have been identified, but no lease or Agreement of Sale for any of them has been signed.

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 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 costs associated with increased quality assurance functions, increased insurance expense, increased general management expense, increased depreciation and amortization expense, and increased freight and commission expenses. 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 Company continues to use the Philadelphia facility as a storage facility, and occasionally as a production 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 $2.6 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 establishing the relationship with Smithfield. The amounts which may be borrowed on the line of credit are limited, however, to the Net Amount of Eligible Accounts plus the Net Amount of Eligible Inventory (each as defined in the applicable Credit Agreement) plus such other amounts as Smithfield may, in its reasonable discretion, allow. 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 2.29. Because of the limitations on the amounts which can be borrowed under the Smithfield line of credit, 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 fall of 2002.

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.

PINNACLE FOODS, INC.

Date: December 27, 2001 By: /s/ Tom McGreal

Tom McGreal, Vice President