

PROVENA FOODS INC  
Form 10-Q  
August 10, 2006  
Table of Contents

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTER ENDED JUNE 30, 2006**

**Commission File Number 1-10741**

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**PROVENA FOODS INC.**

(Exact name of registrant as specified in its charter)

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<b>California</b> (State or other jurisdiction of  incorporation or organization)	<b>95-2782215</b> (I.R.S. employer  identification number)
<b>5010 Eucalyptus Avenue, Chino, California</b> (Address of principal executive offices)	<b>91710</b> (ZIP Code)
<b>(909) 627-1082</b>  (Registrant's telephone number, including area code)	

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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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

The number of shares of Provena Foods Inc. Common Stock outstanding at July 31, 2006 was:

**Common Stock** 3,586,075

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**Table of Contents**

**PROVENA FOODS INC.**

Form 10-Q Report for the First Quarter Ended June 30, 2006

Table of Contents

Item	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
1. <u>Financial Statements</u>	1
<u>Condensed Statements of Operations</u>	1
<u>Condensed Balance Sheets</u>	2
<u>Condensed Statements of Cash Flows</u>	3
<u>Notes to Condensed Financial Statements</u>	4
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	6
<u>Results of Operations</u>	6
<u>Forward-Looking Statements</u>	6
<u>Swiss American Sausage Co. Meat Division</u>	6
<u>Royal-Angelus Macaroni Company Pasta Division</u>	6
<u>The Company</u>	7
<u>Liquidity and Capital Resources</u>	7
<u>Critical Accounting Policies</u>	10
<u>New Accounting Standards</u>	11
3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	11
4. <u>Controls and Procedures</u>	11
<b><u>PART II. OTHER INFORMATION</u></b>	
1. <u>Legal Proceedings</u>	12
1A. <u>Risk Factors</u>	12
2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	12
3. <u>Defaults Upon Senior Securities</u>	12
4. <u>Submission of Matters to a Vote of Security Holders</u>	12
5. <u>Other Information</u>	13
<u>Common Stock Repurchase and Sale</u>	13
<u>American Stock Exchange Listing</u>	13
<u>Cash Dividends Paid</u>	13
<u>Management Stock Transactions</u>	13
6. <u>Exhibits</u>	13
<u>Signature</u>	13



Table of ContentsPART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

## PROVENA FOODS INC.

## Condensed Statements of Operations

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net sales	\$ 15,085,316	14,016,535	30,535,023	29,161,172
Cost of sales	13,685,527	13,307,440	27,787,202	27,515,222
Gross profit	1,399,789	709,095	2,747,821	1,645,950
Operating expenses:				
Distribution	400,928	402,026	859,367	840,848
General and administrative	566,413	500,555	1,209,626	1,048,622
Operating income (loss)	432,448	(193,486)	678,828	(243,520)
Interest expense and other financing costs, net	(135,130)	(181,450)	(258,447)	(461,546)
Other income, net	171,203	128,621	328,337	212,875
Earnings (loss) before income taxes	468,521	(246,315)	748,718	(492,191)
Income tax benefit (expense)	(177,296)	99,700	(309,374)	170,900
Net earnings (loss)	\$ 291,225	(146,615)	439,344	(321,291)
Earnings (loss) per share:				
Basic and diluted	\$ .08	(.04)	.13	(.10)
Shares used in computing earnings (loss) per share:				
Basic and diluted	3,502,611	3,388,265	3,485,503	3,367,082

See accompanying Notes to Condensed Financial Statements.

**Table of Contents****PROVENA FOODS INC.**

## Condensed Balance Sheets

(Unaudited)

	June 30,	December 31,
	2006	2005
<u>Assets</u>		
Current assets:		
Cash	\$ 1,806,696	2,057
Cash - restricted	1,009,252	1,221,328
Accounts receivable, less allowance for doubtful accounts of \$0 at 2006 and \$0 at 2005	4,467,611	4,269,656
Inventories	4,217,159	4,829,134
Prepaid expenses	316,201	252,569
Deferred tax assets	335,996	383,602
<b>Total current assets</b>	<b>12,152,915</b>	<b>10,958,346</b>
Property and equipment, net	12,604,259	13,026,653
Deferred tax assets, net of current portion	833,388	901,648
Other assets	445,942	533,053
	<b>\$ 26,036,504</b>	<b>25,419,700</b>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Line of credit	\$ 2,622,704	672,834
Current portion of long-term debt	343,642	343,642
Current portion of capital lease obligation	50,000	50,000
Current portion of deferred income	365,724	365,724
Income tax payable	154,513	456,174
Accounts payable	2,710,394	3,359,258
Accrued liabilities	1,931,846	2,319,071
<b>Total current liabilities</b>	<b>8,178,823</b>	<b>7,566,703</b>
Long-term debt, net of current portion	5,972,785	6,316,850
Capital lease obligation, net of current portion	267,057	285,205
Deferred income, net of current portion	2,933,702	3,081,830
<b>Total liabilities</b>	<b>17,352,367</b>	<b>17,250,588</b>
Shareholders' equity:		
Capital stock, no par value; authorized 10,000,000 shares; issued and outstanding 3,582,269 at 2006 and 3,546,345 at 2005	5,554,608	5,512,926
Retained earnings	3,231,529	2,792,186
Deferred compensation	(102,000)	(136,000)
<b>Total shareholders' equity</b>	<b>8,684,137</b>	<b>8,169,112</b>
	<b>\$ 26,036,504</b>	<b>25,419,700</b>

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See accompanying Notes to Condensed Financial Statements.

-2-

**Table of Contents****PROVENA FOODS INC.**

## Condensed Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	2006	June 30, 2005
Cash flows from operating activities:		
Net earnings (loss)	\$ 439,344	(321,291)
Adjustments		
Depreciation and amortization	447,563	466,184
Provision for bad debts		6,000
Recognized gain from sale of building	(148,128)	
Common stock grant - vested	34,000	34,000
Changes in assets and liabilities		
Accounts receivable	(197,955)	531,863
Inventories	611,975	(438,716)
Prepaid expenses	(63,632)	(254,772)
Income taxes	(185,795)	149,236
Other assets	87,111	4,595
Accounts payable and accrued liabilities	(1,036,089)	(521,100)
Net cash from operating activities	(11,606)	(344,001)
Cash flows from investing activities:		
Decrease in restricted cash	212,076	
Proceeds from sale of property and equipment	75,573	5,700,799
Additions to property and equipment	(100,743)	(37,559)
Net cash from investing activities	186,906	5,663,240
Cash flows from financing activities:		
Payments on long-term debt	(344,065)	(1,970,505)
Proceeds (payments) under line of credit	1,949,870	(725,000)
Proceeds from sale of common stock	41,682	45,928
Payments on capital lease	(18,148)	(20,269)
Net cash from financing activities	1,629,339	(2,669,846)
Net increase in cash	1,804,639	2,649,393
Cash and cash equivalents at beginning of period	2,057	120,446
Cash and cash equivalents at end of period	\$ 1,806,696	2,769,839
Supplemental disclosures		
Cash paid for interest	\$ 305,685	288,853
Cash paid for income taxes	\$ 125,000	800
Common stock grant - non-vested	\$ 102,000	136,000



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See accompanying Notes to Condensed Financial Statements.

-3-

**Table of Contents****PROVENA FOODS INC.**

## Notes to Condensed Financial Statements

(Unaudited)

June 30, 2006

**(1) Basis of Presentation**

The accompanying unaudited condensed financial statements have been prepared in accordance with the requirements of Form 10-Q and, therefore, do not include all information and footnotes which would be presented if such financial statements were prepared in accordance with accounting principles generally accepted in the United States for annual financial statement purposes. These statements should be read in conjunction with the audited financial statements presented in the Company's Form 10-K for the year ended December 31, 2005. In the opinion of management, the accompanying financial statements reflect all adjustments which are necessary for a fair presentation of the results for the interim periods presented. Such adjustments consisted only of normal recurring items. The results of operations for the three months and six months ended June 30, 2006 are not necessarily indicative of results to be expected for the full year.

**(2) Inventories**

Inventories at June 30, 2006 and December 31, 2005 consist of:

	2006	2005
Raw materials	\$ 1,567,687	2,018,445
Work-in-process	1,489,904	1,710,595
Finished goods	1,159,568	1,100,094
	\$ 4,217,159	4,829,134

**(3) Segment Data**

Business segment sales and operating profit (loss) for the three months and six months ended June 30, 2006 and 2005 and assets at June 30, 2006 and December 31, 2005 are as follows:

	Three Months Ended		Six Months Ended	
	2006	June 30, 2005	2006	June 30, 2005
Net sales to unaffiliated customers:				
Swiss American Sausage division	\$ 12,992,369	11,910,480	26,188,656	25,034,564
Royal-Angelus Macaroni division	2,092,947	2,106,055	4,346,367	4,126,608
Total net sales	\$ 15,085,316	14,016,535	30,535,023	29,161,172
Operating profit (loss)				
Swiss American Sausage division	\$ 503,065	(161,264)	771,573	(199,976)
Royal-Angelus Macaroni division	(122,468)	(141,588)	(182,335)	(304,048)
Corporate	51,851	109,366	89,590	260,504
Operating profit (loss)	\$ 432,448	(193,486)	678,828	(243,520)

	June 30,	December 31,
	2006	2005
Identifiable assets:		