

BRIDGFORD FOODS CORP  
Form 10-Q  
June 04, 2007

## 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 April 20, 2007

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 June 4, 2007 the registrant had 9,931,000 shares of common stock outstanding.

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**BRIDGFORD FOODS CORPORATION**

**FORM 10-Q QUARTERLY REPORT**

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References to Bridgford Foods or the Company contained in this Quarterly Report on Form 10-Q refer to Bridgford Foods Corporation.

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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>April 20<br/>2007<br/>(Unaudited)</b> | <b>November 3<br/>2006<br/>As restated (Note 2)</b> |
|--|--|---|
| <b><u>ASSETS</u></b>   |  |   |
| Current assets:  |  |   |
| Cash and cash equivalents  | \$ 15,618                                | \$ 1,180  |
| Trading Securities   |  | 12,200  |
| Accounts receivable, less allowance for doubtful accounts of \$476 and \$524,<br>respectively, and promotional allowances of \$2,279 and \$2,170, respectively | 7,890                                    | 10,222  |
| Inventories (Note 3)   | 16,364                                   | 19,544  |
| Prepaid expenses and other current assets  | 3,498                                    | 2,767   |
| Total current assets   | 43,370                                   | 45,913  |
| Property, plant and equipment, less accumulated depreciation of \$55,140 and \$53,941,<br>respectively   | 12,313                                   | 13,041  |
| Other non-current assets   | 13,939                                   | 13,977  |
|  | \$ 69,622                                | \$ 72,931   |
| <b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>   |  |   |
| Current liabilities:   |  |   |
| Accounts payable   | \$ 3,248                                 | \$ 3,923  |
| Accrued payroll, advertising and other expenses  | 8,444                                    | 10,308  |
| Total current liabilities  | 11,692                                   | 14,231  |
| Non-current liabilities  | 7,465                                    | 8,514   |
| 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 - 9,934 and 9,958 shares  | 9,991                                    | 10,015  |
| Capital in excess of par value   | 14,083                                   | 14,235  |
| Retained earnings  | 26,897                                   | 27,129  |
| Accumulated other comprehensive loss   | (506)                                    | (1,193)   |
|  | 50,465                                   | 50,186  |
|  | \$ 69,622                                | \$ 72,931   |

See accompanying notes to consolidated condensed financial statements.



Item 1. b.

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

(Unaudited)

|  | (in thousands, except per share amounts) |                                    | (in thousands, except per share amounts) |                                    |
|--|--|------------------------------------|--|------------------------------------|
|  | 12 weeks ended<br>April 20<br>2007       | 12 weeks ended<br>April 14<br>2006 | 24 weeks ended<br>April 20<br>2007       | 24 weeks ended<br>April 14<br>2006 |
| Net sales  | \$ 27,894                                | \$ 28,305                          | \$ 60,207                                | \$ 62,880                          |
| Cost of products sold, excluding depreciation      | 17,944                                   | 17,510                             | 39,500                                   | 41,063                             |
| Selling, general and administrative expenses       | 9,524                                    | 9,841                              | 19,444                                   | 20,211                             |
| Depreciation                                       | 782                                      | 892                                | 1,563                                    | 1,784                              |
| Gain on sale of equity securities                  |  | (106 )                             |  | (106 )                             |
|  | 28,250                                   | 28,137                             | 60,507                                   | 62,952                             |
| Income (loss) before taxes                         | (356 )                                   | 168                                | (300 )                                   | (72 )                              |
| Income tax provision (benefit)                     | (83 )                                    | 96                                 | (68 )                                    | (7 )                               |
| Net income (loss)                                  | \$ (273 )                                | \$ 72                              | \$ (232 )                                | \$ (65 )                           |
| Basic and diluted income (loss) per share (Note 4) | \$ (.03 )                                | \$ .01                             | \$ (.02 )                                | \$ (.01 )                          |
| Basic and diluted shares computed                  | 9,940                                    | 9,966                              | 9,948                                    | 9,970                              |

Item 1. c.

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

(Unaudited)

(in thousands)

|                                  | Common Stock<br>Shares | Amount    | Capital<br>in excess<br>of par | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Total     |
|----------------------------------|------------------------|-----------|--------------------------------|----------------------|--|-----------|
| November 3, 2006                 | 9,958                  | \$ 10,015 | \$ 14,235                      | \$ 27,129            | \$ (1,193 )  | \$ 50,186 |
| Shares repurchased               | (24 )                  | (24 )     | (152 )                         |                      |  | (176 )    |
| Net loss                         |                        |           |                                | (232 )               |  | (232 )    |
| Other comprehensive income:      |                        |           |                                |                      |  |           |
| Unrealized income on investments |                        |           |                                |                      | 24   | 24        |
| Minimum pension liability        |                        |           |                                |                      | 663  | 663       |

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|                      |       |    |       |    |        |    |        |                     |
|----------------------|-------|----|-------|----|--------|----|--------|---------------------|
| Comprehensive income |       |    |       |    |        |    |        | 455                 |
| April 20, 2007       | 9,934 | \$ | 9,991 | \$ | 14,083 | \$ | 26,897 | \$ (506 ) \$ 50,465 |

See accompanying notes to consolidated condensed financial statements.

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Item 1. d.

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

|   | <b>24 weeks ended<br/>April 20<br/>2007<br/>(in thousands)</b> | <b>24 weeks ended<br/>April 14<br/>2006<br/>As restated (Note 2)<br/>(in thousands)</b> |
|---|--|---|
| <b>Cash flows from operating activities:</b>                |  |   |
| Net loss  | \$ (232 )  | \$ (65 )  |
| <b>Income charges not affecting cash:</b>                   |  |   |
| Depreciation  | 1,563  | 1,784   |
| Recovery on losses on accounts receivable                   | (329 )   | (339 )  |
| Gain on sale of property, plant and equipment               | (5 )   | )   |
| <b>Effect on cash of changes in assets and liabilities:</b> |  |   |
| Trading securities  | 12,200   | 1,300   |
| Accounts receivable, net                                    | 2,661  | 1,866   |
| Inventories   | 3,180  | 5,234   |
| Prepaid expenses and other current assets                   | (707 )   | (98 )   |
| Other non-current assets                                    | (359 )   | (355 )  |
| Accounts payable  | (675 )   | (744 )  |
| Accrued payroll, advertising and other expenses             | (1,864 )   | 290 )   |
| Non-current liabilities                                     | 11   | 800   |
| <b>Net cash provided by operating activities</b>            | <b>15,446</b>  | <b>9,673</b>  |
| <b>Cash used in investing activities:</b>                   |  |   |
| Proceeds from sale of property, plant and equipment         | 5  |   |
| Additions to property, plant and equipment                  | (835 )   | (1,015 )  |
| <b>Net cash used in investing activities</b>                | <b>(830 )</b>  | <b>(1,015 )</b>   |
| <b>Cash used in financing activities:</b>                   |  |   |
| Shares repurchased  | (176 )   | (146 )  |
| <b>Net cash used in financing activities</b>                | <b>(176 )</b>  | <b>(146 )</b>   |
| <b>Net increase in cash and cash equivalents</b>            | <b>14,438</b>  | <b>8,512</b>  |
| <b>Cash and cash equivalents at beginning of period</b>     | <b>1,180</b>   | <b>5,855</b>  |
| <b>Cash and cash equivalents at end of period</b>           | <b>\$ 15,618</b>   | <b>\$ 14,367</b>  |
| <b>Cash paid for income taxes</b>                           | <b>\$ 0</b>  | <b>\$ 22</b>  |

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 twenty-four weeks ended April 20, 2007 and April 14, 2006 have been prepared in conformity with the accounting principles described in the Company's Annual Report on Form 10-K/A for the fiscal year ended November 3, 2006 (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. New accounting pronouncements and their affect on the Company are included in Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-Q.

**Note 2 - Trading Securities**

At April 20, 2007 the Company held no auction rate securities. The Company elected to sell all auction rate securities during the second quarter of fiscal 2007 and invest in 90-day treasury bills which are classified as cash and cash equivalents on the accompanying consolidated condensed balance sheet.

At November 3, 2006 the Company held \$12,200 of auction rate securities, which are shown as a separately stated current asset in the accompanying consolidated condensed balance sheet in accordance with SFAS 115, Accounting for Certain Debt and Equity Securities. The auction rate securities as of November 3, 2006 have been reclassified from that which was originally presented in the Company's Annual Report on Form 10-K. Auction rate securities are variable-rate bonds tied to short-term interest rates with maturities on the face of the securities in excess of 90 days. The Company's investments in these auction rate securities are classified as trading securities under SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. The securities are recorded at cost, which approximates fair market value because of their variable interest rates, which typically resets every 7 to 35 days. Despite the long-term nature of their stated contractual maturities, the Company has the intent and ability to quickly liquidate these securities; therefore, the Company has no cumulative gross unrealized holding gains or losses, or gross unrealized gains or losses from these investments. All income generated from these investments was recorded as interest income.

The consolidated condensed statement of cash flow for the twenty-four weeks ended April 14, 2006 has been reclassified to give effect to auction rate securities activity classified as trading securities.

**Note 3 - Inventories:**

Inventories are comprised as follows at the respective periods:

|                                | <b>April 20<br/>2007</b> | <b>November 3<br/>2006</b> |
|--------------------------------|--------------------------|----------------------------|
| Meat, ingredients and supplies | \$ 4,726                 | \$ 3,748                   |
| Work in progress               | 1,734                    | 2,228                      |
| Finished goods                 | 9,904                    | 13,568                     |
|                                | <b>\$ 16,364</b>         | <b>\$ 19,544</b>           |

Inventories are valued at the lower of cost (at standard cost, which approximates actual cost on a first-in, first-out basis) or market. Costs related to warehousing, transportation and distribution to customers are considered when computing market value. Inventories include the cost of raw materials, labor and manufacturing overhead. The Company regularly reviews inventory quantities on hand and writes down any excess or obsolete inventories to net realizable value. An inventory reserve is created when potentially slow-moving or obsolete inventories are identified in order to reflect the appropriate inventory value. Changes in economic conditions, production requirements, and lower than expected customer demand could result in additional obsolete or slow-moving inventory that cannot be sold or can be sold at reduced prices and could result in additional reserve provisions.



Note 4 - Basic and diluted earnings per share:

The Company had 250,000 employee stock options outstanding during the twenty-four week periods ended April 20, 2007 and April 14, 2006. The effect of the employee stock options outstanding for the twenty-four weeks ended April 20, 2007 and April 14, 2006 was not included in the calculation of diluted shares and diluted earnings per share as to do so would be anti-dilutive. No options were granted during the first twenty-four weeks of the fiscal year ending November 2, 2007.

Note 5 - Retirement and Other Benefit Plans:

The Company has noncontributory-trusted 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>24 weeks ended<br/>April 20<br/>2007</b> | <b>24 weeks ended<br/>April 14<br/>2006</b> |
|---|---|---|
| Service cost                                    | \$ 120                                      | \$ 811                                      |
| Interest cost                                   | 842   | 896   |
| Expected return on plan assets                  | (908)                                       | (720)                                       |
| Amortization of net loss from earlier periods   |   | 123   |
| Amortization of unrecognized prior service cost | 1   | 16  |
| Curtailement Cost                               | 47  |   |
| Net pension cost                                | \$ 102                                      | \$ 1,126                                    |

The expected Company contribution to the plans in fiscal year 2007 is \$3,476. The Company has funded the plans in the amount of \$1,833 through the second quarter of fiscal 2007.

In the third quarter of fiscal 2006, the Company froze the defined benefit pension plan accrued benefits for members employed by the Company with administration, sales or supervisory job classification or within a non-bargaining class. This action was 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

In the fourth quarter of fiscal 2006, the Company froze the defined pension benefits for employees classified in the Dallas Union Group effective January 1, 2007. This action is defined as a curtailment under SFAS No. 88 and, therefore, the Company recognized a curtailment loss of approximately \$47. As a result of these actions, net pension costs will be reduced in future periods.

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 twenty-four weeks of fiscal 2007.

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.



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The following segment information is presented for the twelve and twenty-four week periods ended April 20, 2007 and April 14, 2006.

| <b>Twelve Weeks Ended<br/>April 20, 2007</b>  | <b>Frozen Food<br/>Products</b> | <b>Refrigerated<br/>and<br/>Snack Food<br/>Products</b> | <b>Other</b> | <b>Elimination</b> | <b>Totals</b> |
|---|---------------------------------|---|--------------|--------------------|---------------|
| Sales from external customers                 | \$ 11,506                       | \$ 16,388   | \$           | \$                 | \$ 27,894     |
| Intersegment sales                            |                                 | 276   |              | 276                |               |
| Net sales                                     | 11,506                          | 16,664  |              | 276                | 27,894        |
| Cost of products sold, excluding depreciation | 6,955                           | 11,265  |              | 276                | 17,944        |
| Selling, general and administrative expenses  | 3,591                           | 5,933   |              |                    | 9,524         |
| Depreciation                                  | 203                             | 484   | 95           |                    | 782           |
|   | 10,749                          | 17,682  | 95           | 276                | 28,250        |
| Income (loss) before taxes                    | 757                             | (1,018)   | (95)         |                    | (356)         |
| Income tax provision (benefit)                | 292                             | (375)   |              |                    | (83)          |
| Net income (loss)                             | \$ 465                          | \$ (643)  | \$ (95)      | \$                 | \$ (273)      |
| Total assets                                  | \$ 11,021                       | \$ 25,998   | \$ 32,603    | \$                 | \$ 69,622     |
| Additions to property, plant and equipment    | \$ 73                           | \$ 398  | \$ 18        | \$                 | \$ 489        |

| <b>Twelve Weeks Ended<br/>April 14, 2006</b>  | <b>Frozen Food<br/>Products</b> | <b>Refrigerated<br/>and<br/>Snack Food<br/>Products</b> | <b>Other</b> | <b>Elimination</b> | <b>Totals</b> |
|---|---------------------------------|---|--------------|--------------------|---------------|
| Sales from external customers                 | \$ 11,994                       | \$ 16,311   | \$           | \$                 | \$ 28,305     |
| Intersegment sales                            |                                 | 484   |              | 484                |               |
| Net sales                                     | 11,994                          | 16,795  |              | 484                | 28,305        |
| Cost of products sold, excluding depreciation | 6,570                           | 11,424  |              | 484                | 17,510        |
| Selling, general and administrative expenses  | 3,349                           | 6,492   |              |                    | 9,841         |
| Depreciation                                  | 291                             | 502   | 99           |                    | 892           |
| Gain on sale of equity securities             |                                 | (106)   |              |                    | (106)         |
|   | 10,210                          | 18,312  | 99           | 484                | 28,137        |
| Income (loss) before taxes                    | 1,784                           | (1,517)   | (99)         |                    | 168           |
| Income tax provision (benefit)                | 676                             | (580)   |              |                    | 96            |
| Net income (loss)                             | \$ 1,108                        | \$ (937)  | \$ (99)      | \$                 | \$ 72         |
| Total assets                                  | \$ 11,757                       | \$ 26,226   | \$ 34,725    | \$                 | \$ 72,708     |
| Additions to property, plant and equipment    | \$ 178                          | \$ 266  | \$ 52        | \$                 | \$ 496        |

| <b>Twenty-Four Weeks Ended<br/>April 20, 2007</b> | <b>Frozen Food<br/>Products</b> | <b>Refrigerated<br/>and<br/>Snack Food<br/>Products</b> | <b>Other</b> | <b>Elimination</b> | <b>Totals</b> |
|---|---------------------------------|---|--------------|--------------------|---------------|
| Sales from external customers                     | \$ 23,424                       | \$ 36,783   | \$           | \$                 | \$ 60,207     |
| Intersegment sales                                |                                 | 575   |              | 575                |               |
| Net sales   | 23,424                          | 37,358  |              | 575                | 60,207        |
| Cost of products sold, excluding depreciation     | 14,417                          | 25,658  |              | 575                | 39,500        |
| Selling, general and administrative expenses      | 7,029                           | 12,415  |              |                    | 19,444        |
| Depreciation                                      | 406                             | 966   | 191          |                    | 1,563         |
|   | 21,852                          | 39,039  | 191          | 575                | 60,507        |
| Income (loss) before taxes                        | 1,572                           | (1,681)   | (191)        |                    | (300)         |
| Income tax provision (benefit)                    | 588                             | (656)   |              |                    | (68)          |
| Net income (loss)                                 | \$ 984                          | \$ (1,025)  | \$ (191)     | \$                 | \$ (232)      |
| Total assets                                      | \$ 11,021                       | \$ 25,998   | \$ 32,603    | \$                 | \$ 69,622     |
| Additions to property, plant and equipment        | \$ 137                          | \$ 688  | \$ 10        | \$                 | \$ 835        |



Note 7 - Segment Information (continued):

| Twenty-Four Weeks Ended<br>April 14, 2006     | Frozen Food<br>Products | Refrigerated<br>and<br>Snack Food<br>Products | Other     | Elimination | Totals    |
|---|-------------------------|---|-----------|-------------|-----------|
| Sales from external customers                 | \$ 24,098               | \$ 38,782                                     | \$        | \$          | \$ 62,880 |
| Intersegment sales                            |                         | 1,201   |           | 1,201       |           |
| Net sales                                     | 24,098                  | 39,983  |           | 1,201       | 62,880    |
| Cost of products sold, excluding depreciation | 14,200                  | 28,064  |           | 1,201       | 41,063    |
| Selling, general and administrative expenses  | 6,870                   | 13,341  |           |             | 20,211    |
| Depreciation                                  | 581                     | 1,005   | 198       |             | 1,784     |
| Gain on sale of equity securities             |                         | (106 )  |           |             | (106 )    |
|   | 21,651                  | 42,304  | 198       | 1,201       | 62,952    |
| Income (loss) before taxes                    | 2,447                   | (2,321 )                                      | (198 )    |             | (72 )     |
| Income tax provision (benefit)                | 912                     | (919 )  |           |             | (7 )      |
| Net income (loss)                             | \$ 1,535                | \$ (1,402 )                                   | \$ (198 ) | \$          | \$ (65 )  |
| <br>  |                         |   |           |             |           |
| Total assets                                  | \$ 11,757               | \$ 26,226                                     | \$ 34,725 | \$          | \$ 72,708 |
| Additions to property, plant and equipment    | \$ 250                  | \$ 692  | \$ 73     | \$          | \$ 1,015  |

## Item 2. **Management's Discussion and Analysis of Financial Condition and Results of Operations**

### 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. 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 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. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Item 3. Quantitative and Qualitative Disclosures Regarding Market Risk General Business Risks of this Quarterly Report on Form 10-Q as well as the risk factors references in the Company's Form 10-K/A for the fiscal year ended November 3, 2006.

### Critical Accounting Policies and Management Estimates

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 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 14.9% of revenues for the first twenty-four weeks of fiscal year 2007 and 15.5% of accounts receivable at the end of the second quarter of fiscal year 2007. Wal-Mart® comprised 12.3% of revenues for the first twenty-four weeks of fiscal year 2006 and 16.3% of accounts receivable at the end of the second quarter of fiscal year 2006.

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.

Inventories are valued at the lower of cost (at standard cost, which approximates actual cost on a first-in, first-out basis) or market. Costs related to warehousing, transportation and distribution to customers are considered when computing market value. Inventories include the cost of raw materials, labor and manufacturing overhead. The Company regularly reviews inventory quantities on hand and writes down any excess or obsolete inventories to net realizable value. An inventory reserve is created when potentially slow-moving or obsolete inventories are identified in order to reflect the appropriate inventory value. Changes in economic conditions, production requirements, and lower than expected customer demand could result in additional obsolete or slow-moving inventory that cannot be sold or can be sold at reduced prices and could result in additional reserve provisions.

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 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.



### **Executive Level Overview of Business Segments**

The Company operates in two business segments – the processing and distribution of frozen products and the processing and distribution of refrigerated and snack food products. For information regarding the separate financial performance of the business segments refer to Note 7 of the Notes to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. Although the Company has recently introduced several new products, most of these products have not contributed significantly to the Company's revenue growth for the fiscal year with the exception of Bridgford Monkey Bread, included in the Frozen Food Products segment, originally introduced in 2005.

#### **Frozen Food Products Segment**

The products manufactured and distributed by the Company in the Frozen Food Products Segment consist of an extensive line of food products, including biscuits, bread dough items, roll dough items and sandwiches. All items within this segment are considered similar products and have been aggregated at this level. The Company's frozen food division serves both food service and retail customers. The Company sells approximately 200 unique frozen food products through wholesalers, cooperatives and distributors to approximately 21,000 retail outlets and 22,000 restaurants and institutions.

#### **Frozen Food Products – Food Service Customers**

The food service industry is composed of establishments that serve food outside the home and includes restaurants, the food operations of health care providers, schools, hotels, resorts, corporations, and other traditional and non-traditional food service outlets. Growth in this industry has been driven by the increase in away-from-home meal preparation, which has accompanied the expanding number of both dual income and single-parent households. Another trend within the food service industry is the growth in the number of non-traditional food service outlets such as convenience stores, retail stores and supermarkets. These non-traditional locations often lack extensive cooking, storage or preparation facilities, resulting in a need for pre-cooked and prepared foods similar to those provided by the Company. The expansion in the food service industry has also been accompanied by the continued consolidation and growth of broad line and specialty food service distributors, many of which are long-standing customers of the Company.

The Company supplies its food service customers generally through distributors that take title to the product and resell it. Among the Company's customers are many of the country's largest broad line and specialty food service distributors. For these and other large end purchasers, the Company's products occasionally go through extensive qualification procedures and its manufacturing capabilities are subjected to thorough review by the end purchasers prior to the Company's approval as a vendor. Large end purchasers typically select suppliers that can consistently meet increased volume requirements on a national basis during peak promotional periods. The Company believes that its manufacturing flexibility, national presence and long-standing customer relationships should pose barriers to entry for other manufacturers seeking to provide similar products to the Company's current large food service end purchasers, although no assurances can be given.

#### **Frozen Food Products – Retail Customers**

The majority of the Company's existing and targeted retail customers are involved in the resale of branded and private label packaged foods. The same trends which have contributed to the increase in away-from-home meal preparation have also fueled the growth in easy to prepare, microwaveable frozen and refrigerated convenience foods. Among the fastest growing segments is the frozen and refrigerated hand-held foods market. This growth has been driven by improved product quality and variety and the increasing need for inexpensive and healthy food items that require minimal preparation. Despite rapid growth, many categories of frozen and refrigerated hand-held foods have achieved minimal household penetration. The Company believes it has been successful in establishing and maintaining supply relationships with certain selected leading retailers in this market.

### **Frozen Food Products Sales and Marketing**

The Company's frozen food business covers the United States and Canada. In addition to regional sales managers, the Company maintains a network of independent food service and retail brokers covering most of the states as well as Canada. Brokers are compensated on a commission basis. The Company believes that its broker relationships, in close cooperation with the regional sales managers, are a valuable asset providing significant new product and customer opportunities. The regional sales managers perform several significant functions for the Company, including identifying and developing new business opportunities and providing customer service and support to the Company's distributors and end purchasers through the effective use of the Company's broker network.

The Company's annual advertising expenditures are directed towards retail and institutional customers. These customers participate in various special promotional and marketing programs and direct advertising allowances sponsored by the Company. The Company also invests in general consumer advertising in various newspapers and periodicals. The Company directs advertising at food service customers with campaigns in major industry publications and through Company participation in trade shows throughout the United States.

### **Refrigerated and Snack Food Segment**

The products distributed by the Company in the Refrigerated and Snack Food Products segment consist of both products manufactured by the Company and product manufactured or processed by third parties. Approximately 46% of this segment's products were manufactured by third parties. All items within this segment are considered similar products and have been aggregated at this level. The dry sausage division includes products such as jerky, meat snacks, sausage, summer sausage and pepperoni products. The deli division includes products such as ham, sandwiches, cheese, Mexican food, pastries and other delicatessen type food products.

### **Refrigerated and Snack Food Segment Customers**

The Company's refrigerated and snack food products division sells approximately 270 different items through a direct store delivery network serving approximately 36,000 supermarkets, mass merchandise and convenience retail stores located in 49 states and Canada.

These customers are comprised of large retail chains and smaller independent operators. This part of the Company's business is highly competitive. Proper placement of the Company's product lines is critical to selling success since most items could be considered impulse items which are often consumed shortly after purchase. The Company's ability to sell successfully to this distribution channel depends on aggressive marketing and maintaining relationships with key buyers.

### **Refrigerated and Snack Food Segment Sales and Marketing**

The Company's direct store delivery network consists of two separate divisions, refrigerated and non-refrigerated snack food products. Refrigerated snack food products are distributed through five different regions located in the southwest, primarily operating in California, Arizona and Nevada. Non-refrigerated snack food products are distributed in seventeen geographic regions across the United States and Canada, each managed by regional sales managers. The regional sales managers perform several significant functions for the Company including identifying and developing new business opportunities and providing customer service and support to the Company's customers. The Company also utilizes the services of brokers where appropriate to support efficient product distribution and customer satisfaction.

**Results of Operations for the Twelve Weeks ended April 20, 2007 and Twelve Weeks ended April 14, 2006.**

**Net Sales-Consolidated**

Net sales decreased by \$411,000 (1.5%) to \$27,894,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period last year. The primary reason for the decline was an increase in promotional allowances, as a percent of sales, of approximately 1.0% as compared to the same twelve-week period last year. Unit prices decreased slightly (1.3%) offset by a unit volume increase of approximately 1.3%. Product return levels also decreased slightly against the comparative prior period.

Compared to the prior twelve-week period ended January 26, 2007 (not shown), average weekly sales decreased \$368,000 (13.7%). The decrease primarily relates to 10.1% lower unit sales volume during the second twelve weeks of the 2007 fiscal year compared to the previous twelve-week period. Unit selling prices were also lower than in the prior twelve-week period contributing to the sales decrease.

**Net Sales-Frozen Food Products Segment**

Net sales in the Frozen Food Products segment decreased by \$488,000 (4.1%) to \$11,506,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period last year. The primary reason for the decline was an increase in promotional allowances compared to the same twelve-week period last year. Unit volume decreases of 6.4% were not fully offset by unit price increases (before promotional allowances) of 5.5%, which also contributed to the decline in sales.

**Net Sales-Refrigerated and Snack Food Segment**

Net sales in the Refrigerated and Snack Food Products segment increased by \$75,000 (0.5%) to \$16,388,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period last year. The primary reason for the sales increase was an 11.6% increase in dry sausage unit volume offset by a decrease in deli unit volume. A decrease in unit selling prices also offset overall unit volume increases.

**Cost of Products Sold-Consolidated**

Cost of products sold increased by \$434,000 (2.5%) to \$17,944,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period in fiscal 2006. The increase in cost of products sold on a comparative basis was due primarily to slightly higher unit sales volume. The gross margin decreased slightly due to higher flour commodity costs when compared to the same twelve-week period in fiscal 2006.

Compared to the prior twelve-week period ended January 26, 2007 (not shown), the average weekly cost of products sold decreased \$301,000 (16.8%) for the second twelve weeks of fiscal year 2007. This decrease is consistent with normal seasonal trends.

**Cost of Products Sold Frozen Food Products Segment**

Cost of products sold in the Frozen Food Products segment increased by \$385,000 (5.9%) to \$6,955,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period in fiscal 2006. An increase in flour commodity costs was the primary contributing factor in this increase. Unit production volumes were also lower than the comparative twelve-week period.

**Cost of Products Sold Refrigerated and Snack Food Segment**

Cost of products sold in the Refrigerated and Snack Food Products segment decreased by \$159,000 (1.4%) to \$11,265,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period in fiscal 2006. Favorable trends in meat commodity costs and higher production volumes contributed to the decrease in costs of products sold in this segment.

**Selling, General and Administrative Expenses-Consolidated**

Selling, general and administrative expenses decreased by \$317,000 (3.2%) to \$9,524,000 in the second twelve weeks of fiscal year 2007 compared to the same twelve-week period in the prior fiscal year. The change in this category for the twelve-week period ended April 20, 2007 did not directly correspond to the sales decrease. Favorable trends in employee pension and healthcare expenses, interest income and bad debt recoveries reduced this category. As a result of significant bad debt write-off in past years, the Company has received shares of stock from customers in lieu of cash payment on accounts receivable. Material recoveries associated with the unplanned receipt of shares of stock were recognized by the Company when shares were received. The timing of these receipts are unpredictable and there is no guarantee that this trend will continue. Offsetting the favorable trends noted previously, the Company incurred higher advertising and outside storage costs than in the comparative twelve week period.

Compared to the prior twelve-week period ended January 26, 2007 (not shown), average weekly selling, general and administrative expenses decreased by \$33,000 (4.0%). The decrease was primarily caused by a decrease in average weekly sales which lowered these expenses.

**Selling, General and Administrative Expenses-Frozen Food Products Segment**

Selling, general and administrative expenses in the Frozen Food Products segment increased by \$242,000 (7.2%) to \$3,591,000 in the second twelve weeks of fiscal year 2007 compared to the same twelve-week period in the prior fiscal year. Higher advertising costs were the primary contributor to the increase in selling, general and administrative expenses when compared to the same twelve-week period in fiscal 2006.

**Selling, General and Administrative Expenses-Refrigerated and Snack Food Segment**

Selling, general and administrative expenses in the Refrigerated and Snack Food Products segment decreased by \$559,000 (8.6%) to \$5,933,000 in the second twelve weeks of fiscal year 2007 compared to the same twelve-week period in the prior fiscal year. Lower healthcare and pension expenses and a significant bad debt recovery were the most significant contributors to the decrease in selling, general and administrative expenses when compared to the same twelve-week period in fiscal 2006.

**Depreciation Expense-Consolidated**

Depreciation expense decreased by \$110,000 (12.3%) to \$782,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period in fiscal year 2006. The decrease in depreciation expense reflects lower capital expenditure levels in recent years and certain significant assets becoming fully depreciated in the 2007 fiscal year. Compared to the prior twelve-week period ended January 26, 2007 (not shown), average weekly depreciation remained constant at \$65,000.

**Depreciation Expense-Frozen Food Products and Refrigerated and Snack Food Segments**

Depreciation expense in the Frozen Food Products segment decreased by \$88,000 (30.2%) to \$203,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period in fiscal year 2006.

Depreciation expense in the Refrigerated and Snack Food Products segment decreased by \$18,000 (3.6%) to \$484,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period in fiscal year 2006. The decrease in depreciation expense in both segments was due to lower capital expenditures in recent years and certain significant assets becoming fully depreciated in the 2007 fiscal year.

**Income Taxes-Consolidated**

The Company recorded an income tax provision based on an estimated annual effective tax rate of 23.3% in the second twelve weeks of fiscal 2007 as compared to 57.1% in the prior fiscal year and 27.3% for the prior twelve-week period. The change in the effective income tax rate relates to significant non-taxable gains on life insurance policies and revisions to the Company's projected tax rates related to updated income estimates.

**Net Income (Loss)-Consolidated**

Net loss in the twelve weeks ended April 20, 2007 was affected by non-taxable gains on life insurance policies in the amount of \$175,000. 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 second twelve weeks of fiscal 2007 in the amount of \$70,000 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<br/>April 20, 2007</b> | <b>12 Weeks Ended<br/>April 14, 2006</b> |
|--|--|--|
| Net loss before taxes, life insurance gain and investment income | \$ (720,000 )                            | \$ (203,000 )                            |
| Gain on sale of equity securities                                |  | 106,000                                  |
| Life insurance gain and investment income                        | 364,000                                  | 265,000                                  |
| Income (loss) before taxes                                       | (356,000 )                               | 168,000                                  |
| Income tax provision (benefit)                                   | (83,000 )                                | 96,000                                   |
| Net income (loss)  | \$ (273,000 )                            | \$ 72,000                                |

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 Twenty-four Weeks ended April 20, 2007 and Twenty-four Weeks ended April 14, 2006.****Net Sales-Consolidated**

Net sales decreased by \$2,673,000 (4.3%) to \$60,207,000 in the first twenty-four weeks of the 2007 fiscal year compared to the same twenty-four week period last year. The primary reason for the sales decline was a 2.3% decrease in unit volume. Promotional allowances, as a percent of sales, increased 2.8% compared to the same 24 week period last year. Unit selling prices decreased approximately 0.5% contributing to the sales decline. Product return levels also decreased slightly against the comparative prior period.

**Net Sales-Frozen Food Products Segment**

Net sales in the Frozen Food Products segment decreased by \$674,000 (2.8%) to \$23,424,000 in the first twenty-four weeks of the 2007 fiscal year compared to the same twenty-four week period last year. The primary reason for the decline was an increase in promotional allowances compared to the same twenty-four week period last year. Unit prices, before promotions and allowances, increased (4.5%) offset by unit volume decrease of approximately 3.3%.

**Net Sales-Refrigerated and Snack Food Segment**

Net sales in the Refrigerated and Snack Food Products segment decreased by \$1,999,000 (5.2%) to \$36,783,000 in the first twenty-four weeks of the 2007 fiscal year compared to the same twenty-four week period last year. Unit volumes were slightly lower than the comparative twenty-four week period. Average unit selling prices were also lower than the prior twenty-four week period.

**Cost of Products Sold-Consolidated**

Cost of products sold decreased by \$1,563,000 (3.8%) to \$39,500,000 in the first twenty-four weeks of the 2007 fiscal year compared to the same twenty-four week period in fiscal 2006. The decrease in cost of products sold on a comparative basis was due primarily to lower unit sales volume. The slight decrease in gross margin was partially due to higher flour commodity costs partially offset by lower meat commodities when compared to the same twenty-four-week period in fiscal year 2006.

**Cost of Products Sold - Frozen Food Products Segment**

Cost of products sold in the Frozen Food Products segment increased by \$217,000 (1.5%) to \$14,417,000 in the first twenty-four weeks of the 2007 fiscal year compared to the same twenty-four week period in fiscal 2006. Higher flour commodity costs contributed to the increase in costs of products sold.

**Cost of Products Sold - Refrigerated and Snack Food Segment**

Cost of products sold in the Refrigerated and Snack Food Products segment decreased by \$2,406,000 (8.6%) to \$25,658,000 in the first twenty-four weeks of the 2007 fiscal year compared to the same twenty-four-week period in fiscal 2006. Lower unit volumes, favorable meat commodity costs and lower repairs and maintenance costs contributed to the decrease in costs of products sold.

**Selling, General and Administrative Expenses-Consolidated**

Selling, general and administrative expenses decreased by \$767,000 (3.8%) to \$19,444,000 in the first twenty-four weeks of fiscal year 2007 compared to the same twenty-four week period in the prior fiscal year. The change in this category for the twenty-four week period ended April 20, 2007 did not directly correspond to the sales decrease. Costs for advertising and display racks increased while reductions in employee healthcare and pension expenses, and higher interest income helped offset these increases. As a result of significant bad debt write-off in past years, the Company has received shares of stock from customers in lieu of cash payment on accounts receivable. Material recoveries associated with the unplanned receipt of shares of stock were recognized by the Company when shares were received. The timing of these receipts are unpredictable and there is no guarantee that this trend will continue.

**Selling, General and Administrative Expenses-Frozen Food Products Segment**

Selling, general and administrative expenses in the Frozen Food Products segment increased by \$159,000 (2.3%) to \$7,029,000 in the first twenty-four weeks of fiscal year 2007 compared to the same twenty-four week period in the prior fiscal year. Higher promotional spending contributed to the increase in selling, general and administrative expenses when compared to the same twenty-four-week period in fiscal 2006.

**Selling, General and Administrative Expenses-Refrigerated and Snack Food Segment**

Selling, general and administrative expenses in the Refrigerated and Snack Food Products segment decreased by \$926,000 (6.9%) to \$12,415,000 in the first twenty-four weeks of fiscal year 2007 compared to the same twenty-four week period in the prior fiscal year. Lower labor, healthcare and pension expenses contributed to the decrease in selling, general and administrative expenses when compared to the same twenty-four week period in fiscal 2006.

**Depreciation Expense-Consolidated**

Depreciation expense decreased by \$221,000 (12.4%) to \$1,563,000 in the first twenty-four weeks of the 2007 fiscal year compared to the same twenty-four week period in fiscal year 2006. The decrease in depreciation expense was due to lower capital expenditures in recent years and certain significant assets becoming fully depreciated in the 2007 fiscal year.

**Depreciation Expense-Frozen Food Products and Refrigerated and Snack Food Segments**

Depreciation expense in the Frozen Food Products segment decreased by \$175,000 (30.1%) to \$406,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period in fiscal year 2006. Depreciation expense in the Refrigerated and Snack Food Products segment decreased by \$39,000 (3.9%) to \$966,000 in the second twelve weeks of the 2007 fiscal year compared to the same twelve-week period in fiscal year 2006. The decrease in depreciation expense in both segments was due to lower capital expenditures in recent years and certain significant assets becoming fully depreciated in the 2007 fiscal year.

**Income Taxes-Consolidated**

The Company recorded an income tax provision based on an estimated annual effective tax rate of 22.7% in the first twenty-four weeks of fiscal 2007 as compared to 9.7% in the prior fiscal year. The change in the effective income tax rate relates to significant non-taxable gains on life insurance policies and revisions to the Company's projected tax rates related to updated estimates and the recognition of research and development tax credits.

**Net Income (Loss)-Consolidated**

Net loss in the twenty-four weeks ended April 20, 2007 was affected by non-taxable gains on life insurance policies in the amount of \$360,000. 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 twenty-four weeks of fiscal 2007 in the amount of \$161,000 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>24 Weeks Ended<br/>April 20, 2007</b> | <b>24 Weeks Ended<br/>April 14, 2006</b> |
|--|--|--|
| Net loss before taxes, life insurance gain and investment income | \$ (1,012,000 )                          | \$ (725,000 )                            |
| Gain on sale of equity securities                                |  | 106,000                                  |
| Life insurance gain and investment income                        | 712,000                                  | 547,000                                  |
| Loss before taxes  | (300,000 )                               | (72,000 )                                |
| Income tax provision (benefit)                                   | (68,000 )                                | (7,000 )                                 |
| Net loss   | \$ (232,000 )                            | \$ (65,000 )                             |

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.

**Liquidity and Capital Resources-Consolidated**

Net cash from operating activities was \$15,446,000 for the first twenty-four weeks of the 2007 fiscal year. Operating cash was generated principally by reductions in trading securities, accounts receivable and inventories. The substantial reduction in inventory in the first twenty-four weeks of fiscal 2007 is consistent with normal seasonal trends and a planned seasonal reduction in field inventories. The Company sold \$12,200,000 in auction rate securities in the first twenty-four weeks of the 2007 fiscal year and currently has no investments in these instruments. The Company utilized cash flow for additions to property, plant and equipment and share repurchases. The net effect of these transactions resulted in a cash and cash equivalents increase during the first twenty-four weeks of fiscal 2007 of \$14,438,000 (1224.6%) to \$15,618,000. The additions to property, plant and equipment reflect the Company's continued investment in processing, transportation and information technology equipment.

The Company's refrigerated and snack food products segment has continued development of a new major production line that was originally scheduled for completion in the fourth quarter of fiscal year 2005. The line has been producing product for analysis purposes for approximately six months. The oven and processing parameters are being fine-tuned. A total capital expenditure of \$1,883,000 has been invested in this new production line through April 20, 2007. No significant additional investments are anticipated at this time. The Company expects regular production to begin no later than the last quarter of fiscal year 2007.

No cash dividends were paid during the first twenty-four weeks of the 2007 fiscal year, as was the case during the first twenty-four weeks of the 2006 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 twenty-four weeks of fiscal year 2007. 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 twenty 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 Pronouncements and 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.

In September 2006, the FASB issued Statement of Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). This Statement defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. SFAS No. 157 is effective for financial statements for fiscal years beginning after November 15, 2007, the Company's first quarter of the 2009 fiscal year, and interim periods within those years. The Company does not expect this statement will have a material impact on the Company's results of operations or financial position.

In September 2006, the Financial Accounting Standards Board issued FAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) . FAS 158 requires employers to recognize the over- or under-funded status of defined benefit plans and other postretirement plans in the statement of financial position and to recognize changes in the funded status in the year in which the changes occur through comprehensive income. In addition, FAS 158 requires employers to measure the funded status of plans as of the date of the year-end statement of financial position. The recognition and disclosure provisions of FAS 158 are effective as of the end of for fiscal years ending after December 15, 2006 (effective for the Company's fiscal year ending November 2, 2007), while the requirement to measure plan assets and benefit obligations as of a company's year-end date is effective for fiscal years ending after December 15, 2008 (effective for the Company's fiscal year ending October 30, 2009). Based on recent preliminary analysis, the Company does not expect that the adoption of this statement will materially affect other comprehensive income, long-term liabilities and shareholders equity.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, or our fiscal year ending October 30, 2009. The Company does not expect this statement 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**

#### **General Business Risks**

General risk 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/A for the fiscal year ended November 3, 2006. 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.

There can be no assurances that the Company's growth objectives will be met or that product lines will be profitable. Anticipated and unanticipated declines in customer demand or taste, sales softness or aggressive competition may have a material adverse effect on the Company's results of operations. The business is also exposed to the risk of negative publicity, whether or not based in fact, which affects consumer perceptions about the health, safety or quality of food and inputs of food products.

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.

#### **Financial Instrument Risk**

The Company's financial instruments generally consist of cash and cash equivalents, auction rate securities and life insurance policies. At April 20, 2007, 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.

#### **Foreign Currency Risk**

The Company did not have significant foreign currency exposure at April 20, 2007.

#### **Concentration of Credit Risk**

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 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.

#### **Fixed Price Contracts Risk:**

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 April 20, 2007.

#### **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, on December 15, 2006, adopted new measures 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 new measures, the Company will be required to comply with the Act in two phases. The first phase will be effective for the Company's fiscal year ending October 31, 2008 and will require the Company to furnish a management report on internal control over financial reporting. The second phase will 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.

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 the Act. As a result, the Company may 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 Auditing Standard No. 2, 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.

On May 23, 2007 the Securities and Exchange Commission unanimously approved interpretive guidance to assist public companies to reinforce their internal control over financial reporting with a focus on smaller companies. The Securities and Exchange Commission approved rules that allow a company to satisfy the annual evaluation requirement by Exchange Act Rules 13a-15 and 15d-15 through the evaluation of internal control in accordance with interpretive guidance. The term "material weakness" was modified by the Securities and Exchange Commission as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Another revision included changes to the required auditor's attestation report on the effectiveness of internal controls over financial reporting which now excludes the auditor's evaluation of management's evaluation process. The auditor's attestation report will now opine directly on the internal controls over financial reporting. The effective date for these changes will be 30 days from their publication in the Federal Register.

The Public Company Accounting Oversight Board voted on May 24, 2007 to adopt Auditing Standard No. 5, An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements, to replace its previous internal control auditing standard, Auditing Standard No. 2. The new standard removes unnecessary audit requirements while maintaining adequate internal control, provides direction on how to scale the audit for smaller and less complex companies, and reduces and simplifies the text of the standard.

## Part II. Other Information

### Item 1. Legal Proceedings

None.

### Item 1A. Risk Factors

The risk factors listed in Part I Item 1A. Risk Factors in the Annual Report on Form 10-K/A for the fiscal year ended November 3, 2006, should be considered with the information provided elsewhere in this Form 10-Q, which could materially adversely affect the business, financial condition or results of operations. There have been no material changes to the risk factors as previously disclosed in such Annual Report on Form 10-K/A.

### 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 April 20, 2007.

#### 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) |
|--------------------------------------|----------------------------------|------------------------------|--|--|
| January 27, 2007 - February 23, 2007 | 11,425                           | \$ 7.65                      | 11,425   | 570,830  |
| February 24, 2007 - March 23, 2007   | 2,198                            | \$ 7.79                      | 2,198  | 568,632  |
| March 24, 2007 - April 20, 2007      | 4,281                            | \$ 7.63                      | 4,281  | 564,351  |
| Total                                | 17,904                           | \$ 7.66                      | 17,904   |  |

(1) Period information is presented by reference to the Company's fiscal period ends during the twelve-week period ended April 20, 2007.

(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 and was expanded in June 2005. Under the stock repurchase program, the Company is authorized, at the

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discretion of management and the Board of Directors, to purchase up to an aggregate of 2,000,000 shares of the Company's common stock on the open market. On September 15, 2006, the Company entered into a Rule 10b5-1 Stock Purchase Plan with Citigroup Global Markets Inc. for the purchase of shares of common stock previously issued by the Company that complies with the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 (Exchange Act). The purchase period covers each trading day commencing October 2, 2006 through and including September 15, 2007. The daily purchase quantity is defined as a number of shares up to, but not to exceed, each day's applicable SEC Rule 10b-18 maximum volume limit (i.e. 25% of the prior four calendar weeks' average daily trading volume); however, once per week a block of stock may be purchased that exceeds the SEC Rule 10b-18 25% average daily trading volume condition, provided that no other Plan purchases are made on any day on which such a block is purchased. The total maximum number of shares that may be purchased under the plan is 594,000 at a total maximum dollar amount (exclusive of commission) of \$5,940,000.

**Item 4. Submission of Matters to a Vote of Security Holders**

The Company held its annual meeting of shareholders on Wednesday, March 14, 2007 at the Four Points Sheraton, 1500 South Raymond Avenue, Fullerton, California at 10:00 am. Shareholders representing 9,563,701 or 96.2% of the 9,946,353 shares entitled to vote were present in person or by proxy. Proxies for the meeting were solicited pursuant to Regulation 14A of the Securities Exchange Act of 1934. The following persons were nominated and elected directors:

|                    |                   |                      |
|--------------------|-------------------|----------------------|
| Allan L. Bridgford | Hugh W. Bridgford | William L. Bridgford |
| Todd C. Andrews    | Richard A. Foster | Robert E. Schulze    |
| D. Gregory Scott   | Paul R. Zippwald  |                      |

Votes cast for directors were 9,548,110 FOR, 15,591 AGAINST and none ABSTAINED or WITHHELD. Votes cast for appointment of Haskell & White LLP, as the independent registered public accounting firm for the Company for the fiscal year commencing November 4, 2006 were 9,560,334 FOR, none AGAINST and 3,367 ABSTAIN or WITHHELD.

**Item 6.**

**Exhibits**

**Exhibit**

| No.  | Description   |
|------|---|
| 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. |

**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)

June 4, 2007  
Date

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

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