

HORMEL FOODS CORP /DE/

Form 424B3

November 13, 2006

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Filed Pursuant to Rule 424(b)(3)

File Number 333-138119

PROSPECTUS SUPPLEMENT NO. 1 DATED NOVEMBER 13, 2006

(to Proxy Statement/Prospectus dated November 7, 2006)

(Registration No. 333-138119)

HORMEL FOODS CORPORATION

This Prospectus Supplement No. 1 supplements the Proxy Statement/Prospectus dated November 7, 2006 of Provena Foods Inc., or Provena, and Hormel Foods Corporation, or Hormel, relating to Hormel's proposed acquisition of Provena.

This Prospectus Supplement No. 1 includes the attached Quarterly Report on Form 10-Q of Provena for the period ended September 30, 2006, as previously filed by Provena with the Securities and Exchange Commission. This Prospectus Supplement No. 1 should be read in conjunction with, and may not be delivered or utilized without, the Proxy Statement/Prospectus. This Prospectus Supplement No. 1 updates information in the Proxy Statement/Prospectus, and, accordingly, to the extent inconsistent, the information in this Prospectus Supplement No. 1 supersedes the information contained in the Proxy Statement/Prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT NO. 1. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement No. 1 is November 13, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2006**

**Commission File Number 1-10741**

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**PROVENA FOODS INC.**

(Exact name of registrant as specified in its charter)

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

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

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

**91710**  
(ZIP Code)

**(909) 627-1082**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares of Provena Foods Inc. Common Stock outstanding at October 31, 2006 was:

Common Stock 3,593,764

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PROVENA FOODS INC.

Form 10-Q Report for the Third Quarter Ended September 30, 2006

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## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

## PROVENA FOODS INC.

## Condensed Statements of Operations

(Unaudited)

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2006                                | 2005       | 2006                               | 2005       |
| Net sales   | \$ 15,162,399                       | 13,965,713 | 45,697,422                         | 43,126,885 |
| Cost of sales                                       | 13,801,327                          | 13,401,238 | 41,588,529                         | 40,916,460 |
| Gross profit  | 1,361,072                           | 564,475    | 4,108,893                          | 2,210,425  |
| Operating expenses:                                 |                                     |            |                                    |            |
| Distribution  | 371,255                             | 408,222    | 1,230,622                          | 1,249,070  |
| General and administrative                          | 635,321                             | 489,691    | 1,844,947                          | 1,538,313  |
| Operating income (loss)                             | 354,496                             | (333,438)  | 1,033,324                          | (576,958)  |
| Interest expense and other financing costs, net     | (142,471)                           | (164,372)  | (400,918)                          | (625,918)  |
| Other income, net                                   | 125,285                             | 147,605    | 453,622                            | 360,480    |
| Earnings (loss) before income taxes                 | 337,310                             | (350,205)  | 1,086,028                          | (842,396)  |
| Income tax benefit (expense)                        | (134,904)                           | 139,145    | (444,278)                          | 310,045    |
| Net earnings (loss)                                 | \$ 202,406                          | (211,060)  | 641,750                            | (532,351)  |
| Earnings (loss) per share:                          |                                     |            |                                    |            |
| Basic and diluted                                   | \$ .06                              | (.06)      | .18                                | (.16)      |
| Shares used in computing earnings (loss) per share: |                                     |            |                                    |            |
| Basic and diluted                                   | 3,514,685                           | 3,412,842  | 3,495,337                          | 3,382,503  |

See accompanying Notes to Condensed Financial Statements.

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## PROVENA FOODS INC.

## Condensed Balance Sheets

(Unaudited)

|   | September 30,<br>2006 | December 31,<br>2005 |
|---|-----------------------|----------------------|
| <b>Assets</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash  | \$ 2,898,649          | 2,057                |
| Cash - restricted   | 1,021,396             | 1,221,328            |
| Accounts receivable, less allowance for doubtful accounts of \$0 at 2006 and \$0 at 2005                                  | 4,088,787             | 4,269,656            |
| Inventories   | 4,471,685             | 4,829,134            |
| Prepaid expenses  | 261,685               | 252,569              |
| Income tax receivable   | 94,829                |                      |
| Deferred tax assets   | 313,995               | 383,602              |
| Total current assets  | 13,151,026            | 10,958,346           |
| Property and equipment, net   | 12,571,744            | 13,026,653           |
| Deferred tax assets, net of current portion   | 841,143               | 901,648              |
| Other assets  | 429,298               | 533,053              |
|   | \$ 26,993,211         | 25,419,700           |
| <b>Liabilities and Shareholders' Equity</b>   |                       |                      |
| Current liabilities:  |                       |                      |
| Line of credit  | \$ 2,663,477          | 672,834              |
| Current portion of long-term debt   | 343,642               | 343,642              |
| Current portion of capital lease obligation   | 50,000                | 50,000               |
| Current portion of deferred income  | 365,724               | 365,724              |
| Income tax payable  |                       | 456,174              |
| Accounts payable  | 3,125,455             | 3,359,258            |
| Accrued liabilities   | 2,506,630             | 2,319,071            |
| Total current liabilities   | 9,054,928             | 7,566,703            |
| Long-term debt, net of current portion  | 5,929,686             | 6,316,850            |
| Capital lease obligation, net of current portion  | 258,342               | 285,205              |
| Deferred income, net of current portion   | 2,844,074             | 3,081,830            |
| Total liabilities   | 18,087,030            | 17,250,588           |
| Shareholders' equity:   |                       |                      |
| Capital stock, no par value; authorized 10,000,000 shares; issued and outstanding 3,593,764 at 2006 and 3,546,345 at 2005 | 5,574,245             | 5,512,926            |
| Retained earnings   | 3,433,936             | 2,792,186            |
| Deferred compensation   | (102,000)             | (136,000)            |
| Total shareholders' equity  | 8,906,181             | 8,169,112            |
|   | \$ 26,993,211         | 25,419,700           |

See accompanying Notes to Condensed Financial Statements.

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## PROVENA FOODS INC.

## Condensed Statements of Cash Flows

(Unaudited)

|  | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
|  | 2006                               | 2005        |
| Cash flows from operating activities:            |                                    |             |
| Net earnings (loss)                              | \$ 641,750                         | (532,351)   |
| Adjustments                                      |                                    |             |
| Depreciation and amortization                    | 664,436                            | 683,892     |
| Provision for bad debts                          |                                    | 9,000       |
| Recognized gain from sale of building            | (237,756)                          | (135,617)   |
| Common stock grant - vested                      | 34,000                             | 34,000      |
| Changes in assets and liabilities                |                                    |             |
| Accounts receivable                              | 180,869                            | (216,255)   |
| Inventories                                      | 357,449                            | 68,048      |
| Prepaid expenses                                 | (9,116)                            | (508,328)   |
| Income taxes                                     | (420,891)                          | (189,909)   |
| Other assets                                     | 103,755                            | 16,892      |
| Accounts payable and accrued liabilities         | (46,244)                           | (209,191)   |
| Net cash from operating activities               | 1,268,252                          | (979,819)   |
| Cash flows from investing activities:            |                                    |             |
| Decrease in restricted cash                      | 199,932                            |             |
| Proceeds from sale of property and equipment     | 75,573                             | 5,758,784   |
| Additions to property and equipment              | (285,100)                          | (37,459)    |
| Net cash from investing activities               | (9,595)                            | 5,721,325   |
| Cash flows from financing activities:            |                                    |             |
| Payments on long-term debt                       | (387,164)                          | (2,011,859) |
| Proceeds (payments) under line of credit         | 1,990,643                          | (135,376)   |
| Proceeds from sale of common stock               | 61,319                             | 69,259      |
| Payments on capital lease                        | (26,863)                           | (29,762)    |
| Net cash from financing activities               | 1,637,935                          | (2,107,738) |
| Net increase in cash                             | 2,896,592                          | 2,633,768   |
| Cash and cash equivalents at beginning of period | 2,057                              | 120,446     |
| Cash and cash equivalents at end of period       | \$ 2,898,649                       | 2,754,214   |
| Supplemental disclosures                         |                                    |             |
| Cash paid for interest                           | \$ 488,434                         | 452,449     |
| Cash paid for income taxes                       | \$ 495,000                         | 400,800     |
| Common stock grant - non-vested                  | \$ 102,000                         | 136,000     |

See accompanying Notes to Condensed Financial Statements.



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## PROVENA FOODS INC.

## Notes to Condensed Financial Statements

(Unaudited)

September 30, 2006

## (1) Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with the requirements of Form 10-Q and, therefore, do not include all information and footnotes which would be presented if such financial statements were prepared in accordance with accounting principles generally accepted in the United States for annual financial statement purposes. These statements should be read in conjunction with the audited financial statements presented in the Company's Form 10-K for the year ended December 31, 2005. In the opinion of management, the accompanying financial statements reflect all adjustments which are necessary for a fair presentation of the results for the interim periods presented. Such adjustments consisted only of normal recurring items. The results of operations for the three months and nine months ended September 30, 2006 are not necessarily indicative of results to be expected for the full year.

## (2) Inventories

Inventories at September 30, 2006 and December 31, 2005 consist of:

|                 | 2006         | 2005      |
|-----------------|--------------|-----------|
| Raw materials   | \$ 1,781,874 | 2,018,445 |
| Work-in-process | 1,401,241    | 1,710,595 |
| Finished goods  | 1,288,570    | 1,100,094 |
| Finished goods  | 1,288,570    | 1,100,094 |
|                 | \$ 4,471,685 | 4,829,134 |

## (3) Segment Data

Business segment sales and operating profit (loss) for the three months and nine months ended September 30, 2006 and 2005 and assets at September 30, 2006 and December 31, 2005 are as follows:

|                                      | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                      | 2006                                | 2005       | 2006                               | 2005       |
| Net sales to unaffiliated customers: |                                     |            |                                    |            |
| Swiss American Sausage division      | \$ 13,283,852                       | 11,873,479 | 39,472,508                         | 36,908,043 |
| Royal-Angelus Macaroni division      | 1,878,547                           | 2,092,234  | 6,224,914                          | 6,218,842  |
| Total net sales                      | \$ 15,162,399                       | 13,965,713 | 45,697,422                         | 43,126,885 |
| Operating profit (loss)              |                                     |            |                                    |            |
| Swiss American Sausage division      | \$ 632,497                          | (286,424)  | 1,404,070                          | (486,400)  |
| Royal-Angelus Macaroni division      | (344,766)                           | (137,086)  | (527,101)                          | (441,134)  |
| Corporate                            | 66,765                              | 90,072     | 156,355                            | 350,576    |
| Operating profit (loss)              | \$ 354,496                          | (333,438)  | 1,033,324                          | (576,958)  |

|                      | September 30,<br>2006 | December 31,<br>2005 |
|----------------------|-----------------------|----------------------|
| Identifiable assets: |                       |                      |

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|                                 |                      |                   |
|---------------------------------|----------------------|-------------------|
| Swiss American Sausage division | \$ 19,091,909        | 19,728,983        |
| Royal-Angelus Macaroni division | 2,507,420            | 2,865,973         |
| Corporate                       | 5,393,882            | 2,824,744         |
| <b>Total assets</b>             | <b>\$ 26,993,211</b> | <b>25,419,700</b> |

(4) Share-Based Payments

The Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), Share Based Payment ( SFAS 123R ), on January 1, 2006. Accordingly, compensation costs for all share-based awards to employees are measured based on the grant date fair value of those awards and recognized over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award). The Company has no awards with market or performance conditions. Excess tax benefits as defined by SFAS 123R will be recognized as an addition to additional paid-in capital. Effective January 1, 2006 and for all periods subsequent to that date, SFAS 123R supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ). In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ( SAB 107 ) relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

The Company adopted SFAS 123R using the modified prospective transition method, which provides for certain changes to the method for valuing share-based compensation. The valuation provisions of SFAS 123R apply to new awards and to awards that are outstanding as the effective date and subsequently modified or canceled. Estimated compensation expense for awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ( SFAS 123 ). In accordance with the modified prospective transition method, the Company's consolidated financial statements for prior periods were not restated to reflect, and do not include, the impact of SFAS 123R.

No options were granted or vested during the interim periods presented, and all options previously granted had completely vested before January 1, 2006; therefore no compensation costs were incurred under SFAS 123R and the actual net income (or loss) equals the pro forma net income (or loss) for such interim periods.

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### (5) Earnings (loss) per Share

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

### (6) Credit Facility

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

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

### (7) Use of Estimates

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

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

## Results of Operations

| (Unaudited)                               | Three Months<br>Ended<br>September 30,<br>2006 |        | Nine Months<br>Ended<br>September 30,<br>2005 |        |
|---|--|--------|---|--------|
|   | 2006   | 2005   | 2006  | 2005   |
|   | (amounts in thousands)                         |        |   |        |
| Net sales by division:                    |  |        |   |        |
| Swiss American                            | \$ 13,283                                      | 11,874 | 39,472  | 36,908 |
| Royal-Angelus                             | 1,879  | 2,092  | 6,225   | 6,219  |
| Total                                     | \$ 15,162                                      | 13,966 | 45,697  | 43,127 |
| Sales in thousands of pounds by division: |  |        |   |        |
| Swiss American                            | 7,375  | 6,307  | 21,865  | 19,260 |
| Royal-Angelus                             | 3,042  | 3,637  | 10,211  | 10,802 |
| Forward-Looking Statements                |  |        |   |        |

The following discussion may contain forward-looking statements that express or imply expectations of future performance, developments or occurrences. Actual events may differ materially from these expectations due to uncertainties relating to the economy, competition, demand, commodities, credit markets, energy supplies and other factors.

## Swiss American Sausage Co. Meat Division ( Swiss )

Sales by the processed meat division increased about 7% in dollars and 14% in pounds in the 1st nine months of 2006 and increased 12% in dollars and 17% in pounds in the 3rd quarter of 2006, compared to the same periods in 2005. Sales in pounds increased proportionately more than in dollars because of lower selling prices resulting from lower meat costs. Swiss operated at a \$1,404,070 profit for the 1st nine months of 2006 compared to a \$486,400 loss for the 1st nine months of 2005, and a \$632,497 profit for the 3rd quarter of 2006 compared to a \$286,424 loss for the 3rd quarter of 2005. The improvement in Swiss's performance resulted primarily from meat costs decreasing faster than selling prices and a reduction in workers' compensation cost more than offsetting increased interest, health insurance and utility costs.

## Royal-Angelus Macaroni Company Pasta Division ( Royal )

The pasta division's sales increased negligibly in dollars and decreased 5% in pounds in the 1st nine months of 2006 and decreased 10% in dollars and 16% in pounds in the 3rd quarter of 2006, compared to the same periods of 2005. The percentage decreases were lower in dollars than in pounds because of higher selling prices reflecting an increased proportion of sales of value-added products and higher flour costs. Royal operated at a \$527,101 loss for the 1st nine months of 2006 compared to a \$441,134 loss for 1st nine months of 2005 and a \$334,766 loss for the 3rd quarter of 2006 compared to a \$137,086 loss for the 3rd quarter of 2005. The major cause of the increased operating losses was decreased sales volume in the 3rd quarter of 2006 and the resultant decrease in the absorption of the fixed costs of operating Royal's plant. Royal's operating losses for the 1st and 2nd quarters of 2006 were less than the losses for the same quarters of 2005. Since the April 13, 2005 sale and lease-back of its buildings, Royal has experienced not only increased plant labor, health care, parts, flour and utility costs and a continuing high level of workers' compensation expense but also the rent of its buildings, which is higher than the depreciation was prior to the sale. Royal realized pre-tax profits for the 1st half of 2006 from amortization of the gain on the sale of the buildings, which is not considered operating income, and its pre-tax loss for the 1st nine months of 2006 was less than the depreciation of its equipment.

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The Company

On September 6, 2006, the Company announced that it had entered into a definitive merger agreement with Hormel Foods Corporation (NYSE:HRL) whereby, subject to customary conditions, Hormel Foods will acquire the Company and each share of Company common stock will be canceled and converted into the right to receive 0.08 shares of Hormel Foods common stock. Hormel Foods is an Austin, Minn. based multinational manufacturer and marketer of consumer-branded food and meat products. The acquisition requires the approval of the Company's shareholders. Company shareholders holding about 46% of the outstanding shares on September 6, 2006 have agreed to vote their shares in favor of the merger. The Company and Hormel Foods have filed a proxy statement/prospectus relating to the acquisition which will be mailed to Company shareholders who were of record on October 23, 2006, prior to a special meeting of Company shareholders scheduled for December 14, 2006 to vote on the merger.

Company sales were up 6.0% in the 1st nine months of 2006 compared to the 1st nine months of 2005 and were up 8.6% in the 3rd quarter of 2006 compared to the 3rd quarter of 2005. The Company realized net earnings of \$641,750 for the 1st nine months of 2006 compared to a net loss of \$532,351 a year ago and net earnings of \$202,406 for the 3rd quarter of 2006 compared to a net loss of \$211,060 a year ago. Swiss provided both the increases in sales and in net earnings in both periods. The Company's gross margins for the 1st nine months and 3rd quarter of 2006 were 9.0% and 9.0%, respectively, compared to 5.1% and 4.0% a year ago. Company margins increased because margins at both divisions increased due to lower meat costs at Swiss and higher selling prices at Royal.

General and administrative expense was up \$306,634 for the 1st nine months of 2006 and up \$145,630 in the 3rd quarter of 2006, compared to the same periods in 2005, primarily because of increased payroll, health insurance and bank charges. Distribution expense was down \$18,448 for the 1st nine months and down \$36,967 for the 3rd quarter compared to the same periods in 2005 because increased freight was offset by decreased salesman payroll, benefits and insurance costs. Interest expense and other financing costs, net, decreased \$225,000 for the 1st nine months of 2006 and \$21,901 for the 3rd quarter of 2006 because of interest income and lower financing costs, partially offset by higher interest rates, compared to the same periods of 2005. Other income increased \$93,142 for the 1st nine months but decreased \$22,320 for the 3rd quarter because of increased asset and salvage sales in the 1st six months of 2006 which did not continue into the 3rd quarter of 2006.

Meat plant employees are represented by United Food and Commercial Workers Union, Local 588, AFL-CIO, CLC under a collective bargaining agreement dated April 3, 2006 which expires April 5, 2009. Pasta plant employees are represented by United Food and Commercial Workers Union, Local 1428, AFL-CIO, CLC under a collective bargaining agreement dated October 1, 2006 which expires October 31, 2008. There has been no significant labor unrest at the division's plants and the Company believes it has a satisfactory relationship with its employees.

Liquidity and Capital Resources

The Company's new credit facility and gains in operating results have produced a marked improvement in the Company's financial position and liquidity.

The Company has generally satisfied its normal working capital requirements with funds derived from operations and borrowings under a bank line of credit. On December 1, 2005, the Company obtained a new \$13,439,427 credit facility from Wells Fargo Bank, National Association replacing the Company's Comerica Bank credit facility. The new credit facility generally provides: a line of credit of up to \$6,000,000 and letters of credit of up to \$6,221,813 to support the Company's \$5,975,000 of outstanding variable rate demand bonds and up to \$1,217,614 to support the Company's workers' compensation insurance reimbursement obligations.

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The line of credit has a term ending December 30, 2008 and bears interest at a variable annual rate of 0.5% over the bank's base rate, increasing by 0.5% if the Company's profit for 2006 is less than \$220,000 and increasing by 3% if the Company is in default, with a minimum interest of \$16,000 per month. In addition, there is a 0.25% per annum fee on the unused portion of the maximum amount of the line of credit. The maximum amount of the line of credit is \$5,500,000 (increasing to \$6,000,000 over 10 quarters if a 1.1:1 debt service coverage is maintained), reduced by two cumulative reserves, a real estate reserve of up to \$8,000 per month and a bond letter of credit reserve of up to \$544,000 per year, but limited to 85% of eligible accounts receivable plus 49% of eligible inventories, with limits of \$2,700,000 for inventories, \$1,300,000 for work-in-process inventories and \$150,000 for pasta inventories. At September 30, 2006, the base rate was 8.25%, the Company had \$2,663,477 of borrowings outstanding under the line of credit and the maximum amount of the line of credit was \$5,367,843, which was within the accounts receivable and inventory limits.

The \$1,217,614 letter of credit issued to support the Company's workers' compensation insurance reimbursement obligations has been reduced to \$997,825, bears a fee of 1.5% per annum of the amount of the letter of credit, and expires 18 months from the date of issuance, but no later than December 30, 2008.

On December 30, 2003, the Company borrowed \$6,300,000 by the issuance of variable rate demand bonds under an indenture initially supported by a \$6,378,750 letter of credit issued by Comerica and currently supported by a \$6,049,688 letter of credit issued by Wells Fargo. The bonds are demand obligations remarketed upon repayment and bear a variable rate of interest payable monthly and set weekly at a market rate  $\bar{A}$  5.40% per annum at September 30, 2006. The Company must make monthly interest payments on the bonds and the following annual principal payments on February 1 of each year: \$170,000 for 2006, \$180,000 for 2007, \$190,000 for 2008, \$205,000 for 2009 and \$220,000 for 2010. The principal payments after the next 5 years are subject to agreement between the Company and Wells Fargo. The Company pays a 1.5% per annum fee on the amount of the letter of credit, increasing to 3.5% if the Company is in default under the credit facility, and fees of the bond indenture trustee estimated at 0.5% of the bond principal per year. Bonds may be issued under the indenture for 30 years. The \$6,049,688 letter of credit expires December 30, 2008 and Wells Fargo is not obligated to renew it. If an agreement to renew a letter of credit is not reached prior to expiration, the Company is obligated to pay all outstanding bonds.

All parts of the credit facility are secured by substantially all of the Company's assets, including accounts receivable, inventory, equipment and fixtures and the Company's meat plant, none of which is otherwise encumbered. In addition, the workers' compensation letter of credit is secured by a cash deposit, shown as restricted cash on the September 30, 2006 balance sheet. The credit facility prohibits, without the bank's consent, dividends, mergers, acquisitions, sales of assets, guaranties, lending, borrowing, and granting security interests, and contains financial covenants requiring a minimum tangible net worth of \$7,500,000 through September 30, 2006 and \$7,600,000 thereafter, a maximum cumulative annual net loss of \$250,000 through December 31, 2006 and debt service coverage ratios not less than 0.15 to 1 for the 2nd quarter of 2006, 0.20 to 1 for the 3rd quarter of 2006, 0.28 to 1 for the 4th quarter of 2006 and 1.00 to 1 for the 1st quarter of 2007. The Company was in compliance with all of the financial covenants at September 30, 2006.

Under the terms of the credit facility, the Company is required to continue to use the business consulting services of Kibel Green Inc., originally engaged at Comerica's request, until the Company has 4 consecutive profitable quarters. Kibel Green received a \$100,795.70 finders fee in connection with the closing of the credit facility. In addition, the Company is paying the bank a \$135,000 origination fee in three annual installments beginning with the closing and a facility fee of \$25,000 per year the 1st and 2nd year after the closing.

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The Company purchased a second long-goods line for the pasta plant in 2003 and financed part of the cost on October 28, 2003 by an \$866,750 five-year term equipment loan from General Electric Capital Corporation bearing interest at 3.65% over a Federal Reserve rate - 3.65% + 5.34% = 8.99% at September 30, 2006 - with a principal balance of \$298,328 at September 30, 2006 and payable in equal monthly payments of principal plus interest.

On April 13, 2005, the Company completed the sale of its two pasta buildings for a gross price of \$6,113,776 and the leaseback of the buildings for ten years, with two 5 year options to renew, at \$39,543 per month, increasing annually by 3% compounded. The following table shows the payments due under the ten year lease in the specified periods:

|                  | Three Months Ending<br>December 31, |         |         | Year Ending December 31, |         |            |
|------------------|-------------------------------------|---------|---------|--------------------------|---------|------------|
|                  | 2006                                | 2007    | 2008    | 2009                     | 2010    | Thereafter |
| Lease Obligation | \$ 135,600                          | 499,746 | 514,743 | 530,184                  | 546,087 | 2,523,772  |

Cash increased \$2,896,592 in the 1st nine months of 2006 compared to a \$2,633,768 increase in the 1st nine months of 2005. Operating activities produced \$1,268,252 of cash primarily from net earnings, depreciation and amortization, and decreases in accounts receivable and inventories, partially offset mainly by the recognized building sale gain and an increase in income taxes receivable. Investing activities used \$9,595 of cash for additions to property and equipment offset by proceeds from the sale of property and equipment and a decrease in restricted cash securing a letter of credit. Financing activities provided \$1,637,935 of cash primarily from borrowing under the line of credit partially offset by payments on long-term debt and a capital lease obligation. On March 30, 2006 the Company borrowed \$2,000,000 under its line of credit and deposited it in an account at Wells Fargo Bank bearing a variable rate of interest of 5.131% per annum at September 30, 2006, to partially offset the minimum interest under the line of credit.

**Critical Accounting Policies**

The Securities and Exchange Commission defines a critical accounting policy as one which is both important to the portrayal of the registrant's financial condition and results of operations and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Critical for the Company are determining the allowance for doubtful accounts, valuing inventory and determining whether there is impairment of long-lived assets. Actual results could differ from those estimates and assumptions.

**Allowance for Doubtful Accounts.** The Company sells to its customers on credit and grants credit to those who are deemed credit worthy based on the Company's analysis of their credit history. The Company's standard payment terms are net 30 days. The Company reviews its accounts receivable balances and the collectibility of those balances on a periodic basis. Based on the Company's analysis of the length of time that the balances have been outstanding, the pattern of customer payments, its understanding of the general business conditions of its customers and its communications with its customers, the Company estimates the recoverability of those balances. When recoverability is uncertain and the unrecoverable amounts can be reasonably estimated, the Company records bad debt expense and increases the allowance for accounts receivable by the amounts estimated to be unrecoverable. If the data the Company uses to assist in the calculation of the allowance for doubtful accounts does not reflect its future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the Company's future results of operations could be materially affected. At September 30, 2006, the Company had no allowance for doubtful accounts based on the factors stated above. Additionally, based on the Company's analysis, there is no indication that a material amount of receivables is uncollectible.

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**Inventory.** Inventory is valued at the lower of cost or market, where market is generally the fair value less the cost to sell. The Company reviews the carrying value of its inventory on a periodic basis by determining the market value for the items in inventory and comparing the market value to the carrying value. In instances where the market value is lower than the carrying value, the Company writes down the inventory accordingly. If circumstances change (e.g. unexpected shifts in market demand) there could be a material impact on the net realizable value of the inventory.

**Impairment of Long-Lived Assets.** In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated fair value. The Company determines fair value using estimates of undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

The Company's evaluation of the recoverability of property and equipment includes estimates of future cash flows that are expected to arise as a direct result of the use and eventual disposition of the assets. A significant part of the estimation process involves estimating future operating cash flows and the fair value of the property and equipment at the eventual disposition date. The Company has recently incurred operating losses and sustaining its current return to profitability may depend in part on factors outside the Company's control. Future property and equipment impairment charges may result if actual cash flows, or changes in estimates of cash flows, from the use and eventual disposition of the property and equipment vary from the estimates used to support the value of the assets at each reporting date.

### **New Accounting Standards**

New accounting standards and interpretations are adopted by the Company as they become effective. In the opinion of management, recently released standards and interpretations not effective at September 30, 2006, will not have a material effect on the Company's financial position or results of operations.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The variable rate demand bonds, the bank line of credit, and the equipment loan bear variable rates of interest (see Liquidity and Capital Resources under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations) which tend to follow market interest rates and change the Company's interest expense in the same direction as changes in interest rates. A 1% per annum change in the rate borne by the variable rate demand bonds would change annual interest expense by almost \$60,000. Assuming an average bank line of credit balance of \$2,700,000 plus \$300,000 average principal balance on the equipment loan, a 1% per annum change in the rate borne by those borrowings would change annual interest expense by \$30,000.



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ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and are also effective to insure that this information is accumulated and communicated to management to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the Company's second fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that there have been no such changes during the Company's second fiscal quarter.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

No significant litigation.

ITEM 1A. RISK FACTORS

No material changes from Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

Common Stock Repurchase and Sale

During the 1st nine months of 2006, the Company did not purchase any shares of its common stock under its stock repurchase program.

During the 1st nine months of 2006, the Company sold 47,419 shares under its 1988 Employee Stock Purchase Plan. From inception of the Plan through September 30, 2006, employees have purchased a total of 965,510 shares.

American Stock Exchange Listing

The Company's stock trades on the American Stock Exchange under the ticker symbol PZA.

Cash Dividends

No cash dividends were paid in the 1st nine months of 2006.

Management Stock Transactions

No purchases or sales of the Company's common stock by officers or directors were reported during the 1st nine months of 2006.

ITEM 6. EXHIBITS

(a) The following exhibits are filed with this report: Exhibit 31 – Section 302 Certifications and Exhibit 32 – Section 906 Certifications.

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SIGNATURE

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

Date: November 2, 2006

PROVENA FOODS INC.

By /s/ Thomas J. Mulroney  
Thomas J. Mulroney  
Vice President and  
Chief Financial Officer

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EXHIBIT 31 SECTION 302 CERTIFICATIONS

I, Theodore L. Arena, and I, Thomas J. Mulrone, each separately certify that:

1. I have reviewed this quarterly report on Form 10-Q of Provena Foods Inc. (the Company );
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including any subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the Company s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the Company s internal control over financial reporting that occurred during the Company s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting; and
5. The Company s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company s auditors and the audit committee of the Company s board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company s internal control over financial reporting.

Date: November 2, 2006

/s/ Theodore L. Arena  
Theodore L. Arena, Chief Executive Officer

/s/ Thomas J. Mulrone  
Thomas J. Mulrone, Chief Financial Officer

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EXHIBIT 32 SECTION 906 CERTIFICATIONS

Each of the undersigned hereby certifies, in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Provena Foods Inc. (the Company), that, to his knowledge, the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2006, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: November 2, 2006

/s/ Theodore L. Arena  
Theodore L. Arena, Chief Executive Officer

/s/ Thomas J. Mulrone  
Thomas J. Mulrone, Chief Financial Officer