

PROVENA FOODS INC  
Form 10-Q  
August 23, 2004  
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-Q

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

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FOR THE QUARTER ENDED JUNE 30, 2004

Commission File Number 1-10741

## PROVENA FOODS INC.

(Exact name of registrant as specified in its charter)

**California**  
(State or other jurisdiction of incorporation or organization)

**95-2782215**  
(I.R.S. employer identification number)

**5010 Eucalyptus Avenue, Chino, California**  
(Address of principal executive offices)

**91710**  
(ZIP Code)

**(909) 627-1082**

(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

Indicate by check mark whether the registrant is an accelerated filer (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 29, 2004 was:

Common Stock 3,391,049

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**PROVENA FOODS INC.**

Form 10-Q Report for the Second Quarter Ended June 30, 2004

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## ITEM I. FINANCIAL STATEMENTS

## PROVENA FOODS INC.

## Condensed Statements of Operations

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Net sales	\$ 11,802,338	9,228,643	24,120,890	18,240,984
Cost of sales	11,288,075	8,330,251	23,136,981	16,325,484
Gross profit	514,263	898,392	983,909	1,915,500
Operating expenses:				
Distribution	405,428	386,762	910,009	791,568
General and administrative	477,056	447,297	981,243	926,705
Operating income (loss)	(368,221)	64,333	(907,343)	197,227
Interest expense, net	(126,659)	(118,634)	(250,051)	(228,022)
Other income, net	46,818	68,184	112,435	155,360
Earnings (loss) before income taxes	(448,062)	13,883	(1,044,959)	124,565
Income tax expense (benefit)	(149,300)	6,000	(385,500)	50,000
Net earnings (loss)	\$ (298,762)	7,883	(659,459)	74,565
Earnings (loss) per share:				
Basic	\$ (.09)		(.20)	.02
Diluted	\$ (.09)		(.20)	.02
Shares used in computing earnings (loss) per share:				
Basic	3,248,532	3,175,981	3,233,789	3,166,923
Diluted	3,248,532	3,175,981	3,233,789	3,166,923

See accompanying Notes to Condensed Financial Statements.



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## Condensed Balance Sheets

(Unaudited)

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 103,800	83,094
Accounts receivable, less allowance for doubtful accounts of \$3,000 at 2004 and \$0 at 2003	3,843,979	4,002,477
Inventories	4,634,402	4,023,118
Prepaid expenses	22,976	157,795
Income tax receivable	291,000	13,631
Deferred tax assets	148,486	148,486
	<u>9,044,643</u>	<u>8,428,601</u>
Total current assets		
Property and equipment, net	16,280,767	16,464,176
Other assets	305,626	294,682
	<u>\$ 25,631,036</u>	<u>25,187,459</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Line of credit	\$ 2,960,348	382,717
Current portion of long-term debt	8,995,371	726,628
Current portion of capital lease obligation	48,000	48,000
Accounts payable	2,660,985	3,798,481
Accrued liabilities	1,267,758	1,357,786
	<u>15,932,462</u>	<u>6,313,612</u>
Total current liabilities		
Long-term debt, net of current portion		8,553,803
Capital lease obligation, net of current portion	348,626	386,302
Deferred tax liabilities	320,801	320,801
Shareholders' equity:		
Capital stock, no par value; authorized 10,000,000 shares; issued and outstanding 3,383,514 at 2004 and 3,209,706 at 2003	5,373,351	5,139,019
Deferred compensation	(158,667)	
Retained earnings	3,814,463	4,473,922
	<u>9,029,147</u>	<u>9,612,941</u>
Total shareholders' equity		
	<u>\$ 25,631,036</u>	<u>25,187,459</u>

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See accompanying Notes to Condensed Financial Statements.

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## Condensed Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	June 30,	
	2004	2003
Cash flows from operating activities:		
Net earnings (loss)	\$ (659,459)	74,565
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Stock-based compensation related to employee stock grant	45,333	
Depreciation and amortization	451,366	402,575
Provision for allowance for doubtful accounts	3,000	
Decrease (increase) in accounts receivable	155,498	(374,477)
Increase in inventories	(611,284)	(1,371,049)
Decrease (increase) in prepaid expenses	134,819	(171,913)
Increase in income taxes receivable	(277,369)	
Increase in other assets	(10,944)	(3,763)
Increase (decrease) in accounts payable	(1,137,496)	462,827
Increase (decrease) in accrued liabilities	(90,028)	457,660
Increase in income taxes payable		39,570
Net cash used in operating activities	(1,996,564)	(484,005)
Cash flows from investing activities:		
Additions to property and equipment	(267,957)	(904,162)
Net cash used in investing activities	(267,957)	(904,162)
Cash flows from financing activities:		
Payments on debt	(285,060)	(292,007)
Payments on capital lease obligation	(37,676)	(24,085)
Proceeds from line of credit	2,577,631	1,077,271
Proceeds from sale of capital stock	30,332	42,549
Proceeds from note payable		375,000
Net cash provided by financing activities	2,285,227	1,178,728
Net increase (decrease) in cash and cash equivalents	20,706	(209,439)
Cash and cash equivalents at beginning of period	83,094	350,433
Cash and cash equivalents at end of period	\$ 103,800	140,994

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Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 250,051	228,290
Income taxes	\$	
	<u>                    </u>	<u>                    </u>

See accompanying Notes to Condensed Financial Statements.

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**PROVENA FOODS INC.**

Notes to Condensed Financial Statements

June 30, 2004 and 2003 (Unaudited)

**(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, 2003. 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, 2004 are not necessarily indicative of results to be expected for the full year.

**(2) Inventories**

Inventories at June 30, 2004 and December 31, 2003 consist of:

	<u>2004</u>	<u>2003</u>
Raw materials	\$ 1,407,302	1,515,118
Work-in-process	1,309,355	951,388
Finished goods	1,917,745	1,556,612
	<u>\$ 4,634,402</u>	<u>4,023,118</u>

**(3) Segment Data**

Business segment sales and operating income (loss) for the three months and six months ended June 30, 2004 and 2003 and assets at June 30, 2004 and December 31, 2003 are as follows:

Three Months Ended	Six Months Ended
June 30,	June 30,

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	2004	2003	2004	2003
<b>Net sales to unaffiliated customers:</b>				
Swiss American Sausage division	\$ 10,311,649	7,976,641	21,020,982	15,559,410
Royal-Angelus Macaroni division	1,490,689	1,252,002	3,099,908	2,681,574
<b>Total net sales</b>	<b>\$ 11,802,338</b>	<b>9,228,643</b>	<b>24,120,890</b>	<b>18,240,984</b>
<b>Operating income (loss):</b>				
Swiss American Sausage division	\$ (105,643)	201,286	(422,083)	374