

BRIDGFORD FOODS CORP  
Form 10-K  
January 18, 2013

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K

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

For the fiscal year ended November 2, 2012

Commission file number: 0-2396

BRIDGFORD FOODS CORPORATION  
(Exact name of Registrant as specified in its charter)

California  
(State of incorporation)

95-1778176  
(I.R.S. Employer  
Identification No.)

1308 North Patt Street  
Anaheim, California 92801  
(Address of principal executive offices)

(714) 526-5533  
(Registrant's telephone number, including area code)

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Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$1.00 per share, the NASDAQ Stock Market LLC.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of voting stock held by non-affiliates of the registrant on April 13, 2012 was \$17,026,000. As of January 15, 2013, there were 9,157,485 shares of common stock outstanding.

Portions of the registrant's Proxy Statement for the registrant's Annual Meeting of Shareholders to be held March 20, 2013 are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

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## INDEX TO FORM 10K

|  | Page      |
|--|-----------|
| <b>PART I</b>  | <b>3</b>  |
| Item 1. Business   | 3         |
| Item 1A. Risk Factors  | 7         |
| Item 1B. Unresolved Staff Comments   | 9         |
| Item 2. Properties   | 9         |
| Item 3. Legal Proceedings  | 9         |
| Item 4. Mine Safety Disclosures  | 9         |
| <b>PART II</b>   | <b>10</b> |
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 10        |
| Item 6. Selected Financial Data  | 11        |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations                        | 12        |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk  | 17        |
| Item 8. Consolidated Financial Statements and Supplementary Data   | 17        |
| Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure                         | 17        |
| Item 9A. Controls and Procedures   | 18        |
| Item 9B. Other Information   | 18        |
| <b>PART III</b>  | <b>19</b> |
| Item 10. Directors, Executive Officers and Corporate Governance  | 19        |
| Item 11. Executive Compensation  | 19        |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters              | 19        |
| Item 13. Certain Relationships and Related Transactions, and Director Independence                                   | 19        |
| Item 14. Principal Accountant Fees and Services  | 19        |
| <b>PART IV</b>   | <b>20</b> |
| Item 15. Exhibits and Financial Statement Schedules  | 20        |
| <b>SIGNATURES</b>  | <b>21</b> |

## PART I

### Item 1. Business

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and Bridgford Foods Corporation intends that such forward-looking statements be subject to the safe harbors created thereby. Readers are cautioned that such statements, which may be identified by words including “anticipates,” “believes,” “intends,” “estimates,” “expects,” similar expressions, are only predictions or estimations and are subject to known and unknown risks and uncertainties. These forward-looking statements include, but are not limited to, statements regarding the following: general economic and business conditions; the impact of competitive product 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 Report.

The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. These forward-looking statements are based on assumptions regarding our business, which involve judgments with respect to, among other things, future economic and competitive conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, actual results may differ materially from those set forth in the forward-looking statements. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as representation by us or any other person that the objectives or plans of our company will be achieved. The forward-looking statements contained herein speak as of the date of this Report and we undertake no obligation to update such statements after the date hereof.

#### Background of Business

Bridgford Foods Corporation (collectively with its subsidiaries, “Bridgford”, the “Company”, “we”, “our”), a California corporation, was organized in 1952. We originally began operations in 1932 as a retail meat market in San Diego, California and evolved into a meat wholesaler for hotels and restaurants, a distributor of frozen food products, a processor and packer of meat, and a manufacturer and distributor of frozen food products for sale on a retail and wholesale basis. For more than the past five years we and our subsidiaries have been primarily engaged in the manufacturing, marketing and distribution of an extensive line of frozen, refrigerated, and snack food products throughout the United States. Bridgford Foods Corporation has not been involved in any bankruptcy, receivership, or similar proceedings since inception nor have we been party to any merger, acquisition, etc. or acquired or disposed of any material amounts of assets during the past five years. Substantially all of our assets have been acquired in the ordinary course of business. We have had no significant change in the type of products produced or distributed, nor in the markets we serve.

#### Description of Business

Bridgford Foods Corporation 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 Annual Report on Form 10-K.

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The following table shows sales, as a percentage of consolidated sales, for each of these segments for each of the last two fiscal years:

|                                      | 2012 | 2011 |
|--------------------------------------|------|------|
| Frozen Food Products                 | 44%  | 46%  |
| Refrigerated and Snack Food Products | 56%  | 54%  |
|                                      | 100% | 100% |

We manufacture and distribute an extensive line of food products, including biscuits, bread dough items, roll dough items, dry sausage products, beef jerky, and a variety of sandwiches and sliced luncheon meats. The products we purchase for resale include a variety of cheeses, salads, party dips, Mexican foods, nuts, and other delicatessen type food products.

|  | 2012 | 2011 |
|--|------|------|
| Products manufactured, processed or packaged by Bridgford            | 91%  | 90%  |
| Products manufactured or processed by third parties for distribution | 9%   | 10%  |
|  | 100% | 100% |

Although we have recently introduced several new products, most of these products have not contributed significantly to our revenue growth for the fiscal year. Our sales are not subject to material seasonal variations. Historically we have been able to respond quickly to the receipt of orders and, accordingly, do not maintain a significant sales backlog. Bridgford Foods Corporation and its industry generally have no unusual demands or restrictions on working capital items. During the last fiscal year we did not enter into any new markets or any significant contractual or other material relationships.

#### Availability of SEC Filings and Code of Conduct on Internet Website

We maintain an Internet website at <http://www.bridgford.com>. Available on this website, free of charge, are annual reports on Form 10-K, quarterly reports on Form 10-Q, and reports filed under Section 16 of the Securities Exchange Act of 1934 which we file with the Securities and Exchange Commission. Our Code of Conduct is also available on the website.

#### Product Distribution Methods

Our products are delivered to customers using several distinct distribution channels. The distribution channel utilized is dependent upon the needs of our customers, the most efficient proximity to the delivery point, trade customs, operating segment as well as product type, life and stability. Among our customers are many of the country's largest broadline and specialty food service distributors. These and other large end purchasers occasionally go through extensive qualification procedures and our manufacturing capabilities are subjected to thorough review by the end purchasers prior to our 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. We believe that our manufacturing flexibility, national presence, and long-standing customer relationships should allow us to compete effectively with other manufacturers seeking to provide similar products to our current large food service end purchasers, although no assurances can be given.

The factors that contribute to higher or lower margins generated from each method of distribution depend upon the accepted selling price, level of involvement by our employees in setting up and maintaining displays, distance traveled and fuel consumed by our company-owned fleet as well as freight and shipping costs depending on the distance the product travels to the delivery point. Management is continually evaluating the profitability of product delivery methods, analyzing alternate methods and weighing economic inputs to determine the most efficient and cost effective method of delivery to fulfill the needs of our customers.

#### Major Product Classes

##### Frozen Food Products

Our frozen food division serves both food service and retail customers. Approximately 160 unique frozen food products are sold through wholesalers, cooperatives, and distributors to approximately 21,000 retail outlets and 22,500 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 we provide. The expansion in the food service industry has also been accompanied by the continued consolidation and growth of broadline and specialty food service distributors, many of which are long-standing customers.

#### Frozen Food Products – Retail Customers

The majority of our 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. We believe we have been successful in establishing and maintaining supply relationships with certain selected leading retailers in this market.

### Frozen Food Products – Sales and Marketing

Our frozen food business covers the United States and Canada. Products produced by the Frozen Food Products segment are generally supplied to food service and retail distributors who take title to the product upon shipment receipt through company leased long-haul vehicles. In addition to regional sales managers, we maintain a network of independent food service and retail brokers covering most of the United States as well as Canada. Brokers are compensated on a commission basis. We believe that our broker relationships, in close cooperation with our regional sales managers, are a valuable asset providing significant new product and customer opportunities. Regional sales managers perform several significant functions for us, including identifying and developing new business opportunities and providing customer service and support to our distributors and end purchasers through the effective use of our broker network.

Our annual advertising expenditures are directed towards retail and institutional customers. These customers participate in various special promotional and marketing programs and direct advertising allowances we sponsor. We also invest in general consumer advertising in various newspapers and periodicals including free standing inserts and coupons to advertise in major markets. We direct advertising toward food service customers with campaigns in major industry publications and through our participation in trade shows throughout the United States.

### Refrigerated and Snack Food Products

Our refrigerated and snack food products division sells approximately 280 different items through customer owned distribution centers and a direct store delivery network serving approximately 19,000 supermarkets, mass merchandise and convenience retail stores located in 49 states and Canada.

Products produced or distributed by the Refrigerated and Snack Food segment are supplied to customers through either direct delivery to customer warehouses, direct-store-delivery to retail locations or through redistributors. Product delivered to a customer warehouse is then distributed to the store and stocked by the customer where it is then resold to the end consumer. Product delivered using the company-owned fleet direct to the store is considered a direct-store-delivery. In this case, we provide the service of setting up and maintaining the display and stocking our products. In 2008, we began selling products to independent third-party distributors (also known as redistributors) who deliver a broad range of products to large chain stores, including Wal-Mart, in remote geographic areas of the country. We reduced product distribution through independent third-party distributors (redistributors) in the latter part of fiscal 2012 in favor of utilizing customer managed warehouse distribution centers to lower distribution cost. Approximately 900 customers were served in the third twelve weeks of fiscal year 2012 using this distribution method and the Company fully discontinued redistributor arrangements in the last quarter of fiscal 2012.

### Refrigerated and Snack Food Products — Customers

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

### Refrigerated and Snack Food Products — Sales and Marketing

Our direct store delivery network consists of two separate divisions, refrigerated and non-refrigerated snack food products. Refrigerated snack food products are distributed through eight different regions located in the southwest, primarily operating in California, Arizona, and Nevada. Non-refrigerated snack food products are distributed across the United States and Canada. The regional sales managers perform several significant functions including identifying



and developing new business opportunities and providing customer service and support to our customers. We also utilize the services of brokers, where appropriate, to support efficient product distribution and customer satisfaction.

## Product Planning and Research and Development

We continually monitor the consumer acceptance of each product within our extensive product line. Individual products are regularly added to and deleted from our product line. Historically, the addition or deletion of any individual product has not had a material effect on our operations in the current fiscal year. We believe that a key factor in the success of our products is our system of carefully targeted research and testing of our products to ensure high quality and that each product matches an identified market opportunity. The emphasis in new product introductions in the past several years has been in single service items. We are constantly searching to develop new products to complement our existing product line and improved processing techniques and formulas for our existing product line. We utilize an in-house test kitchen and consultants to research and experiment with unique food preparation methods, improve quality control and analyze new ingredient mixtures.

During fiscal year 2011, we rolled out a unique product line created to meet specific customer requirements. After a successful initial start-up period, the customer determined the product did not meet their specific requirements and we agreed to accept the return of the product. Upon inspection we concluded the product had no ready market value and we donated the product to a local food bank. Included in cost of products sold in fiscal 2011 is a loss of \$1,675,000 related to this donation.

## Competition

Our products are sold under highly competitive conditions. All food products can be considered competitive with other food products, but we consider our principal competitors to include national, regional and local producers and distributors of refrigerated, frozen and snack food products. Several of our competitors include large companies with substantially greater financial and marketing resources than ours. Existing competitors may broaden their product lines and potential competitors may enter or increase their focus on our market, resulting in greater competition for us. We believe that our products compete favorably with those of our competitors. Such competitors' products compete against ours for retail shelf space, institutional distribution and customer preference.

## Effect of Government Regulations

Our operations are subject to extensive inspection and regulation by the United States Department of Agriculture (the "USDA"), the Food and Drug Administration (the "FDA"), and by other federal, state, and local authorities regarding the processing, packaging, storage, transportation, distribution, and labeling of products that we manufacture, produce and process. Our processing facilities and products are subject to continuous inspection by the USDA and/or other federal, state, and local authorities. The USDA has issued strict regulations concerning the control of listeria monocytogenes in ready-to-eat meat and poultry products and contamination by food borne pathogens such as E. coli and salmonella, and implemented a system of regulation known as the Hazard Analysis Critical Control Points ("HACCP") program. The HACCP program requires all meat and poultry processing plants to develop and implement sanitary operating procedures and other program requirements. We believe that we are currently in compliance with governmental laws and regulations and that we maintain the necessary permits and licenses relating to our meat operations.

The U.S. Occupational Safety and Health Administration ("OSHA") oversees safety compliance and establishes certain employer responsibilities to help "assure safe and healthful working conditions" and keep the workplace free of recognized hazards or practices likely to cause death or series injury. Failure to comply with regulations of OSHA could adversely affect our results of operation. The Company was subjected to significant enforcement actions by OSHA during fiscal year 2011, despite what we consider an excellent compliance and safety record. We have taken advantage of the focus on this area to improve our existing programs and organizational structure with regard to safety, which will benefit the Company's ongoing safety programs. We accrued approximately \$415,000 in estimated

non-tax deductible penalties for these enforcement actions in fiscal 2011. OSHA penalties were resolved favorably during fiscal 2012 resulting in lower cost to the Company than previously estimated resulting in a net gain of \$41,000. We maintain an accrual of \$229,000 at the end of fiscal 2012 related to unpaid OSHA penalties.

To date, federal, state, and local environmental laws and regulations, including those relating to the discharge of materials into the environment, have not had a material effect on our business.

#### Importance of Key Customers

Sales to Wal-Mart® comprised 16.3% of revenues in fiscal 2012 and 19.7% of total accounts receivable was due from Wal-Mart® at November 2, 2012. Sales to Dollar General® comprised 9.0% revenues for fiscal year 2011 and 20.2% of total accounts receivable was due from Dollar General at October 28, 2011.

#### Sources and Availability of Raw Materials

We purchase large quantities of pork, beef, and flour. These ingredients are generally available from a number of different suppliers although the availability of these ingredients is subject to seasonal variation. We build ingredient inventories to take advantage of downward trends in seasonal prices or anticipated supply limitations.

Most flour purchases are made at market price without contracts. The Company also purchases bulk flour under short-term fixed price contracts at current market prices. The contracts are usually effective for a month or less and are not material to our operations. These contracts are settled within a month's time and no significant contracts remain open at the close of the reporting period. We monitor and manage our ingredient costs to help negate volatile daily swings in market prices when possible. The Company does not participate in the commodity futures market or hedging to limit commodity exposure.

#### Employees

We had 519 employees at November 2, 2012, approximately 70% of whose employment relationship is governed by collective bargaining agreements. These agreements currently expire or expired between December 2012 and March 2017. We believe that our relationship with all of our employees is favorable and contracts will be settled favorably.

#### Executive Officers of the Registrant

The names, ages, and positions of all our executive officers as of January 1, 2013 are listed below. Messrs. Hugh Wm. Bridgford and Allan L. Bridgford are brothers. William L. Bridgford is the son of Hugh Wm. Bridgford and the nephew of Allan L. Bridgford. Officers are normally appointed annually by the board of directors at their meeting immediately following the annual meeting of shareholders. Three executive officers are full-time employees of our company, Allan L. Bridgford works 60% of full-time effective March 2005, and Hugh Wm Bridgford works 80% of full time effective January 2011 through the end of fiscal year 2012.

| Name                 | Age | Position(s) with our company   |
|----------------------|-----|--|
| Allan L. Bridgford   | 77  | Vice President and member of the Executive Committee   |
| Hugh Wm. Bridgford   | 81  | Vice President and Chairman of the Executive Committee   |
| William L. Bridgford | 58  | Chairman and member of the Executive Committee   |
| John V. Simmons      | 57  | President and member of the Executive Committee  |
| Raymond F. Lancy     | 59  | Chief Financial Officer, Executive Vice President, Treasurer and member of the Executive Committee |

#### Item 1A. Risk Factors

In addition to the other matters set forth in this Annual Report on Form 10-K, the continuing operations and the price of our common stock are subject to the following risks, each of which could materially adversely affect our business, financial condition, and results of operations. The risks described below are only the risks that we currently believe are material to our business. However, additional risks not presently known, or risks that are currently believed to be immaterial, may also impair our business operations.

We are subject to general risks in the food industry, including risks relating to changes in consumer preference and economic conditions, any of which risks, if realized, could negatively impact our operating results and financial position.

The food industry, and the markets within the food industry in which we compete, are subject to various risks, including the following: evolving consumer preferences, nutritional and health-related concerns, federal, state and local food inspection and processing controls, consumer product liability claims, risks of product tampering, and the availability and expense of liability insurance. The meat and poultry industries are subject to scrutiny due to the association of meat and poultry products with recent outbreaks of illness, and on rare occasions even death, caused by food borne pathogens. Product recalls are sometimes required in the food industry to withdraw contaminated or

mislabeled products from the market. Additionally, the failure to identify and react appropriately to changes in consumer trends, demands and preferences could lead to, among other things, reduced demand and price reduction for our products. Further, we may be adversely affected by changes in domestic or foreign economic conditions, including inflation or deflation, interest rates, availability of capital markets, consumer spending rates, and energy availability and costs (including fuel surcharges). These and other general risks related to the food industry, if realized by us, could have a significant adverse effect on demand for our products, as well as the costs and availability of raw materials, ingredients and packaging materials, thereby negatively affecting our operating results and financial position.

Fluctuations in the prices that we pay for raw materials could negatively impact our financial results.

We purchase large quantities of commodity pork, beef, and flour. Historically, market prices for products we process have fluctuated in response to a number of factors, including changes in the United States government farm support programs, changes in international agricultural and trading policies, weather, and other conditions during the growing and harvesting seasons. Our operating results are heavily dependent upon the prices paid for raw materials. The marketing of our 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. While fluctuations in significant cost structure components, such as ingredient commodities and fuel prices, have had a significant impact on profitability over the last three years, the impact of general price inflation on our financial position and results of operations has not been significant. Future volatility of general price inflation or deflation and raw material cost and availability could adversely affect our financial results.

We are subject to extensive government regulations and a failure to comply with such regulations could negatively impact our financial results.

Our operations are subject to extensive inspection and regulation by the United States Department of Agriculture (the “USDA”), the Food and Drug Administration (the “FDA”), and by other federal, state, and local authorities regarding the processing, packaging, storage, transportation, distribution, and labeling of products that are manufactured, produced and processed by us. Our processing facilities and products are subject to continuous inspection by the USDA and/or other federal, state, and local authorities. The USDA has issued strict policies concerning the control of listeria monocytogenes in ready-to-eat meat and poultry products and contamination by food borne pathogens such as E. coli and salmonella, and established a system of regulation known as the Hazard Analysis Critical Control Points (“HACCP”) program. The HACCP program requires all meat and poultry processing plants to develop and implement sanitary operating procedures and other program requirements. We believe that we are currently in compliance with governmental laws and regulations and that we maintain necessary permits and licenses relating to our meat operations.

A failure to obtain or a loss of necessary permits and licenses could delay or prevent us from meeting current product demand and could adversely affect our operating performance. Furthermore, we are routinely subject to new or modified laws, regulations and accounting standards. If found to be out of compliance with applicable laws and regulations in these or other areas, we could be subject to civil remedies, including fines, injunctions, recalls, or asset seizures, as well as potential criminal sanctions, any of which could have a significant adverse effect on our financial results.

We depend on our key management, the loss of which could negatively impact our operations.

Our executive officers and certain other key employees have been primarily responsible for the development and expansion of our business, and the loss of the services of one or more of these individuals could adversely affect us. Our success will be dependent in part upon our continued ability to recruit, motivate, and retain qualified personnel. We can not assure that we will be successful in this regard. We have no employment or non-competition agreements with key personnel.

We depend on our major customers and any loss of such customers could have a negative impact on our profitability.

We could suffer significant reductions in revenues and operating income if we lost one or more of our largest customers, including Wal-Mart®, which accounted for 16.3% of sales in fiscal year 2012. Many of our customers, such as supermarkets, warehouse clubs, and food distributors have consolidated in recent years. Such consolidation has produced large, sophisticated customers with increased buying power who are more capable of operating with reduced inventories while demanding lower pricing and increased promotional programs. These customers also may use their shelf space for their own private label products. Failure to respond to these trends could reduce our volume and cause us to lower prices or increase promotional spending for our product lines which could adversely affect our profitability.

With more than 80% concentration of beneficial ownership of our stock held by the Bridgford family, there are risks that they can exert significant influence or control over our corporate matters.

Members of the Bridgford family beneficially own, in the aggregate, approximately 81% of our outstanding stock. In addition, three members of the Bridgford family serve on the Board of Directors. As a result, members of the Bridgford family have the ability to exert substantial influence or actual control over our management and affairs and over substantially all matters requiring action by our shareholders, including amendments to by-laws, election and removal of directors, any proposed merger, consolidation or sale of all or substantially all of our assets and other

corporate transactions. This concentration of ownership may also delay or prevent a change in control otherwise favored by our other shareholders and could depress our stock price. Additionally, as a result of the Bridgford family's significant ownership of the outstanding voting stock, we have relied on the "controlled company" exemption from certain corporate governance requirements of the NASDAQ stock market. Therefore, we have elected not to implement the rule that provides for a nominating committee to identify and recommend nominees to the Board of Directors and have instead elected to have the full Board of Directors perform such function. Additionally, pursuant to this exemption, our compensation committee, which is made up of independent directors, does not have sole authority to determine the compensation of our executive officers, including our Chairman of the Board.

## Item 1B. Unresolved Staff Comments

Not applicable.

## Item 2. Properties

We own the following properties:

| Property Location             | Building<br>Square<br>Footage | Acreage |
|-------------------------------|-------------------------------|---------|
| Anaheim, California ***       | 100,000                       | 5.0     |
| Modesto, California **        | 0                             | 0.3     |
| Dallas, Texas *               | 94,000                        | 4.0     |
| Dallas, Texas *               | 30,000                        | 2.0     |
| Dallas, Texas *               | 16,000                        | 1.0     |
| Dallas, Texas *               | 3,200                         | 1.5     |
| Statesville, North Carolina * | 42,000                        | 8.0     |
| Chicago, Illinois **          | 156,000                       | 1.5     |

\* - property used by Frozen Food Products Segment

\*\* - property used by Refrigerated and Snack Food Segment

\*\*\*- property used by both Frozen Food Products and Refrigerated and Snack Food Segments

We generally fully utilize the foregoing properties for processing, warehousing, distributing and administrative purposes. The Company also leases warehouse and/or office facilities throughout the United States and Canada through month-to-month rental agreements. We believe that our properties are generally adequate to satisfy our foreseeable needs. Additional properties may be acquired and/or plants expanded if favorable opportunities and conditions arise.

## Item 3. Legal Proceedings

No material legal proceedings were pending against us at November 2, 2012 or as of the date of filing of this Annual Report on Form 10-K. We are likely to be subject to claims arising from time to time in the ordinary course of our business. In certain of such actions, plaintiffs may request punitive or other damages that may not be covered by insurance and, accordingly, no assurance can be given with respect to the ultimate outcome of any such possible future claims or litigation or their effect on us. Any adverse litigation trends and outcomes could significantly and negatively affect our financial results.

## Item 4. Mine Safety Disclosures

Not applicable.



## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Common Stock and Dividend Data

Our common stock is traded in the national over-the-counter market and is authorized for quotation on the Nasdaq Global Market under the symbol "BRID". The following table reflects the high and low closing sale prices reported by Nasdaq as well as cash dividends paid for each of the last eight fiscal quarters.

| Fiscal Year 2012 | High     | Low     | Cash Dividends Paid |      |
|------------------|----------|---------|---------------------|------|
| First Quarter    | \$ 10.04 | \$ 8.23 | \$                  | 0.00 |
| Second Quarter   | \$ 11.16 | \$ 8.00 | \$                  | 0.00 |
| Third Quarter    | \$ 9.71  | \$ 7.61 | \$                  | 0.00 |
| Fourth Quarter   | \$ 8.41  | \$ 6.08 | \$                  | 0.00 |

| Fiscal Year 2011 | High     | Low      | Cash Dividends Paid |      |
|------------------|----------|----------|---------------------|------|
| First Quarter    | \$ 14.25 | \$ 11.37 | \$                  | 0.10 |
| Second Quarter   | \$ 12.38 | \$ 10.76 | \$                  | 0.00 |
| Third Quarter    | \$ 10.81 | \$ 6.84  | \$                  | 0.00 |
| Fourth Quarter   | \$ 12.15 | \$ 8.90  | \$                  | 0.00 |

On November 12, 2012, Bridgford Foods Corporation issued a press release announcing that its Board of Directors had approved a one-time cash dividend of \$0.05 per share of common stock which was distributed on December 24, 2012 to shareholders of record on November 27, 2012.

On January 15, 2013, the closing sale price for our common stock on the Nasdaq Global Market was \$6.70 per share. As of January 15, 2013, there were 907 shareholders of record in our common stock.

The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon future earnings, financial requirements, and other factors.

## Unregistered Sales of Equity Securities

During the period covered by this Report we did not sell or issue any equity securities that were not registered under the Securities Act of 1933, as amended.

## Repurchases of Equity Securities by the Issuer

During fiscal year 2012, we repurchased an aggregate of 39,469 shares of our common stock for \$322,000 pursuant to our repurchase plan previously authorized by the Board of Directors. The following table provides information regarding our repurchases of common stock in each of the four periods comprising the fourth quarter of fiscal year 2012.

| Period (1)                                       | Total<br>Number<br>of<br>Shares<br>Purchased | Average Price<br>Paid Per Share | Total<br>Number of<br>Shares<br>Purchased<br>As Part of<br>Publicly<br>Announced<br>Plans<br>or<br>Programs<br>(2) | Maximum<br>Number of<br>Shares that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Plans<br>or<br>Programs<br>(2) |
|--|--|---------------------------------|--|--|
| July 7, 2012 - August 3, 2012 (4 weeks)          | 1,696  | \$ 8.24                         | 1,696  | 219,318  |
| August 4, 2012 - August 31, 2012 (4 weeks)       | 867  | 7.60                            | 867  | 218,451  |
| September 1, 2012 - September 28, 2012 (4 weeks) | 7,864  | 6.74                            | 7,864  | 210,587  |
| September 29, 2012 - November 2, 2012 (5 weeks)  | 8,813  | 6.72                            | 8,813  | 201,774  |
| <b>Total</b>                                     | <b>19,240</b>                                | <b>\$ 6.90</b>                  | <b>19,240</b>  |  |

(1) The periods shown are our fiscal periods during the seventeen-week quarter ended November 2, 2012.

(2) All repurchases reflected in the foregoing table were made on the open market. Our stock repurchase program was approved by the Board of Directors in November 1999 (1,500,000 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, we are authorized, at the discretion of management and the Board of Directors, to purchase up to an aggregate of 2,000,000 shares of our common stock on the open market. Our Stock Purchase Plan (“Purchase Plan”) is administered by Citigroup Global Markets Inc. (“CGM”) for purchase of shares of common stock (“Stock”) issued by us in compliance with the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 (“Exchange Act”). Commencing on October 15, 2012 and continuing through and including October 14, 2013, CGM shall act as our exclusive agent to purchase Stock under the Purchase Plan. This Purchase Plan supplements any purchases of stock by us “outside” of the Purchase Plan, which may occur from time to time, in open market transactions pursuant to Rule 10b-18 of the Exchange Act. The daily purchase quantity is defined as a number of shares up to, but not to exceed, each day’s applicable 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 Rule 10b-18 average daily trading volume condition, provided that no other Purchase Plan purchases are made on any day on which such a block is purchased. As of November 2, 2012, the total maximum number of shares that may be purchased under the Purchase Plan is 201,774 at a purchase price not to exceed \$10.00 per share for a total maximum aggregate price (exclusive of commission) of \$2,017,740.

Item 6. Selected Financial Data

Not applicable to smaller reporting company.

11

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## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

For a complete understanding, this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements contained in this Report.

Certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report constitute "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of Bridgford Foods Corporation 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 Report.

## Results of Operations (in thousands except percentages)

Fiscal Year Ended November 2, 2012 (53 weeks) Compared to Fiscal Year Ended October 28, 2011 (52 weeks)

## Net Sales-Consolidated

Net sales in fiscal 2012 increased \$9,092 (7.7%) when compared to the prior year. The changes in net sales were comprised as follows:

## Impact on Net Sales - Consolidated

|                         |       |    |         |
|-------------------------|-------|----|---------|
| Selling price per pound | 7.3%  | \$ | 9,556   |
| Unit volume in pounds   | -0.8% |    | (1,050) |
| Returns activity        | 1.0%  |    | 892     |
| Promotional activity    | 0.2%  |    | (306)   |
| Increase in net sales   | 7.7%  | \$ | 9,092   |

Overall, the increase in selling price per pound in fiscal 2012 primarily relates to price increases implemented during the fiscal year. Favorable product mix changes also contributed to the increase in sales. Unit volume in pounds declined slightly and returns activity decreased compared to the same period in fiscal 2011. Promotional activity remained flat compared to fiscal year 2011. However, promotional spending shifted between segments.

## Net Sales-Frozen Food Products Segment

Net sales in the Frozen Food Products segment in fiscal 2012 increased \$755 (1.4%) compared to the prior year. The changes in net sales were comprised as follows:

## Impact on Net Sales - Frozen Food Products Segment

|                         |       |    |       |
|-------------------------|-------|----|-------|
| Selling price per pound | 3.3%  | \$ | 2,003 |
| Unit volume in pounds   | -0.5% |    | (322) |
| Returns activity        | -0.1% |    | (52)  |

|                       |       |        |
|-----------------------|-------|--------|
| Promotional activity  | -1.3% | (874)  |
| Increase in net sales | 1.4%  | \$ 755 |

The increase in selling price per pound in fiscal 2012 primarily relates to price increases implemented in the second quarter of the fiscal year. Favorable product mix changes also contributed to the increase in sales. Unit sales volume and returns activity remained relatively flat compared to the same period in fiscal 2011. Higher promotional activity compared to fiscal year 2011 partially offset the sales increase.

## Net Sales-Refrigerated and Snack Food Products Segment

Net sales, excluding intersegment sales, in the Refrigerated and Snack Food Products segment in fiscal 2012 increased \$8,337 (13.1%) compared to the prior year. The changes in net sales were comprised as follows:

## Impact on Net Sales - Refrigerated and Snack Food Products

## Segment

|                         |       |    |       |
|-------------------------|-------|----|-------|
| Selling price per pound | 10.7% | \$ | 7,553 |
| Unit volume             | -1.0% |    | (728) |
| Returns activity        | 2.1%  |    | 944   |
| Promotional activity    | 1.3%  |    | 568   |
| Increase in net sales   | 13.1% | \$ | 8,337 |

Selling prices per pound increased in fiscal 2012 as a result of favorable product mix changes. The increase in selling price per pound in fiscal 2012 primarily relates to significant sales of a one-time specialty item during the third quarter of the fiscal year. Lower returns and promotional activity also contributed to the increase in sales.

## Cost of Products Sold and Gross Margin-Consolidated

Cost of products sold in fiscal 2012 increased \$2,323 (2.9%) compared to the prior year. Changes in unit sales volumes and commodity costs are described in the segment analysis below and were the primary contributing factors to the increase in cost of goods sold. The gross margin increased to 34.8% in fiscal year 2012 from 31.7% in fiscal year 2011.

## Cost of Products Sold and Gross Margin-Frozen Food Products Segment

Cost of products sold in the Frozen Food Products segment in fiscal 2012 increased \$752 (2.3%) compared to the prior year primarily related to unfavorable product mix changes. The gross margin in the Frozen Food Products segment decreased from 39.0% in fiscal 2011 to 38.5% in fiscal 2012. Although the cost of purchased flour decreased approximately \$346 in fiscal 2012 compared to the prior year, the decrease in flour commodity costs was insufficient to off-set unfavorable product mix changes and sales related promotional spending increases.

## Cost of Products Sold and Gross Margin-Refrigerated and Snack Food Products Segment

Cost of products sold in the Refrigerated and Snack Food Products segment in fiscal 2012 increased \$1,431 (3.0%) compared to the prior year. Unfavorable changes in product mix input costs increased cost of sales due to a higher proportion of beef commodity costs than the comparison period. In addition, the combined cost of major meat commodity products increased approximately \$333 and direct production labor also increased \$732 compared to the prior year. The gross margin in the Refrigerated and Snack Food Products segment increased from 25.5% in fiscal 2011 to 31.9% in fiscal 2012 due to higher selling prices and favorable sales mix changes.

## Selling, General and Administrative Expenses-Consolidated

Selling, general and administrative expenses ("SG&A") in fiscal 2012 increased \$1,641 (4.2%) when compared to the prior year. The increase in this category did not directly correspond to the change in sales.

The table below summarizes the primary expense variances in this category:

Expense/Loss

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|                            | 53 Weeks<br>Ended<br>November 2,<br>2012 | 52 Weeks<br>Ended<br>October 28,<br>2011 | Increase<br>(Decrease) |
|----------------------------|--|--|------------------------|
| Product advertising        | \$ 6,919                                 | \$ 5,914                                 | \$ 1,005               |
| Wages and bonus            | 15,313                                   | 14,222                                   | 1,091                  |
| Penalties                  | (4)                                      | 531                                      | (535)                  |
| Pension cost               | 969                                      | 485                                      | 484                    |
| Benefits-healthcare        | 1,885                                    | 2,195                                    | (310)                  |
| Other income               | (439)                                    | (199)                                    | (240)                  |
| Cash surrender value gain  | (689)                                    | (480)                                    | (209)                  |
| Bad debts                  | (81)                                     | 126                                      | (207)                  |
| Outside consultants        | 1,670                                    | 1,504                                    | 166                    |
| Insurance and depreciation | 1,055                                    | 901                                      | 154                    |
| Other SG&A                 | 13,682                                   | 13,440                                   | 242                    |
| <b>Total</b>               | <b>\$ 40,280</b>                         | <b>\$ 38,639</b>                         | <b>\$ 1,641</b>        |

Costs for product advertising increased compared to the prior fiscal year related to significant specialty product shipments during fiscal 2012. Higher profits and profit sharing accruals resulted in increased wages and bonus in the 2012 fiscal year compared to the prior year. The Company incurred significant OSHA penalties of approximately \$415 during the prior fiscal year 2011. OSHA penalties were resolved favorably during fiscal 2012 resulting in lower cost to the Company than previously estimated. The net periodic benefit cost of the defined benefit pension plan increased due to recent reductions in the discount rate. The Company's healthcare benefit expense was lower due to favorable claim trends compared to fiscal 2011. The Company recorded, in other income, recoveries related to substandard packaging film from a supplier. The cash surrender value of life insurance policies increased primarily as a result of favorable trends in the market values of equities that support policy values. The Company reduced a significant portion of the allowance for doubtful accounts during fiscal 2012 due to favorable trends in the accounts receivable aging. The increase in outside consultants represents legal fees incurred as a result of the negotiated settlement of OSHA citations. The increase in insurance and depreciation is related to an increase in reserves for auto and general liability insurance and to a lesser extent the result of an increase in the amount of overall capital spending when compared to the prior year and in recent years. None of the changes individually or as a group of expenses in "Other SG&A" were significant. The major components comprising the increase in "Other SG&A" were fixed asset impairment reserves, increased fuel costs and an increase in non-income related state taxes.

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

SG&A expenses in the Frozen Food Products segment increased by \$264 (1.5%) to \$17,338 in fiscal year 2012 compared to the prior fiscal year. Increases in this category were caused by increased profit sharing expenses and promotional spending partially offset by a favorable settlement of OSHA penalties related to citations received during the prior fiscal year.

#### Selling, General and Administrative Expenses-Refrigerated and Snack Food Products Segment

SG&A in the Refrigerated and Snack Food Products segment increased by \$1,401 (6.5%) to \$22,842 in fiscal year 2012 compared to the prior fiscal year. Higher profits and profit sharing accruals resulted in increased wages and bonus in the 2012 fiscal year compared to the prior year. The increase in SG&A costs also relates to increased costs for product advertising related to a one-time significant specialty product shipment during the fiscal year.

#### Income Taxes

The effective income tax rate was 9.1% and 60.2% in fiscal years 2012 and 2011, respectively. In fiscal year 2012, the effective income tax rate differed from the applicable mixed statutory rate of approximately 39.6% primarily due to recording a full valuation allowance of \$1,115 (refer to Note 4 of Notes to the Consolidated Financial Statements) on our deferred tax assets. The 2012 provision for taxes on income of \$365 consists of minimum federal and state income taxes.

In fiscal year 2011, the effective income tax rate differed from the applicable mixed statutory rate of approximately 39.6% primarily due to recording a full valuation allowance on our deferred tax assets. The 2011 benefit on taxes on income of \$669 consists of minimum federal and state income taxes.

The Company policy outlines measurable objective criteria that must be met before a release of the valuation allowance will occur. The three criteria set forth in the policy must all be satisfied before the valuation allowance can be reversed. The criteria are as follows: first, the Company's available federal tax net operating loss ("NOL") must be zero; second, the prior thirty-six month cumulative book basis pre-tax income (loss), after considering "one-time" events, is positive; third, the Company considers its outlook of near term continued profitable operations and assesses any material negative and positive trends or events on the immediate horizon. As of November 2, 2012, the Company



(1) has a federal tax NOL of \$1,681, (2) has positive thirty-six month cumulative book income and (3) severe drought is predicted to lead to increased prices for food and ultimately beef and other commodities according to the United States Department of Agriculture. Only the second criteria has been satisfied, therefore, the Company will maintain a full valuation allowance against its deferred tax assets as of November 2, 2012.

Due to the degree of judgment involved, actual taxable income could differ materially from management's estimates, or the timing of taxable income could be such that the net operating losses could expire prior to their utilization. Management could determine in the future that the assets are realizable, materially increasing net income in one or many periods. Following recognition, management could reinstate a full valuation allowance should operating performance decline.

## Liquidity and Capital Resources (in thousands except share amounts)

The principal source of our operating cash flow is cash receipts from the sale of our products, net of costs to manufacture, store, market and deliver to customers. We have remained free of bank debt for the past twenty-six years and we fund our operations from cash balances and cash flow generated from operations. We normally expect positive operating cash flows in the first quarter of our fiscal year from the liquidation of inventory and accounts receivable balances related to holiday season sales. We typically build inventories in the third quarter for anticipated holiday season sales that occur in the fourth and first quarters. Anticipated commodity price trends may also affect cash balances. Certain commodities may be purchased in advance of our immediate needs to lower the ultimate cost of processing.

## Cash flows from operating activities:

|  | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
|--|--------------------|--------------------|
| Net income (loss)  | \$ 3,651           | \$ (443)           |
| Adjustments to reconcile net income to net cash provided by<br>(used in) operating activities: |                    |                    |
| Depreciation   | 1,716              | 1,802              |
| (Recovery) provision for losses on accounts receivable   | (81)               | 126                |
| Gain on sale of property, plant and equipment  | (22)               | (15)               |
| Deferred income taxes, net   | (1,115)            | (3,427)            |
| Tax valuation allowance  | 1,115              | 3,427              |
| Changes in operating working capital   | (3,422)            | (3,790)            |
| Net cash provided (used) by operating activities   | \$ 1,842           | \$ (2,320)         |

For the fifty-three weeks ended November 2, 2012, net cash provided by our operating activities was \$1,842, an increase of \$4,162 compared to fifty-two weeks ended October 28, 2011. The increase is primarily related to more profitable operations due to increased sales and lower commodity costs. Inventory was higher than normal due to the development of a unique product line and finished goods inventory build up related to the holiday selling season. During fiscal year 2012 we funded \$2,442 towards our defined benefit pension plan. Plan funding strategies may be adjusted depending upon economic conditions, investment options, tax deductibility, or recent legislative changes in funding requirements.

Our cash conversion cycle (defined as days of inventory and trade receivables less days of trade payables outstanding) is relatively quick, and was equal to 56 days for the fifty-three weeks ended November 2, 2012 and 57 days for the fifty-two weeks ended October 28, 2011. Compared with the prior year, the favorable impact on the 2012 cash conversion cycle resulted from lower days of inventory, primarily due to higher sales in 2012.

For the fifty-two weeks ended October 28, 2011, sources of cash include a significant refund on the prior year's tax overpayment. Operating cash flows were reduced by an increase in accounts receivable of \$2,219, an increase in inventory of \$581, an increase in prepaid expenses and other current assets of \$682 and a decrease in non-current liabilities of \$2,480. During fiscal year 2011, we funded \$1,175 towards our defined benefit pension plan.

## Cash used in investing activities:

|   | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
|---|--------------------|--------------------|
| Proceeds from sale of property, plant and equipment | \$ 22              | \$ 54              |
| Additions to property, plant and equipment          | (1,040)            | (1,852)            |
| Net cash used in investing activities               | \$ (1,018)         | \$ (1,798)         |

Expenditures for property, plant and equipment include the acquisition of new equipment, upgrading of facilities to maintain operating efficiency and investments in cost effective technologies to lower costs. In general, we capitalize the cost of additions and improvements and expense the cost for repairs and maintenance. The Company may also capitalize costs related to improvements that extend the life, increase the capacity, or improve the efficiency of existing machinery and equipment. Specifically, capitalization of upgrades of facilities to maintain operating efficiency include acquisitions of machinery and equipment used on packaging lines and refrigeration equipment used to process food products.

The table below highlights the additions to property, plant and equipment for the fifty-three weeks and fifty-two weeks ended respectively:

|  | November 2,<br>2012<br>(53 Weeks) | October 28,<br>2011<br>(52 Weeks) |
|--|-----------------------------------|-----------------------------------|
| Temperature control                        | \$ 97                             | \$ 905                            |
| Processing equipment                       | 252                               | 508                               |
| Packaging lines                            | 413                               | 284                               |
| Office and building improvements           | 73                                | 137                               |
| Delivery vehicles                          | 248                               | 83                                |
| Computer software and hardware             |                                   | 14                                |
| Quality control                            |                                   | 5                                 |
| Decrease in projects in process            | (43)                              | (84)                              |
| Additions to property, plant and equipment | \$ 1,040                          | \$ 1,852                          |

The capital expenditures below represent the amount of property, plant and equipment acquired under a capital lease arrangement. These acquisitions are not reflected in the condensed consolidated statement of cash flows since they were acquired through capital lease obligations.

|  | November 2,<br>2012 | October 28,<br>2011 |
|--|---------------------|---------------------|
| Transportation equipment financed by capital lease obligations | \$ 1,848            | \$ -                |

Cash used in financing activities:

|                                       | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
|---------------------------------------|--------------------|--------------------|
| Shares repurchased                    | \$ (321)           | \$ (1,312)         |
| Payments of capital lease obligations | (83)               |                    |
| Dividends paid                        |                    | (932)              |
| Net cash used in financing activities | \$ (404)           | \$ (2,244)         |

Our stock repurchase program was approved by the Board of Directors in November 1999 and was expanded in June 2005. Under the stock repurchase program, we are authorized, at the discretion of management and the Board of Directors, to purchase up to an aggregate of 2,000,000 shares of our common stock on the open market. As of the end of fiscal year 2012, 201,774 shares were still authorized for repurchase under the program. A one-time cash dividend of five cents per share of common stock was approved on November 12, 2012 to shareholders of record on November 27, 2012, payable on December 24, 2012. A one-time cash dividend was paid in the amount of ten cents per share during the first twelve weeks of the 2011 fiscal year.

We invested in transportation equipment during fiscal 2012 financed by a capital lease obligation in the amount of \$1,848. The term of the lease is six years. The total capital lease obligation remaining as of November 2, 2012 is \$1,765. The capital lease arrangement replaces the long-standing month-to-month leases of transportation equipment.

We maintain a line of credit with Wells Fargo Bank, N.A. that expires on March 1, 2013. Under the terms of this line of credit, we may borrow up to \$2,000 at an interest rate equal to the bank's reference rate, unless we elect an optional

interest rate. The borrowing agreement contains various covenants, the more significant of which require us to maintain a minimum tangible net worth and a Quick Ratio not less than 1.0 to 1.0 and a minimum net income after tax. The Company was in violation of the tangible net worth and net income covenants which were subsequently waived (per letter dated January 18, 2013). There were no borrowings under this line of credit during the year.

#### Impact of Inflation

Our operating results are heavily dependent upon the prices paid for raw materials. The marketing of our 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. While fluctuations in significant cost structure components, such as ingredient commodities and fuel prices, have had a significant impact on profitability over the last two fiscal years, the impact of general price inflation on our financial position and results of operations has not been significant. However, future volatility of general price inflation or deflation and raw material cost and availability could adversely affect our financial results.

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 strong financial position and its capital resources are sufficient to provide for its operating needs and capital expenditures for fiscal 2013.

#### Off-Balance Sheet Arrangements

We do not currently have any off balance sheet arrangements within the meaning of Item 303(a)(4) of Regulation S-K.

#### Contractual Obligations

We have remained free of interest bearing debt (excluding capital leases) for twenty-six consecutive years and had no other debt or other contractual obligations at November 2, 2012.

#### Critical Accounting Policies

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 self-insured workers' compensation, employee healthcare and pension benefits are especially subject to inherent uncertainties and these estimated liabilities may ultimately settle at amounts not originally estimated. We record promotional and returns allowances and bad debt and inventory allowances based on recent and historical trends. Management believes its current estimates are reasonable and based on the best information available at the time.

Disclosure concerning our policies on credit risk, revenue recognition, cash surrender or contract value for life insurance policies, deferred income tax and the recoverability of our long-lived assets are provided in Notes 1 and 4 of Notes to the Consolidated Financial Statements.

#### Recently Issued Accounting Pronouncements and Regulations

Various accounting standard-setting bodies have been active in soliciting comments and issuing statements, interpretations and exposure drafts. For information on new accounting pronouncements and the impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable for smaller reporting company.

#### Item 8. Consolidated Financial Statements and Supplementary Data

The consolidated financial statements required by this Item are set forth under Item 15.

#### Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.



Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation and under the supervision of our Chairman and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Report. Based on this evaluation, the Chairman and Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of the end of the period covered by this Report in their design and operation to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, and recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms to allow timely decisions regarding required disclosures.

Our management, including our Chairman and Chief Financial Officer, does not expect that our 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 our 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.

We maintain and evaluate a system of internal accounting controls, and a program of internal auditing designed to provide reasonable assurance that our assets are protected and that transactions are performed in accordance with proper authorization, and are properly recorded. This system of internal accounting controls is continually reviewed and modified in response to evolving business conditions and operations and to recommendations made by the independent registered public accounting firm and internal auditor. We have established a code of conduct. Our management believes that the accounting and internal control systems provide reasonable assurance that assets are safeguarded and financial information is reliable.

The Audit Committee of the Board of Directors meets regularly with our financial management and counsel, and with the independent registered public accounting firm engaged by us. Internal accounting controls and the quality of financial reporting are discussed during these meetings. The Audit Committee has discussed with the independent registered public accounting firm matters required to be discussed by Statement of Auditing Standards No. 114 (Communication with Audit Committees). In addition, the Audit Committee and the independent registered public accounting firm have discussed the independent registered public accounting firm's independence from our Company and its management, including the matters in the written disclosures required by Public Company Accounting Oversight Board Rule 3526 "Communicating with Audit Committees Concerning Independence".





#### Changes in Internal Control over Financial Reports

There has been no change in our internal control over financial reporting during the last fiscal quarter covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### Section 404 of the Sarbanes-Oxley Act of 2002

In order to comply with the Sarbanes-Oxley Act of 2002 (the "Act"), we have undertaken and continue a comprehensive effort, which includes the documentation and review of our internal controls. In order to comply with the Act, we centralized most accounting and many administrative functions at our corporate headquarters in an effort to control the cost of maintaining our control systems.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law by the President on July 21, 2010, permanently exempts small public companies with less than \$75 million in market capitalization, such as the Company, from the requirement to obtain an external audit on the effectiveness of internal financial reporting controls provided in Section 404(b) of the Sarbanes-Oxley Act. As a result, an attestation report on internal controls over financial reporting by an independent registered public accounting firm has not been presented. Section 404(a) is still effective for smaller public companies and requires the disclosure of management attestations on internal controls over financial reporting.

#### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management conducted an evaluation of the effectiveness of the internal controls over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting for our fiscal year ended November 2, 2012. Based on management's assessment and the above-referenced criteria, management believes that the internal control over financial reporting for our fiscal year ended November 2, 2012 was effective.

#### Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information set forth in the sections entitled “Proposal 1 – Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” contained in our definitive proxy statement for the 2013 Annual Meeting of Shareholders to be held on March 20, 2013 is incorporated herein by reference. Information concerning our executive officers is set forth in Part I, Item 1, hereof under the heading “Executive Officers of the Registrant”.

Item 11. Executive Compensation

Information set forth in the section entitled “Compensation of Executive Officers” contained in our definitive proxy statement for the 2013 Annual Meeting of Shareholders to be held on March 20, 2013 is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information set forth in the section entitled “Principal Shareholders and Management” contained in our definitive proxy statement for the 2013 Annual Meeting of Shareholders to be held on March 20, 2013 is incorporated herein by reference.

Equity Compensation Plan Information

Not applicable, as we do not have any compensation plans under which our equity securities are authorized for issuance.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information set forth in the sections entitled “Proposal 1 – Election of Directors” and “Certain Relationships and Related Party Transactions” contained in our definitive proxy statement for the 2013 Annual Meeting of Shareholders to be held on March 20, 2013 is incorporated herein by reference.

We are considered a “controlled company” within the meaning of Rule 5615(c)(1) of the NASDAQ Listing Rules based on the approximate 81% beneficial ownership of our outstanding common stock by Bridgford Industries Incorporated and are therefore exempted from various NASDAQ Listing Rules pertaining to certain “independence” requirements of our directors. Nevertheless, the Board of Directors has determined that Messrs. Andrews, Foster, Scott and Zippwald, who together comprise the Audit Committee, are all “independent directors” within the meaning of Rule 5605 of the NASDAQ Listing Rules.

Our general legal counsel is the son of the former senior chairman of the board of directors. As legal counsel to the board, he currently is paid a fee of one thousand six hundred dollars for each meeting attended. Total fees paid under this arrangement for fiscal year 2012 were approximately nineteen thousand dollars. Legal services are performed on our behalf and billed by a firm in which he is a partner. Total fees billed under this arrangement for fiscal year 2012 were approximately twenty-two thousand dollars.

Director Allan Bridgford Jr., son of the former senior chairman of the board of directors, is providing consulting services to the Chicago plant and management. The contract on behalf of the Company with Allan Bridgford Jr. is for consulting services at six hundred dollars per day. Total fees billed under this arrangement for fiscal year 2012 were approximately \$46,000. As a member of the board of directors, he currently is paid a fee of one thousand six hundred

dollars for each meeting attended. Total fees paid under this arrangement for fiscal year 2012 were \$23,000.

Item 14. Principal Accountant Fees and Services

Information set forth in the sections entitled “Principal Accountant Fees and Services” and “Policy on Audit Committee Pre-Approval of Audit Services And Permissible Non-Audit Services of Independent Accountants” contained in our definitive proxy statement for the 2013 Annual Meeting of Shareholders to be held on March 20, 2013 is incorporated herein by reference.

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements . The following documents are filed as a part of this report:

|  | Page |
|--|------|
| Management's Report on Internal Control Over Financial Reporting   | 18   |
| Report of Independent Registered Public Accounting Firm  | 22   |
| Consolidated Balance Sheets as of November 2, 2012 and October 28, 2011                                      | 23   |
| Consolidated Statements of Operations for years ended November 2, 2012 and October 28, 2011                  | 24   |
| Consolidated Statements of Shareholders' Equity for years ended November 2, 2012 and October 28, 2011        | 25   |
| Consolidated Statements of Comprehensive Income (Loss) for years ended November 2, 2012 and October 28, 2011 | 25   |
| Consolidated Statements of Cash Flows for years ended November 2, 2012 and October 28, 2011                  | 26   |
| Notes to Consolidated Financial Statements   | 27   |

## (2) Financial Statement Schedules

Not applicable for smaller reporting company.

## (3) Exhibits

(a) The exhibits below are filed or incorporated herein by reference .

| Exhibit Number | Description  |
|----------------|--|
| 3.5            | Restated Articles of Incorporation, dated December 29, 1989 (filed as Exhibit 3.5 to Form 10-K on January 28, 1993 and incorporated herein by reference).          |
| 3.6            | Amendment to Articles of Incorporation, dated July 27, 1990 (filed as Exhibit 3.6 to Form 10-K on January 28, 1993 and incorporated herein by reference).          |
| 3.7            | By-laws, as amended (filed as Exhibit 2 to Form 10-K on January 28, 1993 and incorporated herein by reference).  |
| 3.8            | Certificate of Amendment to By-laws (filed as Exhibit 99.1 to Form 8-K on October 10, 2007 and incorporated herein by reference).                                  |
| 10.1           | Bridgford Foods Corporation Defined Benefit Pension Plan (filed as Exhibit 10.1 to Form 10-K on January 28, 1993 and incorporated herein by reference).*           |
| 10.2           | Bridgford Foods Corporation Supplemental Executive Retirement Plan (filed as Exhibit 10.2 to Form 10-K on January 28, 1993 and incorporated herein by reference).* |
| 10.3           |  |

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Bridgford Foods Corporation Deferred Compensation Savings Plan (filed as Exhibit 10.3 to Form 10-K on January 28, 1993 and incorporated herein by reference).\*

- 10.4 Bridgford Foods Corporation 1999 Stock Incentive Plan and Form of Stock Option Agreement (filed as Exhibit 4.1 to Form S-8 on May 28, 1999 and incorporated herein by reference).\*
- 21.1 Subsidiaries of the Registrant.
- 24.1 Power of Attorney (included as part of the signature page)
- 31.1 Certification of Principal Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Principal Executive Officer).
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Principal Financial Officer).
- 101.INS XBRL Instance Document.\*\*
- 101.SCH XBRL Taxonomy Extension Schema Document.\*\*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.\*\*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.\*\*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.\*\*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.\*\*

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\* Each of these Exhibits constitutes a management contract, compensatory plan or arrangement.

\*\* The XBRL information is being furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any registration statement under the Securities Act of 1933, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ WILLIAM L. BRIDGFORD  
 William L. Bridgford  
 Chairman

Date: January 18, 2013

POWER OF ATTORNEY

We, the undersigned directors and officers of Bridgford Foods Corporation, do hereby constitute and appoint William L. Bridgford and Raymond F. Lancy, or either of them, with full power of substitution and resubstitution, our true and lawful attorneys and agents, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys and agents, or either of them, or their substitutes, may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission in connection with this Annual Report on Form 10-K, including specifically, but without limitation, power and authority to sign for us or any of us in our names and in the capacities indicated below, any and all amendments; and we do hereby ratify and confirm all that the said attorneys and agents, or either of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated

| Signature  | Title  | Date             |
|--|--|------------------|
| /s/ WILLIAM L. BRIDGFORD<br>William L. Bridgford | Chairman<br>(Principal Executive Officer)                                  | January 18, 2013 |
| /s/ BRUCE H. BRIDGFORD<br>Bruce H. Bridgford     | Director   | January 18, 2013 |
| /s/ JOHN V. SIMMONS<br>John V. Simmons           | President & Director   | January 18, 2013 |
| /s/ RAYMOND F. LANCY<br>Raymond F. Lancy         | Chief Financial Officer<br>(Principal Financial and<br>Accounting Officer) | January 18, 2013 |
| /s/ TODD C. ANDREWS<br>Todd C. Andrews           | Director   | January 18, 2013 |
| /s/ RICHARD A. FOSTER<br>Richard A. Foster       | Director   | January 18, 2013 |

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|  |          |                  |
|--|----------|------------------|
| /s/ ALLAN BRIDGFORD JR.<br>Allan Bridgford Jr. | Director | January 18, 2013 |
| /s/ D. GREGORY SCOTT<br>D. Gregory Scott       | Director | January 18, 2013 |
| /s/ PAUL R. ZIPPWALD<br>Paul R. Zippwald       | Director | January 18, 2013 |



Report Of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders  
Bridgford Foods Corporation

We have audited the accompanying consolidated balance sheets of Bridgford Foods Corporation (the "Company") as of November 2, 2012 and October 28, 2011 and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the fiscal years in the two year period ended November 2, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bridgford Foods Corporation as of November 2, 2012 and October 28, 2011 and the results of its consolidated operations and its cash flows for each of the fiscal years in the two year period ended November 2, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Squar, Milner, Peterson, Miranda & Williamson, LLP

Newport Beach, California  
January 18, 2013

BRIDGFORD FOODS CORPORATION  
CONSOLIDATED BALANCE SHEETS  
November 2, 2012 and October 28, 2011  
(in thousands, except share and per share amounts)

|   | 2012             | 2011             |
|---|------------------|------------------|
| <b>ASSETS</b>   |                  |                  |
| Current assets:   |                  |                  |
| Cash and cash equivalents   | \$ 9,744         | \$ 9,324         |
| Accounts receivable, less allowance for doubtful accounts of \$89 and \$124, respectively and promotional allowances of \$3,559 and \$2,289, respectively | 11,758           | 9,702            |
| Inventories, less reserves of \$490 and \$318, respectively   | 17,355           | 16,888           |
| Prepaid expenses  | 509              | 340              |
| Refundable income taxes   | 787              | 1,036            |
| Deferred income taxes, less valuation allowance of \$2,440 and \$2,432, respectively  | -                | -                |
| <b>Total current assets</b>   | <b>40,153</b>    | <b>37,290</b>    |
| Property, plant and equipment, net of accumulated depreciation and amortization of \$56,683 and \$55,622, respectively                                    | 9,076            | 7,903            |
| Other non-current assets  | 12,321           | 11,773           |
| Deferred income taxes, less valuation allowance of \$11,098 and \$9,044, respectively   | -                | -                |
| <b>Total assets</b>   | <b>\$ 61,550</b> | <b>\$ 56,966</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                  |                  |
| Current liabilities:  |                  |                  |
| Accounts payable  | \$ 4,414         | \$ 4,246         |
| Accrued payroll, advertising and other expenses   | 6,462            | 5,590            |
| Current portion of non-current liabilities  | 3,998            | 3,439            |
| <b>Total current liabilities</b>  | <b>14,874</b>    | <b>13,275</b>    |
| Non-current liabilities   | 26,532           | 18,853           |
| <b>Total liabilities</b>  | <b>41,406</b>    | <b>32,128</b>    |
| Contingencies and commitments (Notes 3, 5 and 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 - 9,159 and 9,198   | 9,216            | 9,255            |
| Capital in excess of par value  | 8,932            | 9,214            |
| Retained earnings   | 26,747           | 23,096           |
| Accumulated other comprehensive loss  | (24,751)         | (16,727)         |
| <b>Total shareholders' equity</b>   | <b>20,144</b>    | <b>24,838</b>    |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 61,550</b> | <b>\$ 56,966</b> |

See accompanying notes to consolidated financial statements.



BRIDGFORD FOODS CORPORATION  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 For the fiscal years ended November 2, 2012 and October 28, 2011  
 (in thousands, except per share amounts)

|   | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
|---|--------------------|--------------------|
| Net sales   | \$ 127,355         | \$ 118,263         |
| Cost of products sold   | 83,059             | 80,736             |
| Gross margin  | 44,296             | 37,527             |
| Selling, general and administrative expenses                  | 40,280             | 38,639             |
| Income (loss) before taxes                                    | 4,016              | (1,112)            |
| Provision (benefit) for income taxes                          | 365                | (669)              |
| Net income (loss)   | \$ 3,651           | \$ (443)           |
| Basic earnings (loss) per share                               | \$ 0.40            | \$ (0.05)          |
| Shares used to compute basic earnings (loss) per common share | 9,182,738          | 9,277,515          |

See accompanying notes to consolidated financial statements

**BRIDGFORD FOODS CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
For the fiscal years ended November 2, 2012 and October 28, 2011  
(in thousands)

|   | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
|---|--------------------|--------------------|
| Net income (loss)   | \$ 3,651           | \$ (443)           |
| Defined benefit pension plans:  |                    |                    |
| Actuarial loss unrecognized   | (7,371)            | (8,309)            |
| Prior service cost  | 1                  | 1                  |
| Other benefit   | -                  | (4)                |
| Other comprehensive loss from defined benefit plans                         | (7,370)            | (8,312)            |
| Other postretirement benefit plans:   |                    |                    |
| Actuarial loss  | (753)              | (405)              |
| Prior service cost  | 99                 | 42                 |
| Other comprehensive loss from other postretirement benefit plans            | (654)              | (363)              |
| Other comprehensive loss, before taxes                                      | (8,024)            | (8,675)            |
| Tax benefit on other comprehensive loss                                     | 3,049              | 3,295              |
| Valuation allowance on tax benefit from items of other comprehensive income | (3,049)            | (3,295)            |
| Change in other comprehensive loss, net of tax                              | (8,024)            | (8,675)            |
| Comprehensive loss  | \$ (4,373)         | \$ (9,118)         |

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
For the fiscal years ended November 2, 2012 (53 weeks) and October 28, 2011 (52 weeks)  
(in thousands)

|   | Shares | Amount   | Capital in<br>excess of<br>par value | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>loss | Total<br>shareholders'<br>equity |
|---|--------|----------|--------------------------------------|----------------------|---|----------------------------------|
| Balance, October 29, 2010                                   | 9,328  | \$ 9,385 | \$ 10,396                            | \$ 24,471            | \$ (8,052)                                    | \$ 36,200                        |
| Shares repurchased and retired                              | (130)  | (130)    | (1,182)                              |                      |   | (1,312)                          |
| Cash dividends paid   | -      | -        | -                                    | (932)                | -   | (932)                            |
| Net loss  | -      | -        | -                                    | (443)                | -   | (443)                            |
| Net change in defined benefit plans and other benefit plans | -      | -        | -                                    | -                    | (8,675)                                       | (8,675)                          |
| Balance, October 28, 2011                                   | 9,198  | 9,255    | 9,214                                | 23,096               | (16,727)                                      | 24,838                           |
| Shares repurchased and retired                              | (39)   | (39)     | (282)                                |                      |   | (321)                            |
| Net income  |        |          |                                      | 3,651                |   | 3,651                            |
| Net change in defined benefit plans and other benefit plans |        |          |                                      |                      | (8,024)                                       | (8,024)                          |
| Balance, November 2, 2012                                   | 9,159  | \$ 9,216 | \$ 8,932                             | \$ 26,747            | \$ (24,751)                                   | \$ 20,144                        |

See accompanying notes to consolidated financial statements.

BRIDGFORD FOODS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the fiscal years ended November 2, 2012 and October 28, 2011  
(in thousands)

|   | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
|---|--------------------|--------------------|
| <b>Cash flows from operating activities:</b>  |                    |                    |
| Net income  | \$ 3,651           | \$ (443)           |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                    |                    |
| Depreciation  | 1,716              | 1,802              |
| (Recovery) provision for losses on accounts receivable                                      | (81)               | 126                |
| Gain on sale of property, plant and equipment   | (22)               | (15)               |
| Deferred income taxes, net  | (1,115)            | (3,427)            |
| Tax valuation allowance   | 1,115              | 3,427              |
| Changes in operating assets and liabilities:  |                    |                    |
| Accounts receivable   | (1,975)            | (2,219)            |
| Inventories   | (467)              | (581)              |
| Prepaid expenses  | (169)              | (50)               |
| Refundable income taxes   | 249                | 558                |
| Other non-current assets  | (548)              | (632)              |
| Accounts payable  | 168                | 882                |
| Accrued payroll, advertising and other expenses   | 872                | 58                 |
| Current portion of non-current liabilities  | 207                | 674                |
| Non-current liabilities   | (1,759)            | (2,480)            |
| Net cash provided by (used in) operating activities   | 1,842              | (2,320)            |
| Cash used in investing activities:  |                    |                    |
| Proceeds from sale of property, plant and equipment   | 22                 | 54                 |
| Additions to property, plant and equipment  | (1,040)            | (1,852)            |
| Net cash used in investing activities   | (1,018)            | (1,798)            |
| Cash used in financing activities:  |                    |                    |
| Shares repurchased  | (321)              | (1,312)            |
| Payments of capital lease obligation  | (83)               |                    |
| Cash dividends paid   |                    | (932)              |
| Net cash used in financing activities   | (404)              | (2,244)            |
| Net increase (decrease) in cash and cash equivalents  | 420                | (6,362)            |
| Cash and cash equivalents at beginning of year  | 9,324              | 15,686             |
| Cash and cash equivalents at end of year  | \$ 9,744           | \$ 9,324           |
| Supplemental disclosure of cash flow information:   |                    |                    |
| Cash paid for income taxes  | \$ 180             | \$ 179             |
| Transportation equipment financed by capital lease obligations                              | \$ 1,848           | \$ -               |

See accompanying notes to consolidated financial statements.





BRIDGFORD FOODS CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands except share and per share amounts, time periods and percentages)

NOTE 1- The Company and Summary of Significant Accounting Policies:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All inter-company transactions have been eliminated.

Use of estimates and assumptions

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, as well as the reported revenues and expenses during the respective reporting periods. Actual results could differ from those estimates. Amounts estimated related to liabilities for pension benefits, self-insured workers' compensation and employee healthcare benefits are subject to inherent uncertainties and these estimated liabilities may ultimately settle at amounts which may vary from current estimates. Other areas with underlying estimates include realization of deferred tax assets, cash surrender or contract value of life insurance policies, promotional allowances and the allowance for doubtful accounts and inventory reserves. Management believes its current estimates are reasonable and based on the best information available at the time.

We test long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an impairment is indicated, we measure the fair value of assets to determine if and when adjustments are recorded.

Significant Fourth Quarter Adjustments

During fiscal 2011, we rolled out a unique product line created to meet specific customer requirements. After a successful initial start-up period the customer determined the product did not meet their specific requirements and the company agreed to accept the return of these products. Upon inspection, we concluded that the product had no ready market and we donated the product to a local food bank. Included in cost of products sold in fiscal 2011 is \$1,675 related to this fourth quarter donation.

Subsequent events

Management has evaluated events subsequent to November 2, 2012 through the date the accompanying consolidated financial statements were filed with the Securities and Exchange Commission for transactions and other events that may require adjustment of and/or disclosure in such financial statements. Based on its review, no material events were identified that require adjustment to the financial statements or additional disclosure.

Concentrations of credit risk

Our credit risk is diversified across a broad range of customers and geographic regions. Losses due to credit risk have recently been immaterial. The carrying amount of cash equivalents, accounts and other receivables, accounts payable and accrued liabilities approximate fair market value due to the short maturity of these instruments. We maintain cash balances at financial institutions, which may at times exceed the amounts insured by the Federal Deposit Insurance Corporation. Management does not believe there is significant credit risk associated with these financial institutions. The provision for doubtful accounts receivable is based on historical trends and current collectability risk. We have

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. Sales to Wal-Mart® comprised 16.3% of revenues in fiscal 2012 and 19.7% of accounts receivable was due from Wal-Mart® at November 2, 2012. Sales to Dollar General® comprised 9.0% revenues for fiscal year 2011. Accounts receivable from Dollar General® was 20.2% of total accounts receivable at October 28, 2011.

#### Business segments

Our Company and its subsidiaries operate in two business segments - the processing and distribution of frozen foods, and the processing and distribution of refrigerated and snack food products. See Note 7 to the Consolidated Financial Statements for further information.

#### Fiscal year

We maintain our accounting records on a 52-53 week fiscal basis ending on the Friday closest to October 31. As part of the regular accounting cycle, fiscal year 2012 included 53 weeks and fiscal year 2011 included 52 weeks.

#### Revenues

Revenues are recognized upon passage of title to the customer, typically upon product pick-up, shipment or delivery to customers. Products are delivered to customers primarily through our own long-haul fleet or through a Company owned direct store delivery system. These delivery costs, \$4,988 and \$4,947 for 2012 and 2011, respectively, are included in selling, general and administrative expenses in the accompanying consolidated financial statements. The Company also used independent distributors to deliver products in remote geographic areas of the country. Revenues are recognized upon shipment to the distributor, net of return allowances. Historically, returns from distributors have been minimal. The distributor pays for these products in full, typically within 15 days, and such payment is not contingent upon payment from the large chain stores. As a convenience to certain large chain stores, we bill these customers on behalf of the distributor. The Company discontinued product distribution through independent third-party distributors in the last quarter of fiscal 2012 in favor of utilizing customer managed warehouse distribution centers.

We record promotional and returns allowances based on recent and historical trends. Revenue is recognized as the net amount estimated to be received after deducting estimated amounts for discounts, trade allowances and product returns. Promotional allowances, including customer incentive and trade promotion activities, are recorded as a reduction to sales based on amounts estimated being due to customers, based primarily on historical utilization and redemption rates. Promotional allowances deducted from sales for fiscal years 2012 and 2011 were \$7,968 and \$7,742, respectively.

#### Advertising expenses

Advertising and other promotional expenses are recorded as selling, general and administrative expenses. Advertising expenses for fiscal years 2012 and 2011 were \$3,857 and \$3,462, respectively.

#### Cash and cash equivalents

We consider all investments with original maturities of three months or less to be cash equivalents. Cash equivalents include money market funds and treasury bills. Cash equivalents totaled \$9,744 at November 2, 2012 and \$9,324 at October 28, 2011. All cash and cash equivalents at November 2, 2012 were held at Wells Fargo Bank N.A.

#### Fair value measurements

We classify levels of inputs to measure the fair value of financial assets as follows:

- Level 1 inputs: Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 inputs: Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: Level 3 inputs are unobservable and should be used to measure fair value to the extent that observable inputs are not available.

The hierarchy noted above requires us to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value.

## Inventories

Inventories are valued at the lower of 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. We regularly review inventory quantities on hand and write 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 must be sold at reduced prices and could result in additional reserve provisions.

## Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Major renewals and improvements are charged to the asset accounts while the cost of maintenance and repairs is charged to expense as incurred. When assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is credited or charged to income. Depreciation is computed on a straight-line basis over 10 to 20 years for buildings and improvements, 5 to 10 years for machinery and equipment, and 3 to 5 years for transportation equipment.

## Capital Leases

Leased property and equipment that meet capital lease criteria are capitalized at the lower of the present value of the minimum payments required under the lease or the fair value of the asset at inception of the lease and are included within property plant and equipment on the consolidated balance sheet. Obligations under capital leases are accounted for as current and noncurrent liabilities on the consolidated balance sheet. Amortization is calculated on a straight-line method based upon the shorter of the estimated useful life of the asset or the lease term.

## Life insurance policies

We record the cash surrender value 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.

## Income taxes

Deferred taxes are provided for items whose financial and tax bases differ. A valuation allowance is provided against deferred tax assets when it is expected that it is more likely than not that the related asset will not be fully realized. During the fourth quarter of fiscal 2008, management recorded a full valuation allowance with respect to its deferred tax assets. The determination as to whether or not a deferred tax asset can be fully realized is subject to a significant degree of judgment, based at least partially upon a projection of future taxable income, which takes into consideration past and future trends in profitability, customer demand, supply costs, and multiple other factors, none of which are predictable.

We provide tax accruals for federal, state, local and international exposures relating to audit results, tax planning initiatives and compliance responsibilities. The development of these accruals requires judgments about tax issues, potential outcomes and timing. (See Note 4 to the Consolidated Financial Statements). Although the outcome of these tax audits is uncertain, in management's opinion adequate provisions for income taxes have been made for potential liabilities emanating from these reviews. If actual outcomes differ materially from these estimates, they could have a material impact on our results of operations.

Stock-based compensation

We 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. We have not issued, awarded, granted or entered into any stock-based payment agreements since April 29, 1999.

#### Foreign currency transactions

Our foreign branch located in Canada enters into transactions that are denominated in a foreign currency. The related transaction gains and losses arising from changes in exchange rates are not material and are included in selling, general and administrative expenses in the consolidated statements of operations in the period the transaction occurred.

#### Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and additional minimum pension liability adjustments.

#### Recently issued accounting pronouncements and regulations

In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance on "Fair Value Measurements: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS" changing how existing fair value guidance is applied and expanding disclosure requirements. The updated guidance is to be applied prospectively and is effective for the Company's interim and annual periods beginning after December 15, 2011, which will be effective for us beginning the first quarter of fiscal 2013. We do not expect the adoption of this guidance to have a significant impact on our consolidated financial statements.

## NOTE 2- Composition of Certain Financial Statement Captions:

|   | 2012      | 2011      |
|---|-----------|-----------|
| <b>Inventories:</b>   |           |           |
| Meat, ingredients and supplies                              | \$ 5,586  | \$ 5,434  |
| Work in process   | 1,515     | 1,549     |
| Finished goods  | 10,254    | 9,905     |
|   | \$ 17,355 | \$ 16,888 |
| <b>Property, plant and equipment:</b>                       |           |           |
| Land  | \$ 1,807  | \$ 1,807  |
| Buildings and improvements                                  | 13,618    | 13,647    |
| Machinery and equipment                                     | 42,594    | 41,929    |
| Asset impairment  | (234)     | (234)     |
| Capital leased trucks                                       | 1,848     | -         |
| Transportation equipment                                    | 5,843     | 6,031     |
| Construction in process                                     | 283       | 345       |
|   | 65,759    | 63,525    |
| Accumulated depreciation and amortization                   | (56,683)  | (55,622)  |
|   | \$ 9,076  | \$ 7,903  |
| <b>Other non-current assets:</b>                            |           |           |
| Cash surrender value benefits                               | \$ 12,315 | \$ 11,615 |
| Other   | 6         | 158       |
|   | \$ 12,321 | \$ 11,773 |
| <b>Accrued payroll, advertising and other expenses:</b>     |           |           |
| Payroll, vacation, payroll taxes and employee benefits      | \$ 3,808  | \$ 3,626  |
| Accrued advertising and broker commissions                  | 1,771     | 1,149     |
| Property taxes  | 319       | 321       |
| Other   | 564       | 494       |
|   | \$ 6,462  | \$ 5,590  |
| <b>Current portion of non-current liabilities (Note 3):</b> |           |           |
| Defined benefit retirement plan                             | \$ 2,386  | \$ 2,003  |
| Executive retirement plans                                  | 499       | 501       |
| Incentive compensation                                      | 776       | 878       |
| Capital lease obligation                                    | 296       | -         |
| Post retirement healthcare                                  | 41        | 57        |
|   | \$ 3,998  | \$ 3,439  |
| <b>Non-current liabilities (Note 3):</b>                    |           |           |
| Defined benefit retirement plan                             | \$ 18,816 | \$ 13,438 |
| Executive retirement plans                                  | 4,498     | 3,665     |
| Capital lease obligation                                    | 1,468     | -         |
| Incentive compensation                                      | 882       | 683       |
| Post retirement healthcare                                  | 868       | 1,067     |
|   | \$ 26,532 | \$ 18,853 |





## NOTE 3- Retirement and Other Benefit Plans:

## Noncontributory-Trusteed Defined Benefit Retirement Plans for Sales, Administrative, Supervisory and Certain Other Employees

We have noncontributory-trusteed defined benefit retirement plans for sales, administrative, supervisory and certain other employees. In the third quarter of fiscal 2006, we froze future benefit accruals under this plan for employees classified within the administrative, sales or supervisory job classifications or within any non-bargaining class. The benefits under these plans are primarily based on years of service and compensation levels. The funding policy of the plan is to make contributions which are at least equal to the minimum required contributions needed to avoid a funding deficiency. The measurement date for the plan is our fiscal year end.

Net pension cost consisted of the following:

|  | Years Ended        |                    |
|--|--------------------|--------------------|
|  | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
| Service cost                                     | \$ 148             | \$ 141             |
| Interest cost                                    | 2,103              | 1,998              |
| Expected return on plan assets                   | (2,457)            | (2,321)            |
| Amortization of unrecognized loss                | 1,037              | 437                |
| Amortization of unrecognized prior service costs | 1                  | 1                  |
| Net pension cost                                 | \$ 832             | \$ 256             |

Net pension costs and benefit obligations are determined using assumptions as of the beginning of each fiscal year. Weighted average assumptions for each fiscal year are as follows:

|                                   | 2012  | 2011  |
|-----------------------------------|-------|-------|
| Discount rate                     | 3.70% | 4.65% |
| Rate of increase in salary levels | N/A   | N/A   |
| Expected return on plan assets    | 8.00% | 8.00% |

The benefit obligation, plan assets, and funded status of these plans as of the fiscal years ended are as follows:

|   | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
|---|--------------------|--------------------|
| <b>Change in plan assets:</b>                 |                    |                    |
| Fair value of plan assets - beginning of year | \$ 30,307          | \$ 29,237          |
| Employer contributions                        | 2,442              | 1,175              |
| Actual return on plan assets                  | 1,744              | 951                |
| Benefits paid                                 | (1,227)            | (1,056)            |
| Fair value of plan assets - end of year       | \$ 33,266          | \$ 30,307          |
| <b>Change in benefit obligations:</b>         |                    |                    |
| Benefit obligations - beginning of year       | \$ 45,748          | \$ 37,289          |
| Service cost                                  | 148                | 141                |
| Interest cost                                 | 2,103              | 1,998              |
| Actuarial loss                                | 7,695              | 7,376              |
| Benefits paid                                 | (1,226)            | (1,056)            |
| Benefit obligations - end of year             | 54,468             | 45,748             |

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|                                  |          |          |
|----------------------------------|----------|----------|
| Funded status of the plans       | (21,202) | (15,441) |
| Unrecognized prior service costs | 3        | 4        |
| Unrecognized net actuarial loss  | 25,322   | 17,951   |
| Net amount recognized            | \$ 4,123 | \$ 2,514 |

The Company performs an internal rate of return analysis when making the discount rate selection. The discount rates were based on Citigroup Pension Liability Index as of November 2, 2012 and October 28, 2011, respectively.

Plan assets are primarily invested in marketable equity securities, corporate and government debt securities and are administered by an investment management company. The plans' long-term return on assets is based on the weighted-average of the plans' investment allocation as of the measurement date and the published historical returns for those types of asset categories, taking into consideration inflation rate forecasts. Our expected employer contribution to the plan in fiscal year 2013 is \$2,386.

The actual and target allocation for plan assets are as follows:

| Asset Class                                     | 2012  | Target     | 2011  | Target     |
|---|-------|------------|-------|------------|
|   |       | Asset      |       | Asset      |
|   |       | Allocation |       | Allocation |
| Large Cap Equities                              | 36.6% | 35.0%      | 33.4% | 35.0%      |
| Mid Cap Equities                                | 0.0%  | 0.0%       | 0.0%  | 0.0%       |
| Small Cap Equities                              | 9.8%  | 10.0%      | 11.7% | 10.0%      |
| International (including Non-U.S. Fixed Income) | 17.0% | 20.0%      | 22.0% | 25.0%      |
| Fixed Income                                    | 32.6% | 31.0%      | 28.4% | 26.0%      |
| Other (Government/Corporate, Bonds)             | 2.1%  | 2.0%       | 1.9%  | 2.0%       |
| Cash  | 1.9%  | 2.0%       | 2.6%  | 2.0%       |
| Total   | 100.0 | 100        | 100.0 | 100.0      |

The fair value of our pension plan assets and the level under which fair values were determined, using the hierarchy described in Note 1, is as follows:

|                   | Level 1 | Year Ended 2012 |         | Total  |
|-------------------|---------|-----------------|---------|--------|
|                   |         | Level 2         | Level 3 |        |
| Total plan assets | 33,266  | -               | -       | 33,266 |

Expected payments for the pension benefits are as follows:

| Fiscal Years | Pension Benefits |
|--------------|------------------|
| 2013         | \$ 1,497         |
| 2014         | \$ 1,565         |
| 2015         | \$ 1,650         |
| 2016         | \$ 1,724         |
| 2017         | \$ 1,899         |
| 2018-2022    | \$ 11,624        |

#### Executive Retirement Plans

#### Non-Qualified Deferred Compensation

Effective January 1, 1991 we adopted a deferred compensation savings plan for certain key employees. Under this arrangement, selected employees contribute a portion of their annual compensation to the plan. We contribute an amount to each participant's account by computing an investment return equal to Moody's Average Seasoned Bond Rate plus 2%. Employees receive vested amounts upon death, termination or attainment of retirement age. No benefit expense was recorded under these plans for fiscal years 2012 and 2011.

Supplemental Executive Retirement Plan

In fiscal year 1991, we adopted a non-qualified supplemental retirement plan for certain key employees. Benefits provided under the plan are equal to 60% of the employee's final average earnings, less amounts provided by our defined benefit pension plan and amounts available through Social Security.

Benefits payable related to these plans and included in the accompanying consolidated financial statements were \$4,997 and \$4,166 at November 2, 2012 and October 28, 2011, respectively. In connection with this arrangement we are the beneficiary of life insurance policies on the lives of certain key employees and retirees. The aggregate cash surrender value of these policies, included in non-current assets, was \$12,315 and \$11,615 at November 2, 2012 and October 28, 2011, respectively.

Expected payments for executive postretirement benefits are as follows:

| Fiscal Years | Executive<br>Postretirement<br>Benefits |
|--------------|---|
| 2013         | \$ 503                                  |
| 2014         | \$ 512                                  |
| 2015         | \$ 469                                  |
| 2016         | \$ 279                                  |
| 2017         | \$ 64                                   |
| 2018-2022    | \$ 1,898                                |

#### Incentive Compensation Plan for Certain Key Executives

We provide an incentive compensation plan for certain key executives, which is based upon our pretax income. The payment of these amounts is generally deferred over three or five-year periods. The total amount payable related to this arrangement was \$1,658 and \$1,561 at November 2, 2012 and October 28, 2011, respectively. Future payments are approximately \$776, \$418, \$371, \$60 and \$33 for fiscal years 2013 through 2017, respectively.

#### Postretirement Healthcare Benefits for Selected Executive Employees

We provide postretirement health care benefits for selected executive employees. Net periodic postretirement healthcare cost is determined using assumptions as of the beginning of each fiscal year, except for the total actual benefit payments and the discount rate used to develop the net periodic postretirement benefit expense, which is determined at the end of the fiscal year.

Net periodic postretirement healthcare cost consisted of the following:

|   | Years Ended        |                    |
|---|--------------------|--------------------|
|   | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
| Service cost                                | \$ 17              | \$ 22              |
| Interest cost                               | 35                 | 59                 |
| Amortization of prior service cost          | -                  | 75                 |
| Amortization of actuarial gain              | (30)               | (18)               |
| Net periodic postretirement healthcare cost | \$ 22              | \$ 138             |

Weighted average assumptions for the fiscal years ended November 2, 2012 and October 28, 2011 are as follows:

|                                      | 2012  | 2011  |
|--------------------------------------|-------|-------|
| Discount rate                        | 3.50% | 4.45% |
| Medical trend rate next year         | 9.00% | 9.50% |
| Ultimate trend rate                  | 5.00% | 5.00% |
| Year ultimate trend rate is achieved | 2020  | 2020  |

The table below shows the estimated effect of a 1% increase in healthcare cost trend rate on the following:

|                                 | 2012 | 2011 |
|---------------------------------|------|------|
| Interest cost plus service cost | \$ 5 | \$ 9 |

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Accumulated postretirement healthcare obligation \$ 80 \$ 133

The table below shows the estimated effect of a 1% decrease in healthcare cost trend rate on the following:

|  | 2012 |      | 2011 |       |
|--|------|------|------|-------|
| Interest cost plus service cost                  | \$   | (4)  | \$   | (8)   |
| Accumulated postretirement healthcare obligation | \$   | (65) | \$   | (109) |

The healthcare obligation and funded status of this plan as of the fiscal years ended are as follows:

|  | 2012     | 2011     |
|--|----------|----------|
| <b>Change in accumulated postretirement healthcare obligation:</b> |          |          |
| Healthcare obligations - beginning of year                         | \$ 1,124 | \$ 945   |
| Service cost   | 17       | 21       |
| Interest cost  | 35       | 59       |
| Actuarial loss (gain)  | (248)    | 136      |
| Benefits paid  | (19)     | (37)     |
| Healthcare obligations - end of year                               | \$ 909   | \$ 1,124 |
| Funded status of the plans   | 909      | 1,124    |
| Unrecognized net actuarial (gain) loss                             | (330)    | (112)    |
| Unrecognized amounts recorded in other comprehensive income        | 330      | 112      |
| Postretirement healthcare liability                                | \$ 909   | \$ 1,124 |

Expected payments for the postretirement benefits are as follows:

| Fiscal Years | Postretirement<br>Healthcare<br>Benefits |
|--------------|--|
| 2013         | \$ 41                                    |
| 2014         | \$ 41                                    |
| 2015         | \$ 41                                    |
| 2016         | \$ 41                                    |
| 2017         | \$ 40                                    |
| 2018-2022    | \$ 351                                   |

#### 401(K) Plan for Sales, Administrative, Supervisory and Certain Other Employees

During the fiscal year ended November 3, 2006, we implemented a qualified 401(K) retirement plan (the "Plan") for our sales, administrative, supervisory and certain other employees. During fiscal years 2012 and 2011, we made total employer contributions to the Plan in the amounts of \$442 and \$408, respectively.



## NOTE 4- Income Taxes:

The provision for taxes on income includes the following:

|                  | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
|------------------|--------------------|--------------------|
| <b>Current:</b>  |                    |                    |
| Federal          | \$ (14)            | \$ (603)           |
| State            | 379                | (66)               |
|                  | 365                | (669)              |
| <b>Deferred:</b> |                    |                    |
| Federal          | -                  | -                  |
| State            | -                  | -                  |
|                  | -                  | -                  |
|                  | \$ 365             | \$ (669)           |

The total tax provision differs from the expected amount computed by applying the statutory federal income tax rate to income before income taxes as follows:

|  | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
|--|--------------------|--------------------|
| Provision for federal income taxes at the applicable statutory rate                        | \$ 1,366           | \$ (378)           |
| Increase in provision resulting from state income taxes, net of federal income tax benefit | 411                | (98)               |
| Research & development tax credit  | (8)                | -                  |
| Non-taxable life insurance gain  | (238)              | (163)              |
| Benefits of tax law changes - state  | -                  | (114)              |
| Change in valuation allowance  | (1,115)            | (4)                |
| Other, net   | (51)               | 88                 |
|  | \$ 365             | \$ (669)           |

Deferred income taxes result from differences in the bases of assets and liabilities for tax and accounting purposes.

|  | 2012    | 2011    |
|--|---------|---------|
| Receivables allowance                        | \$ 38   | \$ 53   |
| Returns allowance                            | 158     | 180     |
| Inventory packaging reserve                  | 187     | 76      |
| Inventory overhead capitalization            | 289     | 254     |
| Incentive compensation                       | 201     | 361     |
| State taxes                                  | 61      | 16      |
| Employee benefits                            | 1,468   | 1,483   |
| Other  | 38      | 9       |
| Valuation allowance                          | (2,440) | (2,432) |
| Current tax assets, net                      | \$ -    | \$ -    |
| State taxes                                  | \$ 511  | \$ 282  |
| Incentive compensation                       | 374     | 290     |
| Pension and health care benefits             | 9,888   | 7,789   |
| Depreciation                                 | (1,018) | (801)   |
| Net operating loss carry-forward and credits | 1,343   | 1,484   |

|                             |    |          |         |
|-----------------------------|----|----------|---------|
| Valuation allowance         |    | (11,098) | (9,044) |
| Non-current tax assets, net | \$ | -        | \$ -    |

Management evaluated the need for a full valuation allowance at the end of fiscal 2012. Management evaluated both positive and negative evidence. The weight of negative factors and level of economic uncertainty in our current business continued to support the conclusion that the realization of our deferred tax assets does not meet the more likely than not standard. Therefore, a full valuation allowance will remain against the net deferred tax assets.

As of November 2, 2012, the Company had federal and state net operating loss carryforwards of approximately \$1,681 and \$3,506 respectively. These loss carryforwards will expire at various dates from 2018 through 2032.

In July 2006, the FASB issued guidance to clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation prescribed a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also discussed derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect, if any, of applying this guidance is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The provisions of this guidance have been incorporated into Accounting Standards Codification ("ASC") 740-10.

As of November 2, 2012, we have provided a liability of \$97 for unrecognized tax benefits related to various federal and state income tax matters. This entire amount would reduce our effective income tax rate if the asset is recognized in future reporting periods. We have not identified any new unrecognized tax benefits.

As of October 28, 2011, we have provided a liability of \$105 for unrecognized tax benefits related to various federal and state income tax matters. This entire amount would reduce our effective income tax rate if the asset is recognized in future reporting periods. We have not identified any new unrecognized tax benefits.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

|  | 2012<br>(53 Weeks) | 2011<br>(52 Weeks) |
|--|--------------------|--------------------|
| Balance at beginning of year                                 | \$ 105             | \$ 95              |
| Additions based on tax positions related to the current year | -                  | -                  |
| Additions for tax positions of prior years                   | 1                  | 10                 |
| Reductions for tax positions of prior years                  | (9)                | -                  |
| Settlements  | -                  | -                  |
| Balance at end of year                                       | \$ 97              | \$ 105             |

We recognize any future accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of November 2, 2012, we had approximately \$3 in accrued interest and penalties which is included as a component of the \$97 unrecognized tax benefit noted above.

Our federal income tax returns are open to audit under the statute of limitations for the years ended October 31, 2008 through 2010.

We are subject to income tax in California and various other state taxing jurisdictions. Our state income tax returns are open to audit under the statute of limitations for the fiscal years ended October 31, 2008 through 2011.

We do not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

#### NOTE 5- Line of Credit:

Under the terms of a revolving line of credit with Wells Fargo N.A., we may borrow up to \$2,000 through March 1, 2013. The interest rate is at the bank's reference rate unless we elect an optional interest rate. The borrowing agreement contains various covenants, the more significant of which require us to maintain a minimum tangible net worth, a quick ratio not less than 1.0 to 1.0 and a minimum net income after tax. The Company was in violation of the tangible

net worth and other indebtedness covenants which were subsequently waived (per letter dated January 11, 2013). The Company is currently in compliance with all provisions of the agreement. There were no borrowings under this line of credit during the years ended November 2, 2012 or October 28, 2011.

## NOTE 6- Contingencies and Commitments:

The Company leases warehouse and/or office facilities throughout the United States and Canada through month-to-month rental agreements.

Leases for semi-truck trailers expire in 2015 are classified as operating leases. Six year leases for semi-trucks expire in 2018 and are classified as capital leases. Rental payments including prior leases were \$432 in 2012 and \$416 in 2011. Amortization of equipment under capital lease was \$102 in 2012.

The following is a schedule by years of future minimum lease payments for transportation leases:

| Fiscal Year                                       | Capital<br>Leases | Operating<br>Leases | Financing<br>Obligations |
|---|-------------------|---------------------|--------------------------|
| 2013  | \$ 379            | \$ 68               | \$ 446                   |
| 2014  | 379               | 68                  | 446                      |
| 2015  | 379               | 51                  | 429                      |
| 2016  | 379               | -                   | 379                      |
| 2017  | 379               | -                   | 379                      |
| Later Years                                       | 623               | -                   | 623                      |
| <b>Total Minimum Lease Payments(a)</b>            | <b>\$ 2,516</b>   | <b>\$ 186</b>       | <b>\$ 2,702</b>          |
| Less: Amount representing executory costs         | (592)             |                     |                          |
| Less: Amount representing interest(b)             | (160)             |                     |                          |
| Present value of future minimum lease payments(c) | \$ 1,764          |                     |                          |

(a) Minimum payments exclude contingent rentals based on actual mileage and adjustments of rental payments based on the Consumer Price Index. Contingent rentals amounted to \$122 in 2012 and \$132 in 2011 including prior lease arrangements.

(b) Amount necessary to reduce net minimum lease payments to present value calculated at the Entity's incremental borrowing rate at the inception of the leases.

(c) Reflected in the Note 2, as current and noncurrent obligations under capital leases of \$296 and \$1468, respectively.

## NOTE 7- Segment Information:

We have 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).

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

The following segment information is for the fiscal years ended November 2, 2012 (53 weeks) and October 28, 2011 (52 weeks):

|       | Frozen<br>Food<br>Products | Refrigerated<br>and Snack<br>Food<br>Products | Other | Elimination | Totals     |
|-------|----------------------------|---|-------|-------------|------------|
| 2012  |                            |   |       |             |            |
| Sales | \$ 55,435                  | 71,920  |       |             | \$ 127,355 |

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|  |           |        |        |             |
|--|-----------|--------|--------|-------------|
| Intersegment sales                           |           | 954    |        | 954         |
| Net sales                                    | 55,435    | 72,874 |        | 954 127,355 |
| Cost of products sold                        | 34,102    | 49,911 |        | 954 83,059  |
| Gross margin                                 | 21,333    | 22,963 |        | 44,296      |
| Selling, general and administrative expenses | 17,338    | 22,842 | 100    | 40,280      |
| Income before taxes                          | 3,995     | 121    | 100    | 4,016       |
| Total assets                                 | \$ 13,088 | 25,576 | 22,886 | \$ 61,550   |
| Additions to property, plant and equipment   | \$ 227    | 747    | 66     | \$ 1,040    |

|  | Frozen<br>Food<br>Products | Refrigerated<br>and Snack<br>Food<br>Products | Other  | Elimination | Totals     |
|--|----------------------------|---|--------|-------------|------------|
| 2011   |                            |   |        |             |            |
| Sales  | \$ 54,680                  | 63,583  | -      | -           | \$ 118,263 |
| Intersegment sales                           | -                          | 1,094   | -      | (1,094)     |            |
| Net sales                                    | 54,680                     | 64,677  | -      | (1,094)     | 118,263    |
| Cost of products sold                        | 33,350                     | 48,480  | -      | (1,094)     | 80,736     |
| Gross margin                                 | 21,330                     | 16,197  | -      | -           | 37,527     |
| Selling, general and administrative expenses | 17,074                     | 21,441  | 124    | -           | 38,639     |
| Income (loss) before taxes                   | 4,256                      | (5,244)                                       | (124)  | -           | (1,112)    |
| Total assets                                 | \$ 11,887                  | 23,124  | 21,955 | -           | \$ 56,966  |
| Additions to property, plant and equipment   | \$ 659                     | 980   | 213    | -           | \$ 1,852   |

NOTE 8- Unaudited Interim Financial Information:

Not applicable to smaller reporting company.