

BRIDGFORD FOODS CORP
Form 10-Q
August 24, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended July 13, 2018

OR

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

For the transition period from_____to_____.

Commission file number 000-02396

BRIDGFORD FOODS CORPORATION

(Exact name of registrant as specified in its charter)

California **95-1778176**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) identification number)

1308 N. Patt Street, Anaheim, CA 92801

(Address of principal executive offices-Zip code)

714-526-5533

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

Edgar Filing: BRIDGFORD FOODS CORP - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of August 24, 2018, the registrant had 9,076,832 shares of common stock outstanding.

BRIDGFORD FOODS CORPORATION

FORM 10-Q QUARTERLY REPORT

INDEX

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

	Page
<u>Part I. Financial Information</u>	3
Item 1. Financial Statements	3
<u>a. Condensed Consolidated Balance Sheets at July 13, 2018 (unaudited) and November 3, 2017</u>	3
<u>b. Condensed Consolidated Statements of Operations for the twelve and thirty-six weeks ended July 13, 2018 and July 7, 2017 (unaudited)</u>	4
<u>c. Condensed Consolidated Statements of Shareholders’ Equity as of July 13, 2018 (unaudited)</u>	5
<u>d. Condensed Consolidated Statements of Cash Flows for the thirty-six weeks ended July 13, 2018 and July 7, 2017 (unaudited)</u>	6
<u>e. Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	21
<u>Item 4. Controls and Procedures</u>	21
<u>Part II. Other Information</u>	22
<u>Item 1A. Risk Factors</u>	22
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 6. Exhibits</u>	23
<u>Signatures</u>	24

Items 1 and 3 through 5 of Part II have been omitted because they are not applicable with respect to the Company and/or the current reporting period.

2 of 24

Part I. Financial Information

Item 1. a.

BRIDGFORD FOODS CORPORATION**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share amounts)

	July 13, 2018 (unaudited)	November 3, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,325	\$ 12,109
Accounts receivable, less allowance for doubtful accounts of \$29 and \$30, respectively, and promotional allowances of \$2,038 and \$2,537, respectively	17,794	19,148
Inventories, less reserves of \$247 and \$358, respectively (Note 2)	24,693	23,016
Prepaid expenses and other current assets	112	1,550
Total current assets	55,924	55,823
Property, plant and equipment, net of accumulated depreciation and amortization of \$65,984 and \$63,722, respectively	25,676	18,571
Other non-current assets	11,901	13,111
Deferred income taxes (Note 5)	6,840	10,040
Total assets	\$ 100,341	\$ 97,545
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,719	\$ 5,365
Accrued payroll, advertising and other expenses	4,833	4,555
Income taxes payable	1,029	216
Current portion of non-current liabilities	5,995	6,108
Total current liabilities	18,576	16,244
Non-current liabilities	21,272	25,263
Total liabilities	39,848	41,507

Contingencies and commitments (Note 3)

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 – 9,076 and 9,076 shares, respectively	9,134	9,134
Capital in excess of par value	8,298	8,298
Retained earnings	63,886	56,902
Accumulated other comprehensive loss	(20,825)	(18,296)
Total shareholders' equity	60,493	56,038
Total liabilities and shareholders' equity	\$ 100,341	\$ 97,545

See accompanying notes to condensed consolidated financial statements.

Item 1. b.

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

(unaudited)

(in thousands, except per share amounts)

	12 weeks ended		36 weeks ended	
	July 13, 2018	July 7, 2017	July 13, 2018	July 7, 2017
Net sales	\$38,468	\$36,609	\$117,560	\$110,787
Cost of products sold	26,034	22,590	79,107	68,896
Gross margin	12,434	14,019	38,453	41,891
Selling, general and administrative expenses	10,730	10,941	34,214	33,362
Gain on sale of property, plant & equipment	-	(24)	(6,002)	(52)
Income before taxes	1,704	3,102	10,241	8,581
Provision for income taxes	256	1,043	5,786	2,733
Net income	\$1,448	\$2,059	\$4,455	\$5,848
Basic earnings per share	\$0.16	\$0.22	\$0.49	\$0.64
Shares used to compute basic earnings per share	9,077	9,077	9,077	9,077

See accompanying notes to condensed consolidated financial statements.

Item 1. c.

BRIDGFORD FOODS CORPORATION**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****As of July 13, 2018****(unaudited)****(in thousands)**

	Shares	Amount	Capital in excess of par value	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance, November 3, 2017	9,076	\$ 9,134	\$ 8,298	\$ 56,902	\$ (18,296)	\$ 56,038
Net income	-	-	-	4,455	-	4,455
Reclassification upon early adoption of ASU 2018-02 (Note 5)	-	-	-	2,529	(2,529)	-
Balance, July 13, 2018	9,076	\$ 9,134	\$ 8,298	\$ 63,886	\$ (20,825)	\$ 60,493

See accompanying notes to condensed consolidated financial statements.

5 of 24

Item 1. d.

BRIDGFORD FOODS CORPORATION**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)****(in thousands)**

	36 weeks ended	
	July 13, 2018	July 7, 2017
Cash flows from operating activities:		
Net income	\$4,455	\$5,848
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,598	2,130
Provision for losses on accounts receivable	5	26
Provision for (reduction in) promotional allowances	499	(166)
Gain on sale of property, plant and equipment	(6,002)	(52)
Deferred income taxes, net	3,200	-
Changes in operating assets and liabilities:		
Accounts receivable	850	(2,096)
Inventories	(1,677)	3,953
Prepaid expenses and other current assets	1,438	13
Other non-current assets	1,210	(727)
Accounts payable	1,354	377
Accrued payroll, advertising and other expenses	248	1,985
Income taxes payable	813	-
Non-current liabilities	(3,991)	2,147
Net cash provided by operating activities	5,000	13,438
Cash provided by (used in) investing activities:		
Proceeds from sale of property, plant and equipment	6,002	52
Additions to property, plant and equipment	(9,704)	(9,725)
Net cash used in investing activities	(3,702)	(9,673)

Edgar Filing: BRIDGFORD FOODS CORP - Form 10-Q

Cash used in financing activities:		
Payment of capital lease obligations	(82)	(91)
Net cash used in financing activities	(82)	(91)
Net increase in cash and cash equivalents	1,216	3,674
Cash and cash equivalents at beginning of period	12,109	6,985
Cash and cash equivalents at end of period	\$13,325	\$10,659
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$1,407	\$2,579

See accompanying notes to condensed consolidated financial statements.

Item 1. e.

BRIDGFORD FOODS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in thousands, except percentages, time periods, share and per share amounts)

Note 1 – Summary of Significant Accounting Policies:

The unaudited condensed consolidated financial statements of Bridgford Foods Corporation (the “Company”, “we”, “our”, “us”) for the twelve and thirty-six weeks ended July 13, 2018 and July 7, 2017 have been prepared in conformity with the accounting principles described in the Company’s Annual Report on Form 10-K for the fiscal year ended November 3, 2017 (as amended on Form 10-K/A, the “Annual Report”) and include all adjustments considered necessary by management for a fair presentation of the interim periods. This Report should be read in conjunction with the Annual Report. Due to seasonality and other factors, interim results are not necessarily indicative of the results for the full year. Recent accounting pronouncements and their effect on the Company are discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations in this Report.

The November 3, 2017 balance sheet amounts within these interim condensed consolidated financial statements were derived from the audited fiscal year 2017 financial statements.

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported revenues and expenses during the reporting periods. Some of the estimates needed to be made by management include the allowance for doubtful accounts, promotional and returns allowances, inventory reserves, the estimated useful lives of property, plant and equipment, and the valuation allowance for the Company’s deferred tax assets. Actual results could materially differ from these 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 which vary from our current estimates. Market conditions and the volatility in stock markets may cause significant changes in the measurement of our pension fund liabilities and the performance of our life insurance policies in future periods.

Certain items in fiscal year 2017 have been reclassified to conform to the fiscal year 2018 presentation.

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued payroll, advertising and other expenses. The carrying amount of these instruments approximate fair market value due to their short-term maturity. As of July 13, 2018, the Company had accounts in excess of the Federal Deposit Insurance Corporation insurance coverage limit. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with regard to its cash and cash equivalents. The Company grants payment terms to a significant number of customers that are diversified over a wide geographic area. The Company monitors the payment histories of its customers and maintains an allowance for doubtful accounts which is reviewed for adequacy on a quarterly basis. The Company does not require collateral from its customers.

The table below shows customers that accounted for more than 20% of consolidated accounts receivable (“AR”) or 10% of consolidated sales for the thirty-six weeks ended July 13, 2018 and July 7, 2017, respectively.

Customer Concentration > 20% of AR or 10% of Sales *

	Wal-Mart		Dollar General	
	Sales	AR	Sales	AR
July 13, 2018	36.6 %	34.4 %	9.1 %	23.9 %
July 7, 2017	38.7 %	48.1 %	7.5 %	15.6 %

* = No other customer accounted for more than 20% of consolidated accounts receivable or 10% of consolidated sales for the thirty-six weeks ended July 13, 2018 or July 7, 2017.

On March 7, 2018, the Company sold a parcel of land in Chicago, Illinois for approximately \$5,977. As a result, the Company recognized a non-recurring pre-tax gain on the sale of property for \$5,977 in the thirty-six-week period ended July 13, 2018. The cost basis of the land is insignificant. The gain is shown in the “Other” column in Note 4 – Segment Information.

Subsequent events

Management has evaluated events subsequent to July 13, 2018 through the date that the accompanying condensed consolidated financial statements were filed with the Securities and Exchange Commission for transactions and other events which may require adjustments of and/or disclosure in such financial statements.

Basic earnings per share

Basic earnings per share are calculated based on the weighted average number of shares outstanding for all periods presented. No stock options, warrants, or convertible securities were outstanding as of July 13, 2018 or July 7, 2017.

Note 2 – Inventories:

Inventories are comprised of the following at the respective period ends:

	(unaudited)	
	July 13, 2018	November 3, 2017
Meat, ingredients and supplies	\$ 7,980	\$ 5,409
Work in progress	1,672	1,501
Finished goods	15,041	16,106
	\$ 24,693	\$ 23,016

Inventories are valued at the lower of cost (which approximates actual cost on a first-in, first-out basis) or net realizable value. Costs related to warehousing, transportation and distribution to customers are considered when computing market value. Inventories include the cost of ingredients, labor and manufacturing overhead. We regularly review inventory quantities on hand and write down any excess or obsolete inventories to estimated 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 may need to be sold at reduced prices and could result in additional reserve provisions.

Note 3 – Contingencies and Commitments:

We invested in OTR (over-the-road) tractors financed by a capital lease obligation in the amount of \$1,060 during fiscal year 2012. The total capital lease obligation remaining for transportation equipment as of July 13, 2018 is \$341 for a contractual purchase obligation. The lease arrangement also contains a variable component of seven cents per mile based on miles driven over the lease life. As of July 13, 2018, the capital lease has expired and converted to a month-to-month rental. The specifics in the final stage of the capital lease program or any renewal are currently being negotiated.

The Company also leases warehouse and/or office facilities throughout the United States through month-to-month rental agreements. No material changes have been made to these agreements during the thirty-six weeks ended July 13, 2018.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

Most flour purchases are made at market price without contracts. However, the Company may purchase bulk flour at current market prices under short-term (30 - 120 days) fixed price contracts during the normal course of business. Under these arrangements, the Company is obligated to purchase specific quantities at fixed prices, within the specified contract period. These contracts provide for automatic price increases if agreed quantities are not purchased within the specified contract period. The contracts are not material. These contracts are typically settled within a month's time and no significant contracts remain open at the close of the quarterly or annual reporting period. No significant contracts remained unfulfilled at July 13, 2018. The Company does not participate in the commodity futures market or hedging to limit commodity exposure.

Expenditures for additions to property, plant and equipment during the thirty-six weeks ended July 13, 2018 include initial payments of \$4,800 on the purchase of smokehouses and chillers which will cost approximately \$5,700.

Note 4 – Segment Information:

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

We evaluate each segment's performance based on revenues and operating income. Selling, general and administrative ("SG&A") expenses include corporate accounting, information systems, human resource management and marketing, which are managed at the corporate level. These activities are allocated to each operating segment based on revenues and/or actual usage. Assets managed at the corporate level have been included as "other" in the accompanying segment information.

The following segment information is presented for the twelve and thirty-six weeks ended July 13, 2018 and July 7, 2017.

Segment Information
Twelve weeks Ended

	Frozen Food Products	Snack Food Products	Other	Totals
July 13, 2018				
Sales	\$ 9,574	\$ 28,894	\$ -	\$ 38,468
Cost of products sold	6,474	19,560	-	26,034
Gross margin	3,100	9,334	-	12,434
SG&A	3,004	7,726		10,730
Gain on sale of property, plant and equipment	-	-	-	-
Income before taxes	96	1,608	-	1,704
Total assets	\$ 10,532	\$ 57,529	\$ 32,280	\$ 100,341
Additions to PP&E	\$ 251	\$ 4,642	\$ -	\$ 4,893

Twelve weeks Ended

	Frozen Food Products	Snack Food Products	Other	Totals
July 7, 2017				
Sales	\$ 10,200	\$ 26,409	\$ -	\$ 36,609
Cost of products sold	6,429	16,161	-	22,590
Gross margin	3,771	10,248	-	14,019
SG&A	3,348	7,593	-	10,941
Gain on sale of property, plant and equipment	-	(24)	-	(24)
Income before taxes	423	2,679	-	3,102
Total assets	\$ 10,552	\$ 46,444	\$ 40,524	\$ 97,520

Edgar Filing: BRIDGFORD FOODS CORP - Form 10-Q

Additions to PP&E	\$ 156	\$ 1,985	\$	\$2,141
-------------------	--------	----------	----	---------

Thirty-six weeks Ended

July 13, 2018

	Frozen Food Products	Snack Food Products	Other	Totals
Sales	\$ 31,175	\$ 86,385	\$-	\$ 117,560
Cost of products sold	20,612	58,495	-	79,107
Gross margin	10,563	27,890	-	38,453
SG&A	9,761	24,453		34,214
Gain on sale of property, plant and equipment	(6)	(19)	(5,977)	(6,002)
Income before taxes	808	3,456	5,977	10,241

Total assets	\$ 10,532	\$ 57,529	\$ 32,280	\$ 100,341
Additions to PP&E	\$ 552	\$ 9,152	\$-	\$ 9,704

Thirty-six weeks Ended

July 7, 2017

	Frozen Food Products	Snack Food Products	Other	Totals
Sales	\$ 32,731	\$ 78,056	\$-	\$ 110,787
Cost of products sold	20,510	48,386	-	68,896
Gross margin	12,221	29,670	-	41,891
SG&A	10,309	23,053	-	33,362
Gain on sale of property, plant and equipment	-	(52)	-	(52)
Income before taxes	1,912	6,669	-	8,581

Total assets	\$ 10,552	\$ 46,444	\$ 40,524	\$ 97,520
Additions to PP&E	\$ 260	\$ 9,465	\$-	\$ 9,725

Note 5 – Income Taxes:

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act includes significant changes to the U.S. tax code that will affect our fiscal year ending November 2, 2018, and future periods, including, but not limited to, (1) reducing the corporate federal income tax rate from 35% to 21%, (2) bonus depreciation that will allow for full expensing of qualified property in the year placed in service, and (3) the repeal of the domestic production activity deduction beginning with our fiscal year 2019. Section 15 of the Internal Revenue Code (the “Code”) stipulates that our fiscal year ending November 2, 2018 will have a blended corporate tax rate of 23.07%, which is based on the applicable tax rates before and after the Tax Act and the number of days in the year.

Under U.S. GAAP, specifically ASC Topic 740, *Income Taxes*, the tax effects of changes in tax laws must be recognized in the period in which the law is enacted, or December 22, 2017, for the Tax Act. ASC Topic 740 also requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Company’s deferred taxes were re-measured based upon the new tax rates. The change in deferred taxes is recorded as an adjustment to our deferred tax provision.

The staff of the U.S. Securities and Exchange Commission has recognized the complexity of reflecting the impacts of the Tax Act and issued guidance in Staff Accounting Bulletin 118 (“SAB 118”), which clarifies accounting for income taxes under ASC Topic 740 if information is not yet available or complete and provides for up to a one-year period in which to complete the required analyses and accounting (the “measurement period”). SAB 118 describes three scenarios (or “buckets”) associated with a company’s status of accounting for income tax reform: (1) a company is complete with its accounting for certain effects of tax reform, (2) a company is able to determine a reasonable estimate for certain effects of tax reform and records that estimate as a provisional amount, or (3) a company is not able to determine a reasonable estimate and therefore continues to apply ASC Topic 740, based on the provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted.

The final accounting for the Tax Act is in process. We are able to make reasonable estimates of certain effects and, therefore, recorded provisional adjustments as follows:

Corporate Tax Rate Reduction: The Tax Act reduced the corporate tax rate from 35% to 21%, effective January 1, 2018. This results in a blended corporate tax rate of 23.07% in fiscal year 2018 and 21% thereafter. We analyzed our deferred tax balances to estimate which of those balances are expected to reverse in fiscal 2018 or thereafter, and we re-measured the deferred taxes at 23.07% or 21% accordingly. In the thirty-six weeks ended July 13, 2018, we recorded a discrete net deferred income tax expense of \$3,200 with a corresponding provisional reduction to our net deferred income tax assets. This estimate may change as we receive additional information about the timing of deferred income tax reversals.

The changes included in the Tax Act are broad and complex. The final transition impacts of the Tax Act may differ from the above estimates, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the Company has utilized to calculate such impacts.

The effective tax rate was 56.5% and 31.8% for the third quarter of fiscal 2018 and 2017, respectively. The remeasurement of deferred income taxes at newly enacted tax rates resulted in a \$3,200 income tax expense or a 37.5% impact on the effective tax rate for the first quarter, and the newly enacted tax legislation resulted in a blended 23.07% statutory federal income tax rate for fiscal 2018. The effective tax rate for the third quarter of fiscal 2018 also reflects the impact of \$1,640 of income tax expense or 19.2% related to tax on the gain on sale of a land parcel in Chicago, Illinois. Additionally, the effective tax rates for the third quarter of fiscal years 2018 and 2017 were impacted by such items as the domestic production deduction, non-taxable gains and losses on life insurance policies and state income taxes.

The Company adopted ASU 2018-02, Income Statement-Reporting Other Comprehensive Income (OCI) (Topic 220) in the thirty-six weeks ended July 13, 2018. As a result of the remeasurement of deferred tax assets related to the Tax Act, we reclassified \$2,529 from Other Comprehensive Income to Retained Earnings.

The components of the tax provision are as follows:

	36 weeks ended July 13, 2018
Tax provision at estimated annual effective rate	\$946
Tax on sale of property- Chicago land parcel	1,640
Deferred income tax adjustment - OCI	2,529
Deferred income tax adjustment - Non-OCI	671
Provision for income taxes	\$5,786

As of July 13, 2018, the Company did not have any outstanding federal or state, other than California, net operating loss carryforwards.

Our federal income tax returns are open to audit under the statute of limitations for the fiscal years ended on or about October 31, 2014 through 2017. We are subject to income tax in California and various other state taxing jurisdictions.

Our California state income tax returns are open to audit under the statute of limitations for the fiscal years ended on or about October 31, 2013 through 2017.

10 of 24

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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, as amended, and the Securities Exchange Act of 1934 (the “Exchange Act”). 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. Assumptions relating to budgeting, marketing, and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our marketing, capital expenditure or other budgets, which may in turn affect our business, financial position, results of operations and cash flows. The reader is therefore cautioned not to place undue reliance on forward-looking statements contained herein and to consider other risks detailed more fully in our Annual Report on Form 10-K, as amended, for the fiscal year ended November 3, 2017 (the “Annual Report”). We undertake no obligation to publicly release the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

Critical Accounting Policies and Management Estimates

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States of America 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. Some of the estimates needed to be made by management include the allowance for doubtful accounts, promotional and returns allowances, inventory reserves, the estimated useful lives of property and equipment, and the valuation allowance for the Company’s deferred tax assets. Actual results could materially differ from these estimates. We determine the amounts to record based on historical experience and various other assumptions that we view as reasonable under the circumstances and consider all relevant available information. The results of this analysis form the basis for our conclusion as to the value of assets and liabilities that are not readily available from other independent sources. 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 which vary from our current estimates.

Current accounting principles require that our pension benefit obligation be measured using an internal rate of return (“IRR”) analysis to be included in the discount rate selection process. The IRR calculation for the Retirement Plan for Employees of Bridgford Foods Corporation is measured annually and based on the Citigroup Pension Discount Rate. The Citigroup Pension Discount Rate as of July 31, 2018 was 4.08% as compared to 4.10% as of November 3, 2017. The discount rate applied can significantly affect the value of the projected benefit obligation as well as the net periodic benefit cost.

Our credit risk is diversified across a broad range of customers and geographic regions. Losses due to credit risk have recently been immaterial. The provision for doubtful accounts receivable is based on historical trends and current collection risk. We have significant receivables with a few large, well known customers which, although historically secure, could be subject to material risk should these customers’ operations suddenly deteriorate. We monitor these customers closely to minimize the risk of loss.

The table below shows customers that accounted for more than 20% of consolidated accounts receivable (“AR”) or 10% of consolidated sales for the thirty-six weeks ended July 13, 2018 and July 7, 2017, respectively.

Customer Concentration > 20% of AR or 10% of Sales *

	Wal-Mart		Dollar General	
	Sales	AR	Sales	AR
July 13, 2018	36.6%	34.4%	9.1%	23.9%
July 7, 2017	38.7%	48.1%	7.5%	15.6%

* = No other customer accounted for more than 20% of consolidated accounts receivable or 10% of consolidated sales for the thirty-six weeks ended July 13, 2018 or the thirty-six weeks ended July 7, 2017.

Sales 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 our own direct store delivery system.

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

We provide tax reserves for federal, state, local and international exposures relating to audit results, tax planning initiatives and compliance responsibilities. The development of these reserves requires judgments about tax issues, potential outcomes and timing, and is a subjective estimate. Although the outcome of these tax audits is uncertain, in management's opinion adequate provisions for income taxes have been made for potential liabilities, if any, resulting from these reviews. Actual outcomes may differ materially from these estimates.

We assess the recoverability of our long-lived assets on a quarterly basis or whenever adverse events or changes in circumstances or business climate indicate that expected undiscounted future cash flows related to such long-lived assets may not be sufficient to support the net book value of such assets. If undiscounted cash flows are not sufficient to support the recorded assets, we recognize an impairment to reduce the carrying value of the applicable long-lived assets to their estimated fair value.

We participate in "multiemployer" pension plans administered by labor unions on behalf of their employees. We pay monthly contributions to union trust funds, a portion of which is used to fund pension benefit obligations to plan participants. The contribution amount may change depending upon the ability of participating companies to fund these

pension liabilities as well as the actual and expected returns on pension plan assets. Should we withdraw from the union and cease participation in a union plan, federal law could impose a penalty for additional contributions to the plan. The penalty would be recorded as an expense in the consolidated statement of operations. The ultimate amount of the withdrawal liability is dependent upon several factors including the funded status of the plan and contributions made by other participating companies.

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively, the “PPACA”), was signed into law. Requirements of the law include the removal of the lifetime limits on active and retiree medical coverage, expanding dependent coverage to age 26 and elimination of pre-existing conditions that may impact other postretirement benefits costs. In addition, the PPACA includes potential excise tax on the value of benefits that exceed a pre-defined limit which may require changes in benefit plan levels in order to minimize this additional cost. Finally, the PPACA includes provisions that require employers to offer health benefits to all full-time employees (defined as 30 hours per week). The health coverage must meet minimum standards for the actuarial value of the benefits offered and employee affordability. While the new administration has indicated a desire to eliminate and replace PPACA with an alternative system, there has yet been no change in the rules that compel an employer such as Bridgford Foods to offer affordable coverage to all of its employees. The recent tax law changes removed the individual mandate provision that is included in PPACA and requires all individuals to have health insurance or pay a penalty. Despite this change, the recent tax changes did not adjust or remove the employer mandate. We cannot anticipate further changes at this point in time. We believe that current plans meet the existing requirements. We will continue to assess the accounting implications of the PPACA and its impact on our financial position and results of operations as more legislative and interpretive guidance becomes available. The potential future effects and cost of complying with the provisions of the PPACA are not determinable at this time.

Overview of Reporting Segments

We operate in two business segments – the processing and distribution of frozen food products (the Frozen Food Products segment), and the processing and distribution of snack food products (the Snack Food Products segment). For information regarding the separate financial performance of the business segments refer to Note 4 of the Notes to the Condensed Consolidated Financial Statements included in this Report. We manufacture and distribute an extensive line of food products, including biscuits, bread dough items, roll dough items, dry sausage products and beef jerky.

Frozen Food Products Segment

Our Frozen Food Products segment primarily manufactures and distributes biscuits, bread dough items, roll dough items and shelf stable sandwiches. All items within this segment are considered similar products and have been aggregated at this level. Our frozen food business covers the United States. 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. 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.

Snack Food Products Segment

Our Snack Food Products segment primarily distributes products manufactured by us. All items within this segment are considered similar products and have been aggregated at this level. The dry sausage division includes products such as jerky, meat snacks, sausage and pepperoni products. Our Snack Food Products segment sells approximately 110 different items through a direct store delivery network serving approximately 15,000 supermarkets, mass merchandise and convenience retail stores located in 48 states. These customers are comprised of large retail chains and smaller “independent” operators.

Products produced or distributed by the Snack Food Products segment are supplied to customers through either direct-store-delivery or direct delivery to customer warehouses. 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. Products delivered to customer warehouses are distributed to the retail store and stocked by the customer where it is then resold to the end consumer.

Results of Operations for the Twelve-Weeks Ended July 13, 2018 and July 7, 2017

Net Sales-Consolidated

Net sales increased by \$1,859 (5.1%) to \$38,468 in the third twelve-week period of the 2018 fiscal year compared to the same twelve-week period in fiscal year 2017. The changes in net sales were comprised as follows:

Impact on Net Sales-Consolidated	%	\$
Selling price per pound	-7.3	(2,874)
Unit sales volume in pounds	11.5	4,501
Returns activity	-0.1	(57)
Promotional activity	1.0	289
Increase in net sales	5.1	1,859

Net Sales-Frozen Food Products Segment

Net sales in the Frozen Food Products segment decreased by \$626 (6.1%) to \$9,574 in the third twelve-week period of the 2018 fiscal year compared to the same twelve-week period in fiscal year 2017. The changes in net sales were comprised as follows:

Impact on Net Sales-Frozen Food Products	%	\$
Selling price per pound	-2.9	(334)
Unit sales volume in pounds	-4.6	(526)
Returns activity	-0.1	(9)
Promotional activity	1.5	243
Decrease in net sales	-6.1	(626)

The decrease in net sales for the twelve-weeks ended July 13, 2018 primarily relates to lower unit sales volume combined with lower selling prices as well as changes in product mix. The decrease was due to weak customer demand in the retail distribution channel for rolls, monkey bread and certain other bread products resulting in a combined 26% decline in volume. The food-service channel declined 5% due to high volume, low margin products being discontinued by significant operators. Sales of items designed to conform to strict school nutritional requirements declined after the requirements were relaxed. Changes in returns were insignificant compared to the same twelve-week period in the prior fiscal year.

Net Sales-Snack Food Products Segment

Net sales in the Snack Food Products segment increased by \$2,485 (9.4%) to \$28,894 in the third twelve-week period of the 2018 fiscal year compared to the same twelve-week period in fiscal year 2017. The changes in net sales were comprised as follows:

Impact on Net Sales-Snack Food Products	%	\$
Selling price per pound	-9.2	(2,541)
Unit sales volume in pounds	18.1	5,028
Returns activity	0.1	(48)
Promotional activity	0.4	46
Increase in net sales	9.4	2,485

Unit volume in pounds increased significantly in the beef products category. The volume of pork-based products was also higher compared to the prior fiscal twelve-week period. The weighted average selling price per pound decreased compared to the same twelve-week period in the prior fiscal year due to lower per pound selling prices for larger package sizes. Promotional offers decreased slightly due to the timing of programs with significant customers. Returns activity was slightly lower compared to the same twelve-week period in the 2017 fiscal year.

Cost of Products Sold and Gross Margin-Consolidated

Cost of products sold increased by \$3,444 (15.2%) to \$26,034 in the third twelve-week period of the 2018 fiscal year compared to the same twelve-week period in fiscal year 2017. The gross margin decreased from 38.3% to 32.3%.

Change in Cost of Products Sold by Segment	\$	%	Commodity \$ Increase
Frozen Food Products Segment	45	0.2	53
Snack Food Products Segment	3,399	15.0	303
Total	3,444	15.2	356

Cost of Products Sold-Frozen Food Products Segment

Cost of products sold in the Frozen Food Products segment increased by \$45 (0.7%) to \$6,474 in the third twelve-week period of the 2018 fiscal year compared to the same twelve-week period in fiscal year 2017. Changes in product mix and lower overhead absorption were the primary contributing factors to this increase. The cost of purchased flour increased approximately \$53 in the third twelve-week period of fiscal year 2018 compared to the same twelve-week period in fiscal year 2017.

Cost of Products Sold-Snack Food Products Segment

Cost of products sold in the Snack Food Products segment increased by \$3,399 (21.0%) to \$19,560 in the third twelve-week period of the 2018 fiscal year compared to the same twelve-week period in fiscal year 2017 due to a substantial increase in sales volume. Meat commodity costs continued to rise during the 2018 period contributing to the increase in cost of products sold. Higher utility costs and hourly wages impacted the cost of products sold. The cost of significant meat commodities increased approximately \$303 in the third twelve-week period of fiscal year 2018 compared to the same period in fiscal year 2017.

Selling, General and Administrative Expenses-Consolidated

Selling, general and administrative expenses decreased by \$211 (1.9%) to \$10,730 in the third twelve-week period of fiscal year 2018 compared to the same twelve-week period in the prior fiscal year. The table below summarizes the significant expense increases (decreases) included in this category:

	12 Weeks Ended		Expense
	July 13,	July 7,	Increase
	2018	2017	(Decrease)
Cash surrender value gain	\$(721)	\$(298)	\$ (423)
Pension expense	284	569	(285)
Recovery on doubtful accounts	(147)	12	(159)
Other SG&A	11,314	10,658	656
Total - SG&A	\$10,730	\$10,941	\$ (211)

The cash surrender value of life insurance policies increased substantially due to stock market gains compared to the same twelve-week period in fiscal year 2017. The decrease in pension costs was due to higher pension discount rates being used to compute the future liability estimate. The recovery on doubtful accounts during the twelve-weeks ended July 13, 2018 was due to collection of customer accounts previously written off. None of the changes individually or as a group of expenses in "Other SG&A" were significant enough to merit separate disclosure. The major components comprising the increase of "Other SG&A" expenses were higher outside consulting fees and healthcare costs.

Selling, General and Administrative Expenses-Frozen Food Products Segment

SG&A expenses in the Frozen Food Products segment decreased by \$344 (10.3%) to \$3,004 in the third twelve-week period of fiscal year 2018 compared to the same twelve-week period in the prior fiscal year. The overall decrease in SG&A expenses was due to lower unit sales volume and lower product advertising.

Selling, General and Administrative Expenses-Snack Food Products Segment

SG&A expenses in the Snack Food Products segment increased by \$133 (1.8%) to \$7,726 in the third twelve-week period of fiscal year 2018 compared to the same twelve-week period in the prior fiscal year. Most of the increase was due to higher unit sales volume, higher expenses related to repairs and maintenance for SQF certification as well as higher healthcare costs partially offset by lower pension expense.

Income Taxes-Consolidated

Income tax for the twelve-weeks ended July 13, 2018 and July 7, 2017, respectively, was as follows:

	July 13, 2018	July 7, 2017
Provision for income taxes	\$256	\$1,043
Effective tax rate	15.0%	33.6 %

We recorded a tax provision of \$256 for the twelve-week period ended July 13, 2018, related to federal and state taxes, based on the Company's expected annual effective tax rate. The effective tax rate for the third quarter of 2018

reflects the impact of \$1,640 of expense related to tax on the gain on sale of a land parcel in Chicago, Illinois discussed in Note 5. Income Taxes above. The effective income tax rate differed from the applicable mixed statutory rate of approximately 27.55% also due to non-taxable gains and losses on life insurance policies and domestic production activities deductions under Internal Revenue Code ("IRC") Section 199.

Net Income-Consolidated

The net income of \$1,448 in the twelve-weeks ended July 13, 2018 includes a non-taxable gain on life insurance policies in the amount of \$721. The net income of \$2,059 in the twelve-weeks ended July 7, 2017 includes a non-taxable gain on life insurance policies in the amount of \$298. Gains and losses on life insurance policies are dependent upon the performance of the underlying equities that support policy values and future results may vary considerably.

Results of Operations for the Thirty-Six Weeks Ended July 13, 2018 and July 7, 2017

Net Sales-Consolidated

Net sales increased by \$6,773 (6.1%) to \$117,560 in the thirty-six-week period of the 2018 fiscal year compared to the same thirty-six-week period in fiscal year 2017. The changes in net sales were comprised as follows:

Impact on Net Sales-Consolidated	%	\$
Selling price per pound	-3.4	(4,073)
Unit sales volume in pounds	8.4	9,975
Returns activity	-0.1	(286)
Promotional activity	1.2	1,157
Increase in net sales	6.1	6,773

Net Sales-Frozen Food Products Segment

Net sales in the Frozen Food Products segment decreased by \$1,556 (4.8%) to \$31,175 in the thirty-six-week period of the 2018 fiscal year compared to the same thirty-six-week period in fiscal year 2017. The changes in net sales were comprised as follows:

Impact on Net Sales-Frozen Food Products	%	\$
Selling price per pound	-0.6	(222)
Unit sales volume in pounds	-5.3	(1,948)
Returns activity	-	-
Promotional activity	1.1	614
Decrease in net sales	-4.8	(1,556)

The decrease in net sales for the thirty-six weeks ended July 13, 2018 primarily relates to lower unit sales volume. Weak customer demand in the retail distribution channel for rolls, monkey bread and certain other bread products resulted in a combined 20% decline in volume. The food-service channel declined 5% due to high volume, low margin products being discontinued by significant operators. Sales of items designed to conform to strict school nutritional requirements declined after the requirements were relaxed. Changes in returns were insignificant compared to the same thirty-six-week period in fiscal year 2017 while promotional activity decreased due to lower sales volume.

Net Sales-Snack Food Products Segment

Net sales in the Snack Food Products segment, increased by \$8,329 (10.7%) to \$86,385 in the thirty-six-week period of the 2018 fiscal year compared to the same thirty-six-week period in fiscal year 2017. The changes in net sales were comprised as follows:

Impact on Net Sales-Snack Food Products	%	\$
Selling price per pound	-4.7	(3,851)
Unit sales volume in pounds	14.5	11,923
Returns activity	-0.1	(286)
Promotional activity	1.0	543
Increase in net sales	10.7	8,329

Unit volume in pounds increased significantly in the beef products category. The volume of pork-based products was also higher compared to the prior thirty-six-week period. The weighted average selling price per pound decreased compared to the same thirty-six-week period in fiscal year 2017 due to lower per pound selling prices for larger

package sizes. Promotional offers decreased due to the timing of programs with significant customers. Returns activity was slightly higher compared to the same thirty-six-week period in the 2017 fiscal year.

Cost of Products Sold and Gross Margin-Consolidated

Cost of products sold increased by \$10,211 (14.8%) to \$79,107 in the thirty-six-week period of the 2018 fiscal year compared to the same thirty-six-week period in fiscal year 2017. The gross margin decreased from 37.8% to 32.7%.

Change in Cost of Products Sold by Segment	\$	%	Commodity
			\$ Increase
Frozen Food Products Segment	102	0.1	154
Snack Food Products Segment	10,109	14.7	2,424
Total	10,211	14.8	2,578

Cost of Products Sold-Frozen Food Products Segment

Cost of products sold in the Frozen Food Products segment increased by \$102 (0.5%) to \$20,612 in the thirty-six-week period of the 2018 fiscal year compared to the same thirty-six-week period in fiscal year 2017. Cost of products sold was higher due to higher commodity costs and changes in product mix partially offset by lower sales volume. Overhead spending decreased related to lower pension costs. The cost of purchased flour increased approximately \$154 in the thirty-six-week period of fiscal year 2018 compared to the same thirty-six-week period in fiscal year 2017.

Cost of Products Sold-Snack Food Products Segment

Cost of products sold in the Snack Food Products segment increased by \$10,109 (20.9%) to \$58,495 in the thirty-six-week period of the 2018 fiscal year compared to the same thirty-six-week period in fiscal year 2017 due to a substantial increase in sales volume. Meat commodity costs continued to rise during the 2018 period contributing to the increase in cost of products sold. Higher workers' compensation costs and healthcare impacted the cost of products sold. The cost of significant meat commodities increased approximately \$2,424 in the thirty-six-week period of fiscal year 2018 compared to the same period in fiscal year 2017.

Selling, General and Administrative Expenses-Consolidated

Selling, general and administrative ("SG&A") expenses increased by \$852 (2.6%) to \$34,214 in the thirty-six-week period of fiscal year 2018 compared to the same thirty-six-week period in fiscal year 2017. The table below summarizes the significant expense increases (decreases) included in this category:

	36 Weeks Ended		Expense
	July 13,	July 7,	Increase
	2018	2017	(Decrease)
Pension costs	\$852	\$1,695	\$ (843)
Repairs and maintenance "SQF" expense	555	-	555
Healthcare costs	1,794	1,295	499
Outside storage	95	575	(480)
Cash surrender value	(1,088)	(727)	(361)
Workers' compensation cost	524	219	305
Wages and bonus	14,392	14,693	(301)
Product advertising	4,049	3,760	289
Travel	1,451	1,278	173
Other SG&A	11,590	10,574	1,016
Total - SG&A	\$34,214	\$33,362	\$ 852

The decrease in pension costs was due to higher pension discount rates being used to compute the future liability estimate. Repairs and maintenance expense increased as the company's Chicago facility now complies with Food Safety Certification requirements created and managed by the SQF Institute. Healthcare costs have increased due to recent unfavorable claim activity. Outside storage costs declined due to acquisition of a new facility currently being used to warehouse products prior to shipment. The cash surrender value of life insurance policies increased substantially due to stock market gains compared to the same twelve-week period in fiscal year 2017. Workers' compensation costs increased due to unfavorable trends in claims experience in the current fiscal year. Lower profit sharing accruals resulted in lower wages and bonus expense in the first thirty-six weeks of the 2018 fiscal year compared to the same period in the prior year. Costs for product advertising increased mainly as a result of higher

payments under brand licensing agreements in the Snack Food Products segment during the thirty-six weeks of fiscal year 2018. None of the changes individually or as a group of expenses in “Other SG&A” were significant enough to merit separate disclosure. The major components comprising the increase of “Other SG&A” expenses were higher fuel and repairs costs.

Selling, General and Administrative Expenses-Frozen Food Products Segment

SG&A expenses in the Frozen Food Products segment decreased by \$548 (5.3%) to \$9,761 in the thirty-six-week period of fiscal year 2018 compared to the same thirty-six-week period in fiscal year 2017. The overall decrease in SG&A expenses was due to lower sales volume, an increase in allocated cash surrender value gains and lower pension costs.

Selling, General and Administrative Expenses-Snack Food Products Segment

SG&A expenses in the Snack Food Products segment increased by \$1,400 (6.1%) to \$24,453 in the thirty-six-week period of fiscal year 2018 compared to the same thirty-six-week period in fiscal year 2017. Most of the increase was due to higher sales, higher expenses related to licensing agreements and sales commissions, as well as higher workers' compensation costs, partially offset by lower outside storage fees.

Gain on Sale of Property, Plant and Equipment

On March 7, 2018, the Company sold a parcel of land in Chicago, Illinois for approximately \$5,977. As a result, the Company recognized a non-recurring pre-tax gain on the sale of property for \$5,977 in the thirty-six weeks of fiscal year 2018. The cost basis of the land is insignificant.

Income Taxes-Consolidated

Income tax for the thirty-six weeks ended July 13, 2018 and July 7, 2017, respectively, was as follows:

	July 13, 2018	July 7, 2017
Income tax provision	\$5,786	\$2,733
Effective tax rate	56.5 %	31.8 %

We recorded a tax provision of \$5,786 for the thirty-six-week period ended July 13, 2018, related to federal and state taxes, based on the Company's expected annual effective tax rate. The effective tax rate for the third quarter of 2018 reflects impacts of the Tax Cuts and Jobs Act signed into law on December 22, 2017. These impacts include a \$3,200 million expense related to the remeasurement of deferred taxes, as well as a blended 23.07% statutory federal income tax rate for fiscal 2018 compared to the 35% statutory federal income tax rate effective for the prior year. The rate also reflects impact of \$1,640 million of expense related to tax on the gain on sale of a land parcel in Chicago, Illinois discussed in Note 5 - Income Taxes above. Additionally, the effective income tax rate also differed from the applicable mixed statutory rate of approximately 27.55% due to non-taxable gains and losses on life insurance policies and domestic production activities deductions under Internal Revenue Code ("IRC") Section 199.

Net Income-Consolidated

The net income of \$4,455 in the thirty-six weeks ended July 13, 2018 includes a non-recurring gain on the sale of property for \$5,977 (before taxes) and a non-taxable gain on life insurance policies in the amount of \$1,088. The net income of \$5,848 in the thirty-six weeks ended July 7, 2017 includes a non-taxable gain on life insurance policies in the amount of \$727. Gains and losses on life insurance policies are dependent upon the performance of the underlying equities that support policy values and future results may vary considerably.

Liquidity and Capital Resources

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 such products. We have remained free of interest bearing debt (excluding capital leases) for twenty-eight of the last twenty-nine years (with fiscal 2014 being the only exception) and we normally fund our operations from cash balances and cash flow generated from operations. Historically, we 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. Anticipated commodity price trends may affect future 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 for the thirty-six weeks ended:

	July 13, 2018	July 7, 2017
Net income	\$4,455	\$5,848
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,598	2,130
Provision for losses on accounts receivable	5	26
(Provision for) reduction in promotional allowances	499	(166)
Gain on sale of property, plant and equipment	(6,002)	(52)
Deferred income taxes, net	3,200	-
Changes in operating assets and liabilities:		
Changes in operating working capital	245	5,652
Net cash provided by operating activities	\$5,000	\$13,438

For the thirty-six weeks ended July 13, 2018, net cash provided by operating activities was \$5,000, \$8,438 less cash provided than during the same period in fiscal year 2017. The net decrease in cash provided by operating activities primarily related to lower net income of \$4,455 and deferred income taxes of \$3,200 partially offset by a decrease in non-current liabilities of \$3,991 and payments for estimated income taxes of \$1,407. During the thirty-six-week period ended July 13, 2018, we funded \$2,601 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. The Company did not borrow against its line of credit with Wells Fargo Bank N.A. during the thirty-six weeks ended July 13, 2018.

Our cash conversion cycle (defined as days of inventory and trade receivables less days of trade payables outstanding) was equal to 63 days for the thirty-six-week period ended July 13, 2018. The cash conversion cycle was similar to last year.

For the thirty-six weeks ended July 7, 2017, net cash provided by operating activities was \$13,438 primarily due to net income of \$5,848 and a liquidation of inventory of \$3,953 partially offset by estimated income tax payments of \$2,579. During the thirty-six-week period ended July 7, 2017 we funded \$601 towards our defined benefit pension plan.

Cash provided by (used in) investing activities for the thirty-six weeks ended:

	July 13, 2018	July 7, 2017
Proceeds from sale of property, plant and equipment	\$6,002	\$52
Additions to property, plant and equipment	(9,704)	(9,725)
Net cash used in investing activities	\$(3,702)	\$(9,673)

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 additions to property, plant and equipment for the thirty-six weeks ended:

	July 13, 2018	July 7, 2017
Changes in projects in process	\$7,148	\$6,554
Building improvements	492	101
Direct store delivery and sales vehicles	736	775
Packaging lines	140	1,020
Computer software and hardware	18	352
Processing equipment	758	866
Land	55	-
Building	107	-
Forklifts	206	11
Quality control	35	4
Temperature control	9	42
Additions to property, plant and equipment	\$9,704	\$9,725

Cash used in financing activities for the thirty-six weeks ended:

	July 13, 2018	July 7, 2017
Payment of capital lease obligations	(82)	(91)
Net cash used in financing activities	\$ (82)	\$ (91)

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 July 13, 2018, 120,113 shares were still authorized for repurchase under the program.

We invested in OTR (over-the-road) tractors financed by a capital lease obligation in the amount of \$1,060 during fiscal year 2012. The total capital lease obligation remaining for transportation equipment as of July 13, 2018 is \$341 for a contractual purchase obligation. The lease arrangement also contains a variable component of seven cents per mile based on miles driven over the lease life. As of July 13, 2018, the capital lease has expired and converted to a month-to-month rental. The specifics in the final stage of the capital lease program or any renewal are currently being negotiated.

We maintain a line of credit with Wells Fargo Bank, N.A. that expires on March 1, 2020. Under the terms of this line of credit, we may borrow up to \$7,500 at an interest rate equal to the bank's prime rate or LIBOR plus 1.5%. The borrowing agreement contains various covenants, the more significant of which require us to maintain a minimum tangible net worth, a minimum quick ratio, a minimum net income after tax and total capital expenditures less than \$7,500. The Company was in violation of the capital expenditure covenant which was subsequently waived by letter dated August 23, 2018. The Company was in compliance with all other covenants as of July 13, 2018. There have been no borrowings under this line of credit during fiscal year 2017.

The impact of inflation on the Company's financial position and results of operations has not been significant. Management is of the opinion that the Company's financial position and its capital resources are sufficient to provide for its operating needs and capital expenditures for the remainder of fiscal year 2018.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-09 “Revenue from Contracts with Customers” to supersede previous revenue recognition guidance under current U.S. GAAP. The guidance presents a single five-step model for comprehensive revenue recognition that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Two options are available for implementation of the standard which are either the retrospective approach or cumulative effect adjustment approach. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The Company anticipates using the modified retrospective transition method beginning with the first quarter of fiscal year 2019. The Company is completing its evaluation of the full impact of adoption of this guidance and does not presently expect adoption to have a material impact on its consolidated offinancial statements aside from more detailed and improved disclosure requirements.

In July 2015, the FASB issued ASU 2015-11 “Simplifying the Measurement of Inventory”. The guidance is part of the “Simplification Initiative” to identify and re-evaluate areas where the generally accepted accounting principles may be complex and cumbersome to apply. The guidance will require that inventory be stated at the lower of cost and net realizable value as opposed to the lower of cost or market. Net realizable value is the estimated selling price for the inventory less completion, disposal and transportation costs. The guidance is effective for fiscal years beginning after December 15, 2016. Adoption of this guidance did not have a material impact on the Company’s results of operations or financial position.

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” that requires most equity investments to be measured at fair value and subsequent changes in fair value to be recognized in net income. The guidance covers presentation and disclosure requirements of financial liabilities and the classification and measurement of financial instruments. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which will require a lessee to recognize assets and liabilities with lease terms of more than 12 months. Both capital and operating leases will need to be recognized on the balance sheet. The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

In March 2016, the FASB issued ASU 2016-09 “Compensation-Stock Compensation” guidance which simplifies various aspects of the accounting for employee share-based payment transactions, including the accounting for income tax consequences, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts

within the statement of cash flows. The guidance is effective for annual and interim reporting periods beginning after December 15, 2016 with early adoption permitted. Adoption of this guidance did not have a material impact on results of Company operations or financial position.

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses”, which requires a financial asset to be presented at the net carrying value which is the amount expected to be collected net of expected credit losses. The guidance is effective for annual and interim reporting periods beginning after December 15, 2019 with early adoption permitted. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes – Classification of Certain Cash Receipts and Cash Payments”. The guidance involves eight specific cash flow issues and aims to unify accounting for these transactions. The guidance is effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating this guidance and its impact on its results of operations or financial position.

In March 2017, the FASB issued ASU 2017-07, “Compensation – Retirement Benefits”. The guidance separates service cost from other pension cost components changing the presentation of net periodic benefit cost related to company sponsored defined benefit or other postretirement benefits. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating this guidance and its impact on its results of operations or financial position.

In February 2018, the FASB issued ASU 2018-02, “Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”. The guidance allows reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the application of the U.S. Tax Cuts and Jobs Act. The guidance is effective for annual and interim reporting periods beginning after December 15, 2018 with early adoption permitted. The Company elected to early adopt this guidance during the quarter ended January 26, 2018. Adoption of this guidance had a material impact on Retained Earnings and Other Comprehensive Income (see Item 1.c.) of this Report.

Off-Balance Sheet Arrangements

We are not engaged in any “off-balance sheet arrangements” within the meaning of Item 303(a)(4)(ii) of Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to a smaller reporting company.

Item 4. Controls and Procedures

Our management, with the participation and under the supervision of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Report. Based on this evaluation the principal executive officer and principal 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 and recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms and were accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Our management, including our principal executive officer and principal 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 a 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. On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published Internal Control-Integrated Framework (2013) (the “2013 Framework”) and related illustrative documents as an update to Internal Control-Integrated Framework (1992) (the “1992 Framework”). The Company has adopted the 2013 Framework this fiscal year and has determined that the 17 principles are present and functioning during our assessment of the effectiveness of internal controls. 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 the auditing standards adopted or established by the Public Company Accounting Oversight Board. In addition, the Audit Committee and the independent registered public accounting firm have discussed the independent registered public accounting firm’s independence from the 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”.

There have been no changes in our internal controls over financial reporting that occurred during the fiscal quarter ended July 13, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Part II. Other Information**Item 1A. Risk Factors**

The risk factors listed in Part I “Item 1A. Risk Factors” in the Annual Report should be considered with the information provided elsewhere in this Report, which could materially adversely affect our business, financial condition or results of operations. There have been no material changes to the risk factors as previously disclosed in the Annual Report.

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

We have not sold or repurchased any equity securities during the period covered by this Report.

The following table provides information regarding repurchases by us of our common stock, for each of the three four-week periods included in the interim twelve-week period ended July 13, 2018.

ISSUER PURCHASES OF EQUITY SECURITIES

Period (1)	Total	Average	Total	Maximum
	Number	Price	Number	Number
	of	Paid	of Shares	of
	Shares	Per	Purchased	Shares
	Purchased	Share	as	that
			Part	May Yet
			of Publicly	Be
			Announced	Purchased
			Plans or	Under
				the Plans

				Programs or
				(2) Programs
				(2)
April 21, 2018 – May 18, 2018	-	\$ -	-	120,113
May 19, 2018 – June 15, 2018	-	-	-	120,113
June 16, 2018 – July 13, 2018	-	-	-	120,113
Total	-	\$ -	-	

(1) The periods shown are the fiscal periods during the twelve-week quarter ended July 13, 2018.

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 our 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 our 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 issued by us in compliance with the requirements of Rule 10b5-1 under the Exchange Act. Commencing on October 27, 2017 and continuing through and including October 14, 2018, CGM shall act as our exclusive agent to purchase our common stock under the

(2) Purchase Plan. This Purchase Plan supplements any purchases of common 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 July 13, 2018, the total maximum number of shares that may be purchased under the Purchase Plan is 120,113 at a purchase price not to exceed \$10.00 per share at a total maximum aggregate price (exclusive of commission) of \$1,201,130.

Item 6. Exhibits

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

23 of 24

SIGNATURES

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

BRIDGFORD FOODS CORPORATION
(Registrant)

Dated: August 24, 2018 By: */s/ Raymond F. Lancy*
Raymond F. Lancy
Chief Financial Officer
(Duly Authorized Officer, Principal Financial and Accounting Officer)

24 of 24

