

BRIDGFORD FOODS CORP  
Form 10-Q  
August 21, 2006

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

(Mark one)

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

For the quarterly period ended July 07, 2006

OR

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

For the transition period from

Commission file number 0-2396

## BRIDGFORD FOODS CORPORATION

(Exact name of Registrant as specified in its charter)

**California**

(State or other jurisdiction of  
incorporation or organization)

**95-1778176**

(I.R.S. Employer  
identification number)

**1308 N. Patt Street, Anaheim, CA 92801**

(Address of principal executive offices-Zip code)

**714-526-5533**

(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.

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):

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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

As of August 21, 2006 the registrant had 9,964,000 shares of common stock outstanding.

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**BRIDGFORD FOODS CORPORATION**

**FORM 10-Q QUARTERLY REPORT**

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**Part I. Financial Information**

Item 1. a.

**BRIDGFORD FOODS CORPORATION****CONSOLIDATED CONDENSED BALANCE SHEETS**

(in thousands, except per share amounts)

	<b>July 7 2006 (Unaudited)</b>	<b>October 28 2005</b>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 15,524	\$ 10,355
Accounts receivable, less allowance for doubtful accounts of \$491 and \$468, respectively, and promotional allowances of \$1,688 and \$2,092, respectively	9,047	9,508
Inventories (Note 2)	17,519	21,324
Prepaid expenses and other current assets	2,505	2,551
Total current assets	44,595	43,738
Property, plant and equipment, less accumulated depreciation of \$53,417 and \$50,731, respectively	13,297	14,519
Other non-current assets	13,739	14,706
	\$ 71,631	\$ 72,963
<b><u>LIABILITIES AND SHAREHOLDERS EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 1,940	\$ 3,806
Accrued payroll, advertising and other expenses	8,628	8,035
Total current liabilities	10,568	11,841
Non-current liabilities	10,827	12,860
Commitments (Note 6)		
Shareholders' equity:		
Preferred stock, without par value		
Authorized - 1,000 shares		
Issued and outstanding - none		
Common stock, \$1.00 par value		
Authorized - 20,000 shares		
Issued and outstanding - 9,965 and 9,986 shares	10,022	10,043
Capital in excess of par value	14,263	14,394
Retained earnings	26,047	25,889
Accumulated other comprehensive loss	(96	) (2,064

50,236	48,262
\$ 71,631	\$ 72,963

See accompanying notes to consolidated condensed financial statements.

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Item 1. b.

**BRIDGFORD FOODS CORPORATION****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(Unaudited)

	12 weeks ended July 7 2006 (in thousands, except per share amounts)	12 weeks ended July 8 2005 (in thousands, except per share amounts)	36 weeks ended July 7 2006 (in thousands, except per share amounts)	36 weeks ended July 8 2005 (in thousands, except per share amounts)
Net sales	\$ 28,169	\$ 27,656	\$ 91,049	\$ 88,961
Cost of products sold, excluding depreciation	17,024	17,241	58,087	57,672
Selling, general and administrative expenses	10,019	9,321	30,230	29,503
Depreciation	892	1,028	2,676	3,085
Gain on sale of equity securities			(106 )	
	27,935	27,590	90,887	90,260
Income (loss) before taxes	234	66	162	(1,299 )
Income tax provision (benefit)	10	(177 )	4	(696 )
Net income (loss)	\$ 224	\$ 243	\$ 158	\$ (603 )
Basic and diluted income (loss) per share	\$ .02	\$ .03	\$ .02	\$ (.06 )
Basic and diluted shares computed	9,964	9,994	9,968	9,998

Item 1. c.

**CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)**

(Unaudited)

(in thousands)

	Common Stock Shares	Amount	Capital in excess of par	Retained earnings	Accumulated other comprehensive income (loss)	Total
October 28, 2005	9,986	\$ 10,043	\$ 14,394	\$ 25,889	\$ (2,064 )	\$ 48,262
Shares repurchased	(21 )	(21 )	(131 )			(152 )
Net income				158		158

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Other comprehensive  
income (loss):

Reclassification adjustment for gain included in net income						(56	)	(56	)
Minimum pension liability						2,024		2,024	
Comprehensive income								2,126	
July 7, 2006	9,965	\$	10,022	\$	14,263	\$	26,047	\$	(96) ) \$ 50,236

See accompanying notes to consolidated condensed financial statements.

Item 1. d.

**BRIDGFORD FOODS CORPORATION****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>36 weeks ended July 7 2006 (in thousands)</b>	<b>36 weeks ended July 8 2005 (in thousands)</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 158	\$ (603 )
<b>Income charges not affecting cash:</b>		
Depreciation	2,676	3,085
Recovery on losses on accounts receivable	(324 )	(192 )
<b>Effect on cash of changes in assets and liabilities:</b>		
Accounts receivable, net	785	2,447
Inventories	3,805	2,503
Prepaid expenses and other current assets	(12 )	(706 )
Other non-current assets	(301 )	(374 )
Accounts payable	(1,866 )	535
Accrued payroll, advertising and other expenses	593	(704 )
Income taxes payable		(913 )
Non-current liabilities	1,261	1,180
Net cash provided by operating activities	6,775	6,258
<b>Cash used in investing activities:</b>		
Additions to property, plant and equipment	(1,454 )	(1,134 )
Net cash used in investing activities	(1,454 )	(1,134 )
<b>Cash used in financing activities:</b>		
Shares repurchased	(152 )	(98 )
Net cash used in financing activities	(152 )	(98 )
Net increase in cash and cash equivalents	5,169	5,026
Cash and cash equivalents at beginning of period	10,355	7,972
Cash and cash equivalents at end of period	\$ 15,524	\$ 12,998
Cash paid for income taxes	\$ 26	\$ 684

See accompanying notes to consolidated condensed financial statements.





Item 1. e.

**BRIDGFORD FOODS CORPORATION****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)**

(in thousands, except share and per share amounts)

**Note 1 - The Company and Summary of Significant Accounting Policies:**

The unaudited consolidated condensed financial statements of Bridgford Foods Corporation (the Company) for the twelve and thirty-six weeks ended July 7, 2006 and July 8, 2005 have been prepared in conformity with the accounting principles described in the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2005 (the Annual Report) and include all adjustments considered necessary by management for a fair statement of the interim periods. Such adjustments consist only of normal recurring items. This report should be read in conjunction with the Annual Report. Due to seasonality and other factors, interim results are not necessarily indicative of the results to be expected for the full year.

On February 22, 2006 the Company sold 5,028 shares of common stock of Sears Holdings Corporation received as the result of the bankruptcy of a significant customer. This transaction resulted in a pre-tax gain of \$106 and a reduction in other comprehensive income of \$67.

**Note 2 - Inventories:**

Inventories are comprised as follows at the respective periods:

	<b>July 7 2006</b>	<b>October 28 2005</b>
Meat, ingredients and supplies	\$ 4,727	\$ 6,433
Work in progress	1,357	2,293
Finished goods	11,435	12,598
	\$ 17,519	\$ 21,324

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs*. The Statement requires abnormal amounts of inventory costs related to amounts of idle freight, handling costs and spoilage be recognized as current period expenses. The standard is effective for fiscal years beginning after June 15, 2005 with early application permitted. The Company's policy has always been to handle inventory costs in a manner consistent with the provisions of this Statement, and, therefore, the adoption had no impact.

**Note 3 - Basic and diluted earnings per share:**

The Company had 250,000 employee stock options outstanding during the twelve and thirty-six week periods ended July 7, 2006 and July 8, 2005. The effect of the employee stock options outstanding for the twelve and thirty-six weeks ended July 7, 2006 and July 8, 2005 was not included in the calculation of diluted shares and diluted earnings per share as to do so would be anti-dilutive.

Note 4 - Retirement and Other Benefit Plans:

The Company has noncontributory-trusteed defined benefit retirement plans for sales, administrative, supervisory and certain other employees. The benefits under these plans are primarily based on years of service and compensation levels. The Company's funding policy is to contribute annually the maximum amount deductible for federal income tax purposes, without regard to the plans' unfunded current liability. The measurement date for the plans is the Company's fiscal year end.

Net pension cost consisted of the following:

	<b>36 weeks ended July 7 2006</b>	<b>36 weeks ended July 8 2005</b>
Service cost	\$ 1,082	\$ 1,151
Interest cost	1,355	1,235
Expected return on plan assets	(1,064	) (963
Amortization of unrecognized transition liability or (asset)		
Amortization of net loss from earlier periods	191	
Amortization of transition asset (15.2 years)		253
Amortization of unrecognized prior service cost	22	29
Curtailment Cost	8	
Net pension cost	\$ 1,594	\$ 1,705

The Company funded its annual contribution of \$1,800 to the plans during July of 2006.

In the third quarter of fiscal 2006, the Company froze the defined benefit pension plan accrued benefits for members employed by the Company within administration, sales or supervisory job classification or within a non-bargaining class (the Corporate Group). This action is defined as a curtailment under SFAS No. 88 Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits and, therefore, the Company recognized a curtailment loss of approximately \$8. As a result of this action, net pension costs will be reduced in future periods.

Note 5 - Stock-Based Compensation:

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment. SFAS No. 123R requires public companies to measure and recognize compensation expense for all share-based payments to employees, including grants of employee stock options, in the financial statements based on the fair value at the date of the grant. The Statement also clarifies and expands SFAS No. 123's guidance in several areas, including measuring fair value, classifying an award as equity or as a liability, and attributing compensation cost to reporting periods. SFAS No. 123R became effective for the Company's fiscal year ending November 3, 2006. The Company has not issued, awarded, granted or entered into any stock-based payment agreements since April 29, 1999. The modified prospective adoption of SFAS No. 123R did not have any impact on the Company's financial condition or results of operations for the first thirty-six weeks ended July 7, 2006.

Prior to adoption of SFAS No. 123R, the Company adopted SFAS No. 123 Accounting for Stock-Based Compensation which allowed the Company to apply the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for stock-based compensation and, therefore, no compensation expense was recognized for its fixed stock option plans as options are generally granted at fair market value based upon the closing price on the date immediately preceding the grant date. On December 31, 2002 the FASB issued SFAS No. 148, Accounting for Stock Based Compensation- Transition and Disclosure, which amended SFAS No. 123. SFAS No. 148 requires more prominent and frequent disclosures about the effects of stock-based compensation. Accordingly, if compensation expense for the Company's stock options had been recognized, based upon the fair value of awards granted, there would have been no impact on the Company's net income and earnings per share for the first thirty-six weeks ending July 8, 2005.

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No options were granted during the first thirty-six weeks of the fiscal year ending November 3, 2006 and during the first thirty-six weeks of the fiscal year ended October 28, 2005.

### Note 6 - Commitments:

The Company leases certain transportation and computer equipment under operating leases. The terms of the transportation leases provide for annual renewal options and contingent rental payments based upon mileage and adjustments of rental payments based on the Consumer Price Index. No material changes have been made to these contracts during the first thirty-six weeks of fiscal 2006.

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Note 7 - Segment Information:

The Company has two reportable operating segments, Frozen Food Products (the processing and distribution of frozen products) and Refrigerated and Snack Food Products (the processing and distribution of refrigerated meat and other convenience foods).

The Company evaluates each segment's performance based on revenues and operating income. Selling, general and administrative expenses include corporate accounting, information systems, human resource management and marketing, which are managed at the corporate level. These activities are allocated to each operating segment based on revenues and/or actual usage.

The following segment information is presented for the twelve and thirty-six week periods ended July 7, 2006 and July 8, 2005.

<b>Twelve Weeks Ended July 7, 2006</b>	<b>Frozen Food Products</b>	<b>Refrigerated and Snack Food Products</b>	<b>Other</b>	<b>Elimination</b>	<b>Totals</b>
Sales	\$ 10,183	\$ 17,986	\$	\$	\$ 28,169
Intersegment sales		596		596	
Net sales	10,183	18,582		596	28,169
Cost of products sold, excluding depreciation	6,065	11,555		596	17,024
Selling, general and administrative expenses	3,139	6,880			10,019
Depreciation	290	504	98		892
Gain on sale of equity securities					
	9,494	18,939	98	596	27,935
Income (loss) before taxes	689	(357)	(98)		234
Income tax provision (benefit)	224	(214)			10
Net income (loss)	\$ 465	\$ (143)	\$ (98)	\$	\$ 224
Total assets	\$ 11,133	\$ 28,626	\$ 31,872	\$	\$ 71,631
Additions to property, plant and equipment	\$ (94)	\$ 505	\$ 28	\$	\$ 439

<b>Twelve Weeks Ended July 8, 2005</b>	<b>Frozen Food Products</b>	<b>Refrigerated and Snack Food Products</b>	<b>Other</b>	<b>Elimination</b>	<b>Totals</b>
Sales	\$ 9,570	\$ 18,086	\$	\$	\$ 27,656
Intersegment sales		904		904	
Net sales	9,570	18,990		904	27,656
Cost of products sold, excluding depreciation	5,145	13,000		904	17,241
Selling, general and administrative expenses	2,917	6,404			9,321
Depreciation	398	527	103		1,028
	8,460	19,931	103	904	27,590
Income (loss) before taxes	1,110	(941)	(103)		66
Income tax provision (benefit)	274	(451)			(177)
Net income (loss)	\$ 836	\$ (490)	\$ (103)	\$	\$ 243
Total assets	\$ 11,157	\$ 31,765	\$ 31,474	\$	\$ 74,396
Additions to property, plant and equipment	\$ 132	\$ 309	\$ (2)	\$	\$ 439

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<b>Thirty-Six Weeks Ended July 7, 2006</b>	<b>Frozen Food Products</b>	<b>Refrigerated and Snack Food Products</b>	<b>Other</b>	<b>Elimination</b>	<b>Totals</b>
Sales	\$ 34,281	\$ 56,768	\$	\$	\$ 91,049
Intersegment sales		1,797		1,797	
Net sales	34,281	58,565		1,797	91,049
Cost of products sold, excluding depreciation	20,265	39,619		1,797	58,087
Selling, general and administrative expenses	10,009	20,221			30,230
Depreciation	871	1,509	296		2,676
Gain on sale of equity securities		(106 )			(106 )
	31,145	61,243	296	1,797	90,887
Income (loss) before taxes	3,136	(2,678 )	(296 )		162
Income tax provision (benefit)	1,136	(1,132 )			4
Net income (loss)	\$ 2,000	\$ (1,546 )	\$ (296 )	\$	\$ 158
Total assets	\$ 11,133	\$ 28,626	\$ 31,872	\$	\$ 71,631
Additions to property, plant and equipment	\$ 156	\$ 1,197	\$ 101	\$	\$ 1,454

<b>Thirty-Six Weeks Ended July 8, 2005</b>	<b>Frozen Food Products</b>	<b>Refrigerated and Snack Food Products</b>	<b>Other</b>	<b>Elimination</b>	<b>Totals</b>
Sales	\$ 30,915	\$ 58,046	\$	\$	\$ 88,961
Intersegment sales		2,289		2,289	
Net sales	30,915	60,335		2,289	88,961
Cost of products sold, excluding depreciation	17,225	42,736		2,289	57,672
Selling, general and administrative expenses	8,905	20,598			29,503
Depreciation	1,192	1,585	308		3,085
	27,322	64,919	308	2,289	90,260
Income (loss) before taxes	3,593	(4,584 )	(308 )		(1,299 )
Income tax provision (benefit)	1,192	(1,888 )			(696 )
Net income (loss)	\$ 2,401	\$ (2,696 )	\$ (308 )	\$	\$ (603 )
Total assets	\$ 11,157	\$ 31,765	\$ 31,474	\$	\$ 74,396
Additions to property, plant and equipment	\$ 271	\$ 787	\$ 76	\$	\$ 1,134

Note 8 - Subsequent Events:

On July 10, 2006, the Company froze defined pension benefits for employees classified in the Dallas Union Group effective January 2, 2007. This action had no impact on earnings in the first thirty-six weeks of fiscal year 2006.

Effective August 1, 2006, the Company's Board of Directors approved the recommendations of the Benefits Committee and adopted a new 401(k) profit sharing plan.

**Item 2.**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this Form 10-Q under Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere constitute forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934 (the Exchange Act). In addition, the Company may from time to time make oral forward-looking statements. Words such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, potential or contribute or similar words are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; the impact of competitive products and pricing; success of operating initiatives; development and operating costs; advertising and promotional efforts; adverse publicity; acceptance of new product offerings; consumer trial and frequency; changes in business strategy or development plans; availability, terms and deployment of capital; availability of qualified personnel; commodity, labor, and employee benefit costs; changes in, or failure to comply with, government regulations; weather conditions; construction schedules; and other factors referenced in this Form 10-Q and in Bridgford Foods' Annual Report on Form 10-K for the fiscal year ended October 28, 2005. Because of these and other factors that may affect the Company's operating results, past financial performance should not be considered an indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. The Company expressly disclaims any intent or obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

**Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Critical Accounting Policies, Management Estimates and Risk Factors**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the respective reporting periods. Actual results could differ from those estimates. Amounts estimated related to liabilities for pension costs, self-insured workers' compensation and employee healthcare are especially subject to inherent uncertainties and these estimated liabilities may ultimately settle at amounts not originally estimated. An actuary updates the pension and post-retirement healthcare data on a quarterly basis. Management believes its current estimates are reasonable and based on the best information available at the time.

The Company's credit risk is diversified across a broad range of customers and geographic regions. Losses due to credit risk have recently been immaterial although losses in fiscal year 2002 were significant. The Company recorded the final payment recovery related to its fiscal year 2002 loss in its first quarter of fiscal year 2006, receiving 2,939 shares of stock of Sears Holdings Corporation valued at \$344,000. On February 22, 2006, during the second quarter of fiscal year 2006, the Company sold 5,028 shares of common stock of Sears Holdings Corporation received as the result of a bankruptcy distribution. This transaction resulted in a pre-tax gain of \$106,000 and a reduction in other comprehensive income of \$67,000. As a result of this transaction, the Company no longer holds shares in Sears Holdings Corporation. The provision for doubtful accounts receivable is based on historical trends and current collectibility risk. The Company has significant amounts receivable with a few large, well known customers which, although historically secure, could be subject to material risk should these customers' operations suddenly deteriorate. The Company monitors these customers closely to minimize the risk of loss. Wal-Mart® comprised 14.5% of revenues for the first thirty-six weeks of fiscal year 2006 and 18.8% of accounts receivable at the end of the third quarter of fiscal year 2006. Wal-Mart® comprised 14.3% of revenues for the first thirty-six weeks of fiscal year 2005 and 20.0% of accounts receivable at the end of the third quarter of fiscal year 2005.

Revenues are recognized upon passage of title to the customer upon product pick-up, shipment or delivery to customers as determined by applicable contracts. Products are delivered to customers through the Company's own fleet or through a Company-owned direct store delivery system.

The Company records the cash surrender or contract value for life insurance policies as an adjustment of premiums paid in determining the expense or income to be recognized under the contract for the period.

The Company's operating results are heavily dependent upon the prices paid for raw materials. Other significant factors that influence operating results include transportation and energy costs. The marketing of the Company's value-added products does not lend itself to instantaneous changes in selling prices. Changes in selling prices are relatively infrequent and do not compare with the volatility of commodity markets, transportation costs and energy prices.

The above listing is not intended to be a comprehensive list of all the Company's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

### **Results of Operations for the Twelve Weeks ended July 7, 2006 and Twelve Weeks ended July 8, 2005.**

#### **Net Sales**

Net sales increased by \$513,000 (1.9%) to \$28,169,000 in the third twelve weeks of the 2006 fiscal year compared to the same twelve-week period last year. The primary reason for the increase was higher unit selling prices between comparative periods. Average unit selling prices were approximately 5.5% higher than the comparative period in the prior fiscal year. Lower unit volume of approximately 3.2% offset the higher unit prices obtained. Product return levels also decreased against the comparative prior period.

Compared to the prior twelve-week period ended April 14, 2006 (not shown), sales decreased \$136,000 (0.5%). The decrease relates to seasonally lower unit sales volume in the twelve-week period ended July 7, 2006. Average unit selling prices increased slightly compared to the prior twelve-week period.

#### **Cost of Products Sold**

Cost of products sold decreased by \$217,000 (1.3%) to \$17,024,000 in the third twelve weeks of the 2006 fiscal year compared to the same twelve-week period in fiscal 2005. The decrease in cost of products sold and increase in gross margin on a comparative basis was due primarily to lower meat commodity costs in the period and higher unit selling prices. Although flour commodity costs increased, this trend had minimal impact on the gross margin.

Compared to the prior twelve-week period ended April 14, 2006 (not shown), the cost of products sold decreased \$486,000 (2.8%). This decrease is primarily a result of seasonally lower unit sales volume and improved facility utilization.

#### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by \$698,000 (7.5%) to \$10,019,000 in the third twelve weeks of fiscal year 2006 compared to the same twelve-week period in the prior fiscal year. The change in this category for the twelve-week period ended July 7, 2006 did not correspond to the sales increase. The comparative value change in cash surrender value of life insurance policies decreased by \$297,000 compared to the same twelve-week period in the prior fiscal year. Costs related to fuel and health benefits also rose at a higher rate as a percentage of sales than the prior fiscal year. Reductions in advertising expense and higher investment income helped offset these increases.

Compared to the prior twelve-week period ended April 14, 2006 (not shown), selling, general and administrative expenses increased by \$178,000 (1.8%). The increase was primarily caused by a growth in fuel, health care, bad debt and outside storage expenses compared to the prior 12-week period. The comparative value change in cash surrender value of life insurance policies decreased by \$199,000 compared to the prior period which also increased this category compared to the prior period.





**Depreciation Expense**

Depreciation expense decreased by \$136,000 (13.2%) to \$892,000 in the third twelve weeks of the 2006 fiscal year compared to the same twelve-week period in fiscal year 2005. The decrease in depreciation expense was due to lower capital expenditures in recent periods and significant assets becoming fully depreciated in the 2006 fiscal year.

Compared to the prior twelve-week period ended April 14, 2006 (not shown), depreciation remained constant at \$892,000 during the third twelve weeks of fiscal 2006.

**Income Taxes**

The Company recorded an income tax provision based on an estimated annual effective tax rate of 54.04% in the third twelve weeks of fiscal 2006 as compared to 268.2% in the prior fiscal year and 57.1% for the prior twelve-week period. The income tax provision recorded is different from what would result by applying this rate, due to certain adjustments that affected the provision for income taxes. The discrete item included a one-time benefit for R&D tax credits recorded in the period. The change in the effective income tax rate also relates to significant non-taxable gains on life insurance policies and revisions to the Company's projected tax rates related to updated estimates.

**Net Income (Loss)**

Net income in the twelve weeks ended July 7, 2006 was affected by non-taxable loss on life insurance policies in the amount of \$53,000. Gains and losses on life insurance policies are dependent upon the performance of the underlying equities and future results may produce losses of equal magnitude. Taxable investment income also increased on a comparative basis during the third twelve weeks of fiscal 2006 in the amount of \$125,000 due to higher cash balances and an increase in short-term interest rates. After considering the effect of these transactions, the Company's results were as follows:

	<b>12 Weeks Ended July 7, 2006</b>	<b>12 Weeks Ended July 8, 2005</b>
Net income (loss) before taxes, life insurance gain (loss) and investment income	\$ 89,000	\$ (251,000 )
Life insurance gain (loss) and investment income	145,000	317,000
Income before taxes	234,000	66,000
Income tax provision (benefit)	10,000	(177,000 )
Net income	\$ 224,000	\$ 243,000

The Company presents net income or loss before taxes, life insurance gain or loss and investment income because the Company believes it is an important measure for investors to use in understanding the Company's underlying operations.

**Results of Operations for the Thirty-Six Weeks ended July 7, 2006 and Thirty-Six Weeks ended July 8, 2005.****Net Sales**

Net sales increased by \$2,088,000 (2.3%) to \$91,049,000 in the first thirty-six weeks of the 2006 fiscal year compared to the same thirty-six-week period last year. The primary reason for the increase was higher unit selling prices between comparative periods. Average unit selling prices were approximately 5.5% higher than the comparative period in the prior fiscal year. Lower unit volume partially offset the higher unit prices obtained.

**Cost of Products Sold**

Cost of products sold increased by \$415,000 (0.7%) to \$58,087,000 in the first thirty-six weeks of the 2006 fiscal



year compared to the same thirty-six-week period in fiscal 2005. The increase in cost of products sold is primarily related to lower facility utilization related to lower unit volumes and significant maintenance projects completed on the Company's facilities in the first thirty-six weeks of the 2006 fiscal year. Also contributing to the increase were higher facility repairs, energy and delivery costs. Significant declines in meat commodity costs helped offset these higher costs. The gross margin increased slightly on a comparative basis due primarily to higher selling prices and lower commodity prices. Flour commodity costs increased during the first thirty-six weeks of the 2006 fiscal year when evaluated against the comparison period while pork and beef commodities declined significantly.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by \$727,000 (2.5%) to \$30,230,000 in the first thirty-six weeks of fiscal year 2006 compared to the same thirty-six-week period in the prior fiscal year. The rate of increase in this category generally corresponds to the sales increase. Costs related to fuel and vehicle repairs increased when compared to the fiscal year 2005 thirty-six week period, while favorable trends in bad debt expenses and higher investment income offset these increases.

### **Depreciation Expense**

Depreciation expense decreased by \$409,000 (13.3%) to \$2,676,000 in the first thirty-six weeks of the 2006 fiscal year compared to the same thirty-six-week period in fiscal year 2005. The decrease in depreciation expense was due to lower capital expenditures in recent years and significant assets becoming fully depreciated in the 2006 fiscal year.

### **Income Taxes**

The Company recorded an income tax provision in the first thirty-six weeks of fiscal 2006, based on an estimated annual effective tax rate of 54.04% as compared to 53.6% in the prior fiscal year. The income tax provision recorded for the first thirty-six weeks of fiscal 2006 is different from what would result by applying this rate, due to certain adjustments that affect income taxes. These discrete items include a one-time benefit for R&D credits recorded in the period, and an income tax adjustment resulting from a state tax authority audit. The change in the effective income tax rate also relates to significant non-taxable gains on life insurance policies and revisions to the Company's projected tax rates related to updated estimates between comparison periods.

### **Net Income (Loss)**

Net income in the thirty-six weeks ended July 7, 2006 was significantly affected by gains related to the sale of equity securities in the amount of \$106,000 and non-taxable gains on life insurance policies in the amount of \$303,000. Gains and losses on life insurance policies are dependent upon the performance of the underlying equities and future results may produce losses of equal magnitude. Taxable investment income also increased on a comparative basis during the first thirty-six weeks of fiscal 2006 in the amount of \$238,000 due to higher cash balances and an increase in short-term interest rates. After considering the effect of these transactions, the Company's results were as follows:

	<b>36 Weeks Ended July 7, 2006</b>	<b>36 Weeks Ended July 8, 2005</b>
Net loss before taxes, gain on sale of equity securities, life insurance gain and investment income	\$ (636,000 )	\$ (1,824,000 )
Gain on sale of equity securities	106,000	
Life insurance gain (loss) and investment income	692,000	525,000
Income (loss) before taxes	162,000	(1,299,000 )
Income tax provision (benefit)	4,000	(696,000 )
Net income (loss)	\$ 158,000	\$ (603,000 )

The Company recorded a significant recovery related to a bad debt previously written off which contributed to a net favorable reduction in the allowance for doubtful accounts of \$324,000 in the first thirty-six weeks of fiscal



year 2006. The net favorable reduction recorded in the prior year period was \$192,000. The Company presents net income or loss before taxes, gain or loss on sale of equity securities, life insurance gain or loss and investment income because the Company believes it is an important measure for investors to use in understanding the Company's underlying operations. The gain on sale is related to securities that the Company sold during the second twelve weeks of fiscal year 2006.

### **Liquidity and Capital Resources**

Net cash from operating activities was \$6,776,000 for the first thirty-six weeks of the 2006 fiscal year. Operating cash was generated principally by net income and reductions in inventory. The substantial reduction in inventory in the first thirty-six weeks of fiscal 2006 is consistent with normal seasonal trends and a planned seasonal reduction in field inventories. The Company utilized cash flow for additions to property, plant and equipment and share repurchases. The net effect of these events resulted in a cash and cash equivalents increase during the first thirty-six weeks of fiscal 2006 of \$5,169,000 (49.9%) to \$15,524,000. The additions to property, plant and equipment reflect the Company's continued investment in processing, transportation and information technology equipment.

No cash dividends were paid during the first thirty-six weeks of the 2006 fiscal year, as was the case during the first 36 weeks of the 2005 fiscal year, as the Board of Directors suspended the quarterly cash dividend at its May 2004 meeting in recognition of lower profitability levels in recent quarters.

The Company remained free of interest bearing debt during the first thirty-six weeks of fiscal year 2006. The Company's revolving line of credit with Bank of America expires April 30, 2008 and provides for borrowings up to \$2,000,000. The Company has not borrowed under this line for more than nineteen consecutive years.

The impact of inflation on the Company's financial position and results of operations has not been significant. Management is of the opinion that the Company's financial position and its capital resources are sufficient to provide for its near term operating needs and capital expenditures.

### **Recently Issued Accounting Interpretations**

In June 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ( FIN 48 ). This Statement addresses uncertainty in tax positions recognized in a company's financial statements and stipulates a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 will apply to the Company's fiscal year beginning November 3, 2007, with earlier adoption permitted. The Company does not expect this interpretation will have a material impact on the Company's results of operations or financial position.

### **Off-Balance Sheet Arrangements**

The Company is not engaged in any off-balance sheet arrangements within the meaning of Item 303(a)(4)(ii) of Regulation S-K.

### **Item 3.**

#### **Quantitative and Qualitative Disclosures about Market Risk**

The Company does not have significant foreign currency exposure at July 7, 2006. The Company's financial instruments generally consist of cash and cash equivalents and life insurance policies at July 7, 2006. The Company sold the shares of stock of Sears Holdings Corporation previously received as a result of the bankruptcy of a significant customer. Realized gains and losses upon the sale of this investment are recognized in the consolidated condensed statements of operations. These shares were sold on February 22, 2006 for \$606,000. The Company recognized a gain on this sale in the amount of \$106,000 in the consolidated condensed statements of operations in the second twelve-week period of fiscal year 2006 ended April 14, 2006. The carrying value of the Company's financial instruments approximated their fair market values based on current market prices and rates. It is not the Company's policy to enter into derivative financial instruments.

The Company purchases bulk flour under short-term fixed price contracts during the normal course of business. Under these arrangements, the Company is obligated to purchase specific quantities at fixed prices, within the specified contract period. These contracts provide for automatic price increases if agreed quantities are not purchased within the specified contract period. No significant contracts remained unfulfilled at July 7, 2006.

**Item 4.**

**Controls and Procedures**

Management of the Company, with the participation and under the supervision of the Company's Chairman and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report. Based on this evaluation, the Chairman and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report to provide reasonable assurance that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms. There has been no change in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's management, including its Chairman and Chief Financial Officer, does not expect that the Company's disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Section 404 Sarbanes-Oxley Act of 2002**

The Securities and Exchange Commission, based on press release 2006-136 dated August 9, 2006, is proposing to grant relief to smaller public companies by extending the date of compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (the "Act"). Under these proposals, the Company may be required to comply with the Act in two phases. The first phase would be effective for the Company's fiscal year ending October 31, 2008 and would require the Company to issue a management report on internal control over financial reporting. The second phase would require the Company to provide an auditor's attestation report on internal control over financial reporting beginning with the Company's fiscal year ending October 30, 2009. Under current requirements, the Company would be required to comply with the Act in fiscal year ending November 2, 2007.

In order to comply with the Act, the Company is in the process of centralizing most accounting and many administrative functions at its corporate headquarters in an effort to control the cost of maintaining its control systems. On July 11, 2006, The Committee of Sponsoring Organizations ( COSO ) issued guidance on how small companies should implement an effective internal control framework over financial reporting and other risks. This guidance is considered a key tool to help smaller public companies to confront the challenges of Sarbanes-Oxley. When these requirements are implemented by management, the Company will likely incur substantial additional expenses and diversion of management's time. During the course of these activities, the Company may identify certain internal control issues which management believes should be improved. These improvements, if necessary, will likely include further formalization of policies and procedures, improved segregation of duties, additional information technology





system controls and additional monitoring controls. Although management does not believe that any of these matters will result in material weaknesses being identified in the Company's internal controls as defined by the Public Company Accounting Oversight Board, no assurances can be given regarding the outcome of these efforts. Additionally, control weaknesses may not be identified in a timely enough manner to allow remediation prior to the issuance of the auditor's report on internal controls over financial reporting. Any failure to adequately comply could result in sanctions or investigations by regulatory authorities, which could harm the Company's business or investors' confidence in the Company.

## Part II. Other Information

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding repurchases by the Company of its common stock, for each of the three four-week periods included in the interim twelve-week period ended July 7, 2006.

#### ISSUER PURCHASES OF EQUITY SECURITIES

Period (1)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
April 15, 2006 - May 12, 2006	449	\$ 6.54	449	594,517
May 13, 2006 - June 9, 2006	432	\$ 6.28	432	594,085
June 10, 2006 - July 7, 2006				594,085
Total	881	\$ 6.41	881	

(1) Period information is presented by reference to the Company's fiscal period ends during the twelve-week period ended July 7, 2006.

(2) All repurchases reflected in the foregoing table were made on the open market. The Company's stock repurchase program was approved by the Board of Directors in November 1999 (1,000,000 shares authorized, disclosed in a Form 10-K filed on January 26, 2000) and was expanded in June 2005 (500,000 additional shares authorized, disclosed in a press release and Form 8-K filed on June 17, 2005). Under the stock repurchase program, the Company is authorized, at the discretion of management and the Board of Directors, to purchase up to an aggregate of 1,500,000 shares of the Company's common stock on the open market.

**Item 6.**

**Exhibits**

**Exhibit**

<b>No.</b>	<b>Description</b>
31.1	Certification of Chairman (Principal Executive Officer), as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer (Principal Financial Officer), as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chairman (Principal Executive Officer), as required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer (Principal Financial Officer), as required by Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRIDGFORD FOODS CORPORATION  
(Registrant)

August 21, 2006  
Date

By: /s/ Raymond F. Lancy  
Raymond F. Lancy  
Chief Financial Officer  
(Duly Authorized Officer and Principal Financial Officer)

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