PROVENA FOODS INC
Form 10-Q
May 10, 2006
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UNITED STATES 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 QUARTER ENDED MARCH 31, 2006

Commission File Number 1-10741

PROVENA FOODS INC.

(Exact name of registrant as specified in its charter)

California	**95-2782215**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification number)**
5010 Eucalyptus Avenue, Chino, California	**91710**
(Address of principal executive offices)	**(ZIP Code)**

(909) 627-1082

(Registrant s telephone number, including area code)

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. þ Yes ¨ No

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 þ

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

The number of shares of Provena Foods Inc. Common Stock outstanding at April 30, 2006 was:

Common Stock 3,573,352 shares

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PROVENA FOODS INC.

Form 10-Q Report for the First Quarter Ended March 31, 2006

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

PROVENA FOODS INC.

Condensed Statements of Operations

(Unaudited)

	Three Months Ended March 31,	
	2006	**2005**
Net sales	$ 15,449,707	15,144,637
Cost of sales	14,101,675	14,207,782
Gross profit	1,348,032	936,855
Operating expenses:		
Distribution	458,439	438,822
General and administrative	643,213	635,016
Operating profit (loss)	246,380	(136,983)
Interest expense, net	(123,317)	(193,147)
Other income, net	157,134	84,254
Earnings (loss) before income taxes	280,197	(245,876)
Income tax benefit (expense)	(132,078)	83,200
Net earnings (loss)	$ 148,119	(162,676)
Earnings (loss) per share:		
Basic and diluted	$ .04	(.05)
Shares used in computing earnings (loss) per share:		
Basic and diluted	3,468,205	3,345,664

See accompanying Notes to Condensed Financial Statements.

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PROVENA FOODS INC.

Condensed Balance Sheets

(Unaudited)

	March 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 2,126,619	2,057
Cash, restricted	1,107,541	1,221,328
Accounts receivable, less allowance for doubtful accounts of $6,000 at 2006 and $0 at 2005	3,834,284	4,269,656
Inventories	4,792,862	4,829,134
Prepaid expenses	358,189	252,569
Deferred tax assets	383,602	383,602
Total current assets	12,603,097	10,958,346
Property and equipment, net	12,820,158	13,026,653
Deferred tax assets, net of current portion	848,576	901,648
Other assets	542,956	533,053
	$ 26,814,787	25,419,700
Liabilities and Shareholders Equity		
Current liabilities:		
Line of credit	$ 2,972,701	672,834
Current portion of long-term debt	343,642	343,642
Current portion of capital lease obligation	50,000	50,000
Deferred income	365,724	365,724
Income taxes payable	105,264	456,174
Accounts payable	3,041,592	3,359,258
Accrued liabilities	2,177,066	2,319,071
Total current liabilities	9,055,989	7,566,703
Long-term debt, net of current portion	6,104,941	6,316,850
Capital lease obligation, net of current portion	274,733	285,205
Deferred income, net of current portion	3,007,766	3,081,830
Total liabilities	18,443,429	17,250,588
Shareholders equity:		
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 3,565,820 at 2006 and 3,546,345 at 2005	5,533,053	5,512,926
Retained earnings	2,940,305	2,792,186
Deferred compensation	(102,000)	(136,000)
Total shareholders equity	8,371,358	8,169,112
	$ 26,814,787	25,419,700

See accompanying Notes to Condensed Financial Statements.

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PROVENA FOODS INC.

Condensed Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31,	
	2006	**2005**
Cash flows from operating activities:		
Net earnings (loss)	$ 148,119	(162,676)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Depreciation and amortization	219,991	247,582
Provision for bad debts	6,000	
Recognized gain from sale of building	(74,064)	
Common stock grant - vested	34,000	34,000
Changes in assets and liabilities		
Accounts receivable	429,372	724,393
Inventories	36,272	(508,237)
Prepaid expenses	(105,620)	44,323
Other assets	(9,903)	(7,703)
Income taxes	(297,838)	(91,000)
Accounts Payable and accrued liabilities	(459,671)	(468,513)
Net cash used in operating activities	(73,342)	(187,831)
Cash flows from investing activities:		
Decrease in restricted cash	113,787	
Additions to property and equipment	(13,496)	(24,987)
Net cash provided by (used in) investing activities	100,291	(24,987)
Cash flows from financing activities:		
Payments on long-term debt	(211,909)	(279,970)
Proceeds under line of credit	2,299,867	378,591
Proceeds from sale of common stock	20,127	24,217
Payments on capital lease	(10,472)	(11,784)
Net cash provided by financing activities	2,097,613	111,054
Net increase (decrease) in cash and cash equivalents	2,124,562	(101,764)
Cash and cash equivalents at beginning of period	2,057	120,446
Cash and cash equivalents at end of period	$ 2,126,619	18,682
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 134,828	193,234
Income taxes	$	800
Supplemental disclosure of noncash investing and financing activities:		
Common stock grant-non - vested	$ 102,000	136,000

See accompanying Notes to Condensed Financial Statements.

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PROVENA FOODS INC.

Notes to Condensed Financial Statements

(Unaudited)

March 31, 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 were such financial statements 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 ended March 31, 2006 are not necessarily indicative of results to be expected for the full year.

(2) Inventories

Inventories at March 31, 2006 and December 31, 2005 consist of:

	2006	2005
Raw materials	$ 1,849,488	2,018,445
Work-in-process	1,638,576	1,710,595
Finished goods	1,304,798	1,100,094
	$ 4,792,862	4,829,134

(3) Segment Data

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

	Three Months Ended March 31,	
	2006	2005
Net sales to unaffiliated customers:		
Swiss American Sausage Division	$ 13,196,287	13,124,084
Royal-Angelus Macaroni Division	2,253,420	2,020,553
Total net sales	$ 15,449,707	15,144,637
Operating profit (loss):		
Swiss American Sausage Division	$ 268,508	(38,712)
Royal-Angelus Macaroni Division	(59,867)	(162,460)
Corporate	37,739	64,189
Operating profit (loss)	$ 246,380	(136,983)

	March 31, 2006	December 31, 2005
Identifiable assets:		
Swiss American Sausage Division	$ 18,875,080	19,728,983
Royal-Angelus Macaroni Division	2,961,117	2,865,973
Corporate	4,978,590	2,824,744
Total assets	$ 26,814,787	25,419,700

(4) Stock-Based Compensation

In December 2004 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment amending SFAS No. 123, Accounting for Stock-Based Compensation to eliminate using Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees for share based compensation transactions and requiring, among other changes, that the fair value of employee stock options and similar awards be expensed. The reported net earnings (loss) were not or would not have been affected by the application of SFAS No. 123R for the periods covered by this report because no options vested or were granted in such periods.

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(5) Earnings (loss) per Share

Basic earnings (loss) per share is net earnings (loss) divided by the weighted average number of common shares outstanding during the period, and diluted earnings (loss) per share is net earnings (loss) divided by the sum of the weighted average plus an incremental number of shares attributable to outstanding options. During the periods covered by this report, the Company s outstanding options for 107,111 shares resulted in no dilution and basic earnings (loss) per share and diluted earnings (loss) per share were the same. On February 26, 2004, the Company issued 150,000 shares of its common stock (the Grant) to its Chief Executive Officer which vest 1/6 immediately and 1/6 on each of the next five anniversaries, contingent on the Chief Executive Officer s continued employment. The computations of the weighted average number of common shares outstanding for the periods covered by this report include only the shares vested under the terms of the Grant.

(6) Credit Facility

On December 1, 2005, the Company obtained a new $13,439,427 credit facility from Wells Fargo Bank, National Association replacing the Company s Comerica Bank credit facility. The new credit facility generally provided: a line of credit of up to $6,000,000 and letters of credit of $6,221,813 to support the Company s $5,975,000 of outstanding variable rate demand bonds and up to $1,217,614 to support the Company s workers compensation insurance reimbursement obligations.

The credit facility is secured by substantially all of the Company s assets and the workers compensation letter of credit is additionally secured by a cash deposit in the face amount thereof. The credit facility prohibits, without the bank s consent, dividends, mergers, acquisitions, sales of assets, guaranties, lending, borrowing, and granting security interests, and contains financial covenants requiring a minimum tangible net worth of $7,500,000 through September 30, 2006 and $7,600,000 thereafter, a maximum cumulative annual net loss of $200,000 through June 30, 2006 and $250,000 through December 31, 2006 and debt service coverage ratios not less than 0.15 to 1 for the 2nd quarter of 2006, 0.20 to 1 for the 3rd quarter of 2006, 0.28 to 1 for the 4th quarter of 2006 and 1.00 to 1 for the 1st quarter of 2007. The Company was in compliance with all of the financial covenants at March 31, 2006.

(7) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property and equipment, determining the allowance for doubtful accounts and valuing inventory and deferred tax assets. Actual results could differ from those estimates and assumptions.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

(Unaudited)	Three Months Ended March 31, 2006	2005
	(amounts in thousands)	
Net sales by division:		
Swiss American	$ 13,196	$ 13,124
Royal-Angelus	2,254	2,021
Total	$ 15,450	$ 15,145
Sales in thousands of pounds by division:		
Swiss American	7,221	6,791
Royal-Angelus	3,583	3,486

Forward-Looking Statements

The discussions throughout this report contain forward-looking statements which express or imply expectations of future performance, developments or occurrences. There can be no assurance that these expectations will be fulfilled, since actual events may differ materially due to uncertainties relating to the Company s performance, the economy, competition, demand, commodities, credit markets, energy supplies and other factors.

Swiss American Sausage Co. Meat Division

Sales by the processed meat division increased about 1% in dollars and 6% in pounds in the 1st three months of 2006 over the same period in 2005. Sales in pounds increased proportionately more than in dollars because of lower selling prices resulting from lower meat costs. Swiss operated at a $268,508 profit in the 1st quarter of 2006 compared to a $38,712 loss for the 1st quarter of 2005. The improvement in Swiss s performance resulted primarily from meat costs decreasing faster than selling prices and a reduction in workers compensation cost.

Royal-Angelus Macaroni Company Pasta Division

The pasta division s sales increased about 12% in dollars and 3% in pounds in the 1st quarter of 2006 compared to the 1st quarter of 2005. The percentage increases were higher in dollars than in pounds because of higher selling prices reflecting an increased proportion of sales of value-added products and slightly higher flour costs. Royal operated at a $59,867 loss for the 1st quarter of 2006 compared to a $162,460 loss for the 1st quarter of 2005. The major causes of the decreased operating loss were increased average selling prices and lower workers compensation costs. The improvement in Royal s operations is greater than reflected by the decrease in operating loss because Royal s rent of its buildings is higher than the depreciation was prior to the April 13, 2005 sale of the buildings. Moreover, Royal realized a pre-tax profit for the 1st quarter of 2006 from