PROVENA FOODS INC
Form 10-K
April 11, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

Commission File Number 1-10741

PROVENA FOODS INC.
(Exact name of registrant as specified in its charter)

California	95-2782215
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
5010 Eucalyptus Avenue, Chino, California	91710
(Address of principal executive offices)	(ZIP Code)

(909) 627-1082
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the act:

Title of each class	Name of each exchange on which registered
COMMON STOCK	AMERICAN STOCK EXCHANGE

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

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 X No ___

The aggregate market value of Provena Foods Inc. Common Stock held by non-affiliates as of March 2, 2002 was $4,036,232.

The number of shares of Provena Foods Inc. Common Stock outstanding on March 2, 2002 was 3,104,794.

Indicate by check mark if disclosure of delinquent filers pursuant to Item

405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in any definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

PROVENA FOODS INC.

2001 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

General

Provena Foods Inc. (the "Company") is a California-based specialty food processor engaged in the supply of food products to other food processors, distributors and canners. Its primary products are pepperoni and Italian-style sausage sold to frozen pizza processors, pizza restaurant chains and food distributors and dry pasta sold to food processors and canners, private label producers and food distributors. The Company's products are sold throughout the United States but primarily in the Western United States.

The Company's meat processing business is conducted through the Swiss American Sausage Co. Division ("Swiss American" or "Swiss"), and its pasta business is conducted through the Royal-Angelus Macaroni Company Division ("Royal-Angelus" or "Royal"). The Company acquired its present businesses between 1972 and 1975. The predecessor of Swiss was founded in 1922 and the two predecessors to Royal, Royal Macaroni Company and Angelus Macaroni Mfg. Co., were founded in 1878 and 1946, respectively. The Company was incorporated in 1972 in California with an initial capitalization of approximately $12,000.

The Company's competitive strategy is to emphasize providing products of predictable quality and consistency at competitive prices as well as prompt and reliable service. The Company attempts to establish, refine and maintain procedures to assure that the Company's products comply with its customers' specifications and are delivered in a manner that will satisfy their delivery and production requirements.

For financial information about each of the Company's two divisions, see the segment data contained in Note 12 of Notes to Financial Statements.

Swiss American Sausage Co. Meat Division

During the years ended December 31, 2001 and 2000, sales by Swiss accounted for 84.18% and 78.47%, respectively, of the Company's net sales. Swiss's higher proportion of Company sales in 2001 resulted from increased sales at Swiss in the second full year of operation of its new meat plant and decreased sales at Royal. The Company's processed meat products are sold primarily to pizza restaurant chains, pizza processors and food service distributors. Pizza processors produce prepared pizza which is sold primarily as frozen pizza in food markets. Food service distributors supply food to delicatessens, restaurants and other retail businesses offering prepared food. The Company's meat products are sold nationally, but most of its sales are made to customers located in the Western United States. The Company also sells processed meat products to the U. S. Government. The Company does not have supply agreements with its major customers, many of whom purchase some of their meat products from other suppliers.

Swiss competes with numerous producers of processed meats, many of which are larger and have greater financial resources than the Company. Swiss's competitors include large national meat packers such as Hormel Foods

Corporation, as well as smaller regional meat processors. Pizza processors that manufacture their own meat products diminish the market for Swiss's products. The Company competes in the meat processing business by emphasizing predictable quality and consistency.

The meat processing activities of the Company were conducted at its facilities in San Francisco, California, until the main plant was destroyed by a fire in 1998. The San Francisco plant had an estimated theoretical production capacity of 27,000,000 pounds per year. Following the fire, the Company completed the construction and equipping of a new meat plant in Lathrop, California. The new meat plant has an estimated theoretical production capacity of 46,000,000 pounds per year. The Company purchased an additional 2 acres of land adjacent to the new plant in 1999 to ensure a capability of expansion which the old meat plant did not have. See ITEM 2. PROPERTIES.

The meat processing activities of Swiss are typified by its processing of pepperoni, its principal product, which consists of the following steps: (i) the purchase of beef and pork trimmings with a guaranteed lean content; (ii) the blending of the meat into the Company's meat product while carefully controlling the consistency and content of the product; (iii) the addition of spices and preservatives to the product; (iv) the extrusion of the product into sausage casings; (v) the oven cooking of the product in the casings; and (vi) the drying of the cooked product. Throughout the production process, the Company subjects

its meat products to quality control inspection for the purposes of satisfying U.S. Department of Agriculture regulations, meeting customer specifications and assuring a consistent quality of the products to the Company's customers.

In addition to pepperoni and sausage, the Company processes a relatively small amount of other meat products, including meatballs and crumbles which are quick-frozen nuggets of a pre-cooked meat product, such as the sausage on a sausage pizza. The crumbles line extrudes the ground and blended ingredients into nuggets which are cooked and quick-frozen in one continuous operation.

Royal-Angelus Macaroni Company Pasta Division

During the years ended December 31, 2001 and 2000, sales by Royal-Angelus accounted for 15.82% and 21.53%, respectively, of the Company's net sales. Royal's lower proportion of Company sales in 2001 resulted from increased sales at Swiss and decreased sales at Royal caused by competition from increased industry capacity. The Company sells its pasta products primarily to food processors and canners, private label customers, food service distributors, and specialty food distributors.

Royal's food processor and canner customers use the Company's pasta to produce retail products in which pasta is an ingredient, such as pasta salads, soups and entrees. Royal's private label customers are regional and national food suppliers that sell pasta under their own labels, purchased in bulk from the Company or packaged by the Company. Royal's food service distributor customers supply pasta to restaurants, institutional purchasers, and some retail establishments. The Company also sells its pasta products to government agencies, the military, schools and other pasta manufacturers.

Since 1987, the Company's pasta products have been produced at its production plant in Chino, California. In 1995, the Company purchased a building adjacent to the pasta plant and currently occupies 40% of the building as part of its pasta plant and leases 60% to a tenant through February 2003. The pasta plant has a theoretical production capacity estimated at 30,000,000 pounds per year.

In the basic pasta production process, durum semolina flour is mixed with water and the mixture is extruded into one of many shapes, cut to the proper length, dried, packaged and shipped to the Company's customers. If required by the particular variety of pasta, a different flour is used or flour is blended with egg powder, vegetable powder or other ingredients before the water is added. No preservatives are used in making pasta.

Royal-Angelus competes with several national and regional pasta manufacturers, many of which have greater financial resources than the Company. The Company competes in the pasta business by emphasizing predictable quality and consistency and by its capability of producing a larger variety of pastas with shorter lead times and production runs than most of its larger competitors.

Suppliers

The primary ingredients used by the Company in processed meat products are beef, pork, spices and casings and in pasta products are flour, egg powder and vegetable powder. The ingredients are purchased from suppliers at prevailing market prices. The Company has not recently experienced any shortages in the supply of ingredients and generally expects the ingredients to continue to be available for the foreseeable future.

During 1999, before the new meat plant was operational and with the old meat plant having been destroyed by fire, the meat division attempted to maintain volume by purchasing processed products from other suppliers for its customers, but the meat division's sales were almost $1,000,000 per month lower than before the fire. Purchasing from suppliers increased Swiss's costs but most of the increased costs were covered by business interruption insurance. This purchasing was phased out as the new plant came on line, ending in early 2000.

Patents, Trademarks and Licenses

The Company owns no patents. It owns the United States registered trademarks "Royal" with the crown design and "Vegeroni" for use on pasta products and licenses from the Del Monte Company until 2009 the United States registered trademark "Capo di Monte" for use on meat products. Registrations of the trademarks owned by the Company must be and are renewed from time to time. Royal, Vegeroni and Capo di Monte are used on consumer products in limited distribution. No substantial portion of the Company's sales is dependent upon any trademark.

Commodity Price Fluctuations and Availability

The Company contracts to sell its products at a fixed price for production and delivery in the future (generally four to six months or less). The Company is, therefore, subject to the risk of price fluctuations with respect to its product ingredients from the time the Company contracts with its customers until the time the Company purchases the commodities used to fill the orders. Prices for meat and flour, the Company's major product ingredients, fluctuate widely based upon supply, market speculation, governmental trade and agricultural policies, and other unpredictable factors.

The Company is able to contract at fixed prices for delivery of domestic beef and pork up to 30 days in advance, imported beef and sometimes pork up to 90 days in advance, and flour up to 90 days or more in advance. The Company generally covers its committed sales by purchasing commodities at fixed prices for future delivery, but is subject to the risk of commodity price fluctuations when it contracts for sales beyond the period it can cover or when it orders commodities in anticipation of sales.

Effects of Inflation

It is the Company's general policy, subject to current competitive conditions, to pass on increases in costs of commodities used in production by increasing prices of the products it sells to its customers. However, because the Company agrees on the price of its products to its customers in advance of purchasing the product ingredients, there may be a delay in passing on increasing commodity costs to customers, temporarily decreasing profit margins. Competitive conditions may limit the Company's ability to pass on commodity price increases to its customers, prolonging or increasing the adverse effect on profit margins.

Marketing and Distribution

The Company's processed meat and pasta products have been marketed primarily by the Company's management personnel, food brokers, and three full-time salaried sales people. Because the Company sells most of its processed meat and pasta products to customers who either further process the products before they reach the consumer or sell the products under private labels, the Company does not advertise its products in a manner designed to reach the ultimate consumer.

Dependency on a Limited Number of Large Customers

A substantial portion of the Company's net sales has in recent years resulted from sales to a few customers. See Note 12 of Notes to Financial Statements. The Company does not enter into continuing sales contracts with its customers, and has different major customers from time to time. The following table shows, by division and for the Company, the percentage of sales represented by the Company's largest customers for the year ended December 31, 2001:

Division	Number of Customers	Division Sales %	Company Sales %
Swiss American	3	43%	36%
Royal-Angelus	2	22%	3%
Totals	5		39%

The Company fills orders as they are received from its customers, normally within a few weeks or less, and does not have a meaningful backlog of orders for its products. The Company carries significant inventories of its products for only a few major customers, and does not provide extended payment terms to customers.

Food Industry Risks

The business of the Company is subject to the risks inherent in the food industry, including the risk that a food product or ingredient may be banned or its use limited or declared unhealthful, that product tampering or contamination will require a recall or reduce sales of a product, or that a product's acceptability will diminish because of generally perceived health concerns or changes in consumer tastes.

Employees

As of December 31, 2001, the Company employed 202 full-time employees, 146 in production at Swiss in Lathrop, California, 41 in production at Royal-Angelus in Chino, California, 7 in clerical and office functions, 3 in sales activities, and 5 in management activities.

Swiss's plant employees are represented by the United Food and Commercial Workers Union,Local 588, AFL-CIO, CLC under a collective bargaining agreement which expires March 31, 2002. Negotiations to renew the agreement are progressing normally. Royal's plant employees are represented by United Food and Commercial Workers Union, Local 1428, AFL-CIO, CLC under a collective bargaining agreement dated October 2, 2000 which expires September 29, 2002. There has been no significant labor unrest at the division's plants and the Company believes it has a satisfactory relationship with its employees.

Health Benefits

The Company provides health insurance benefits to all of its employees. Its union employees are covered by union sponsored health insurance plans. Its non-union employees and their dependents were covered on a fully or partially self-funded basis in prior years but are covered on a fully insured basis in 2002.

Regulation

Food products purchased, processed and sold by the Company are subject to various federal, state and local laws and regulations, including the federal Meat Inspection Act and the Federal Food, Drug and Cosmetic Act. Since January 25, 1999, the Company has complied with the U. S. Department of Agriculture's Hazardous and Analysis Critical Control Points Program which enables the Company to self-inspect its meat products and production conditions and techniques. As required by law, U.S. Department of Agriculture employees visit the Company's plant to inspect meat products processed by the Company and to review the Company's compliance with the program. The Company is also subject to various federal, state and local regulations regarding workplace health and safety, environmental protection, equal employment opportunity and other matters. The Company maintains quality control departments at both its Lathrop and Chino facilities for purposes of testing product ingredients and finished products to ensure the production of products of predictable quality and consistency, as well as compliance with applicable regulations and standards.

ITEM 2. PROPERTIES

The Company's meat processing plant is an approximately 85,000 square foot facility located in Lathrop, California, constructed by the Company in 1999. The estimated theoretical production capacity of the new meat plant is 46,000,000 pounds per year. The Company purchased an additional 2 acres of land adjacent to the new plant in 1999 to ensure a capability of expansion.

The Company's pasta production plant is an approximately 41,000 square foot facility located in Chino, California, occupied by the Company since 1987. In 1995, the Company purchased an approximately 44,000 square foot building adjacent to the pasta plant and currently occupies 40% of the building for pasta warehousing and leases 60% to a cold storage manufacturer through February 2003. The Chino plant, after the addition of a third short-goods production line in 1996, has a theoretical production capacity estimated at 30,000,000 pounds annually.

ITEM 3. LEGAL PROCEEDINGS

The Company, from time to time, is involved in routine claims and litigation incidental to its business. Management believes that none will have a material adverse effect on the Company's business, financial condition or liquidity.

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

The Company held its annual meeting of shareholders on Tuesday, April 24, 2001, at 11:00 a.m. at the Company's principal office. Shareholders representing 2,525,889 or 82.9% of the 3,048,172 shares entitled to vote were present in person or by proxy, with 15,452 broker non-votes. The following persons were nominated and elected directors, with votes for, withheld from specified nominees, or without authority to vote for directors, as indicated:

Nominee	For	Withheld	Without Authority
John D. Determan	2,486,394	4,970	34,525
Theodore L. Arena	2,489,464	1,900	34,525
Ronald A. Provera	2,489,064	2,300	34,525
Santo Zito	2,489,294	2,070	34,525
Thomas J. Mulroney	2,490,564	800	34,525
Louis A. Arena	2,489,294	2,070	34,525
Joseph W. Wolbers	2,488,564	2,800	34,525
John M. Boukather	2,488,264	3,100	34,525

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the American Stock Exchange under the symbol "PZA". The following table sets forth high and low prices as traded on the American Stock Exchange:

		Quarter of Fiscal Year Ended December 31			
		First	Second	Third	Fourth
2000	High	2.875	2.75	2.125	1.9375
	Low	2.375	1.8125	1.75	1.5625
2001	High	2.00	2.00	2.20	1.88
	Low	1.625	1.74	1.75	1.42

The closing price on December 31, 2001 was $1.44.

Common Stock

The Company's Articles of Incorporation as amended authorize the Company to issue up to 10,000,000 shares of common stock, without par value. The Company is not authorized to issue any class or series of shares except shares of common stock. At December 31, 2001 the Company had issued and outstanding 3,089,516 shares held by approximately 240 shareholders of record. In addition, the Company estimates that there are approximately 800 shareholders holding shares in street or nominee names.

Holders of the Company's common stock are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor. The Company commenced paying quarterly cash dividends in March 1988 and paid a dividend every quarter through the second quarter of 2001. A covenant under the Company's credit facility with Comerica Bank-California limits quarterly dividends to quarterly earnings. The declaration and timing of future dividends, if any, will depend on the Company's financial condition and results of operations, compliance with the bank covenant and other factors deemed relevant by the Board.

All outstanding shares of common stock are fully paid and nonassessable and are not subject to redemption. Holders of common stock are entitled to one vote for each share held of record and have cumulative voting rights in the election of directors. Holders of common stock do not have preemptive rights and have no right to convert their shares into any other security. Upon liquidation of the Company, the holders of common stock would share ratably in all assets of the Company after the payment of all liabilities.

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Shareholder communications regarding transfers, changes of address, missing dividends, lost certificates or similar matters should be directed to the Company's transfer agent and registrar, Registrar and Transfer Company, 10 Commerce Drive, Cranford, NJ 07016-3572, (800) 368-5948, www.rtco.com.

Common Stock Repurchase and Sales

The Company has had an announced intention to repurchase shares of its common stock since January 11, 1988. Currently, purchases are authorized up to the number of shares issued under the Company's 1988 Employee Stock Purchase Plan. Purchases are made from time to time on the open market or in privately negotiated transactions. In addition, the Company must accept outstanding shares at fair market value in payment of the exercise price of options under the Company's 1987 Incentive Stock Option Plan.

In 2001, the Company purchased no shares under its stock repurchase program, and received no shares in payment of the exercise price of options. Since January 1988 the Company has repurchased 220,985 shares at an average cost of $3.14 per share, excluding shares used to exercise options.

Under the Employee Stock Purchase Plan, in 2001 employees purchased 54,507 newly issued shares at an average price of $1.77 per share. Employees have purchased a total of 611,062 shares under the plan through December 31, 2001, at an average price of $2.84 per share. Employee contributions plus Company matching funds are used monthly to purchase shares at the market price under the plan and are accumulating at a rate of about $100,000 per year.

No shares were purchased by exercise of Incentive Stock Options in 2001.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below under the headings Statement of operations data and Balance sheet data as of and for each of the years in the five-year period ended December 31, 2001 is derived from the financial statements of the Company, which financial statements have been audited by KPMG LLP, independent auditors. The selected financial data should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the balance sheets as of December 31, 2001 and 2000 and the statements of operations, shareholder's equity and cash flows for each of the years in the three-year period ended December 31, 2001, included in a separate section at the end of this report beginning on Page F-1. Financial reports are the responsibility of management, and are based on corporate records maintained by management, which maintains an internal control system, the sophistication of which is considered in relation to the benefits received.

	Year Ended December 31,			
	2001	2000	1999	1998
	(Amounts in thousands except per sha			
Statement of operations data:				
Net Sales	$ 36,007	27,309	20,628	24,5
Cost of sales	33,295	25,535	20,371	21,7
Gross profit	2,712	1,774	257	2,7
Distribution, general and administrative expenses	2,897	2,638	2,651	2,2
Operating income (loss)	(185)	(864)	(2,394)	4
Interest income (expense), net	(690)	(746)	(175)	
Other income, net	292	155	2,637	3,3
Earnings (loss) before income taxes	(583)	(1,455)	68	3,8

Income tax expense (benefit)	(313)	(577)	30	1,5
Net earnings (loss)	$ (270)	(878)	38	2,2
Earnings (loss) per share: Basic	$ (.09)	(.29)	.01	.
Diluted	$ (.09)	(.29)	.01	.
Cash dividends paid per share	$ .06	.12	.12	.
Weighted average number of shares outstanding (1): Basic	3,064	3,006	2,946	2,8
Diluted	3,064	3,006	2,961	2,9
Balance sheet data (end of period):				
Working capital (deficit)	$ (491)	307	1,878	3,2
Property and equipment (net)	16,129	16,101	16,119	7,6
Total assets	22,394	22,357	22,745	17,2
Long-term debt	6,396	6,885	7,330	4,0
Shareholders' equity	8,881	9,238	10,338	10,4

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(1) The Company sold shares under its employee stock purchase plan, sold shares under its incentive stock option plan, and received shares in exercise of incentive stock options in the years as shown:

	2001	2000	1999	1998	1997
Purchase Plan Shares Sold	54,507	62,980	56,293	42,959	55,355
Incentive Option Shares Sold	-	-	2,638	10,000	20,400
Received in Exercise of Options	-	-	-	5,842	7,795

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The following table sets forth operating data for the years ended December 31, 2001, 2000 and 1999:

	Year Ended Decembe		
	2001		2000
	(Dollars in thous		
Net sales	$ 36,007	100.0%	$ 27,309

Cost of sales	33,295	92.5	25,535	
Gross profit	2,712	7.5	1,774	
Distribution, general and administrative expenses	2,897	8.0	2,638	
Operating loss	(185)	(.5)	(864)	
Interest income (expense), net	(690)	(1.9)	(746)	
Other income, net	292	.8	155	
Earnings (loss) before income taxes	(583)	(1.6)	(1,455)	
Income tax expense (benefit)	(313)	(.9)	(577)	
Net earnings (loss)	$ (270)	(.7)%	$ (878)	

Sales in thousands of pounds by division		
Swiss American	19,959	14,910
Royal-Angelus	11,921	12,226

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.

Comparison of Years Ended December 31, 2001 and 2000

In 2001, sales of $36,007,000 were up 32% from 2000 sales of $27,309,000. The increase in sales was attributable to the meat division, with pasta division sales down.

The meat division's sales were up about 41% in dollars and 34% in pounds and it operated at a $436,000 profit for 2001 compared to a $854,000 loss for 2000. Swiss's sales for the 4th quarter of 2001 were up 40% in dollars and 29% in pounds from the 4th quarter of 2000. The percentage increases in dollars were greater than in pounds because of increases in selling prices to reflect higher meat prices. The year 2001 was Swiss's second full year of operating its new meat plant and Swiss has continued to increase its sales and improve its operating results.

Swiss's operations in 2000 were adversely affected by inefficiencies and transitional costs, exacerbated by increases in meat costs out-pacing increases in selling prices. The inefficiencies were the result of the learning curve for new operators and new equipment. The transitional costs were expenses of operating a new plant at a new location which diminish with time or do not recur. Swiss increased its efficiency from 2000 to 2001, with production overhead up 32% on a 41% increase in sales, general and administrative expense up only 2.1% and distribution expense up only 1.2%.

The pasta division's sales decreased about 3% in dollars and 2% in pounds and it operated at a $616,000 loss in 2001 compared to a $42,000 loss in 2000. The pasta division's sales for the 4th quarter of 2001 were up 22% in dollars and 39% in pounds from the same quarter of 2000. The percentage increase for the

4th quarter was lower in dollars than in pounds because of lower selling prices reflecting lower flour costs and an increased proportion of high-volume lower price-per-pound sales. Sales decreased because of competition from increased industry capacity. The loss resulted from low margins caused by competition. Royal is continuing to seek additional personnel experienced in pasta sales and production, but so far has been unsuccessful.

The Company's gross profit for 2001 was $2,712,000 or 7.5% of net sales compared to $1,774,000 or 6.5% of net sales for 2000. Gross profit increased in dollars and as a percent of net sales because of Swiss's increased sales and efficiency. Distribution, general and administrative expenses for 2001 were up about 9.8% from 2000 on a 32% increase in sales. Distribution expenses were up about $33,000, or only 2.8%, despite the 32% increase in sales, because of higher salesmen expense, with no significant change in shipping or other distribution expenses. General and administrative expenses were up about $226,000 primarily due to increased health care costs under the Company's partially self-funded plan. All Company health coverage is fully insured for 2002.

Interest expense decreased in 2001 from 2000 because of lower interest rates partially offset by higher borrowings under the bank line. Other income increased in 2001 from 2000 because of the recovery and sale of waste products at Swiss.

Comparison of Years Ended December 31, 2000 and 1999

In 2000, sales of $27,309,000 were up 32% from 1999 sales of $20,628,000. The increase in sales was attributable to the meat division, with pasta division sales down.

The meat division's sales were up about 62% in dollars and 63% in pounds and it operated at a $854,000 loss for 2000 compared to a $2,837,000 loss for 1999. Swiss's sales for the 4th quarter of 2000 were up 53% in dollars and 57% in pounds from the 4th quarter of 1999. The percentage increases in dollars were slightly less than in pounds primarily because much of the increase was in products that normally sell for lower prices per pound. The year 2000 was Swiss's first full year of operating its new meat plant during which Swiss has increased its sales and reduced its operating losses, operating at a modest profit in the 4th quarter.

Swiss's 2000 operating loss resulted from inefficiencies and transitional costs, exacerbated by increases in meat costs out-pacing increases in selling prices during part of the year. The inefficiencies are the result of the learning curve for new operators and new equipment. The transitional costs are expenses of operating a new plant at a new location which diminish with time or do not recur. Swiss is increasing its efficiency and reducing its expenses, and its operating profitability should improve if it continues its success in increasing its sales.

The pasta division's sales decreased about 20% in dollars and 18% in pounds and it operated at a $42,000 loss in 2000 compared to $534,000 of income in 1999. The pasta division's sales for the 4th quarter of 2000 were down 15% in dollars and 22% in pounds from the same quarter of 1999. The percentage decreases for the year were larger in dollars than in pounds because of price reductions to meet competition and to reflect lower flour costs, but reversed in the 4th quarter because of a higher proportion of lower volume-higher priced sales. Sales decreased because of competition from increased industry capacity.

The loss resulted from lower sales and lower margins.

The Company's gross profit for 2000 was $1,774,000 or 6.5% of net sales compared to $257,000 or 1.2% of net sales for 1999. Gross profit increased absolutely and as a percent of net sales because in 2000 Swiss was producing products which it was purchasing from other suppliers in 1999. Distribution, general and administrative expenses for 2000 were down about 0.5% from 1999. Distribution expenses were down about $56,000, despite increased sales, because of decreased salesman and advertising expense at Swiss. General and administrative expenses were up about $43,000 primarily due to increased health benefit costs in the 4th quarter.

Interest expense increased in 2000 from 1999 because of increased borrowings under the bank line, an increase in the interest rate borne by the bank line and because the real estate and equipment loans made to the Company in the latter part of 1999 were outstanding for all of 2000. Other income decreased in 2000 from 1999 because insurance proceeds relating to the meat plant fire were included in other income in 1999. No insurance claims relating to the fire have been outstanding and no proceeds received since 1999.

Liquidity and Capital Resources

The Company has generally satisfied its normal working capital requirements with funds derived from operations and borrowings under its bank line of credit, which is part of a credit facility with Comerica Bank-California. The line is payable on demand, is subject to annual review, and bears interest at a variable annual rate of 0.75% over the bank's "Base Rate." The maximum amount of the line of credit is the lesser of $4,000,000, or 30% of inventories plus 80% of receivables, with a limit of $1,500,000 for inventories, determined monthly. At December 31, 2001, the "Base Rate" was 4.75% per annum, 30% of inventories plus 80% of receivables was $3,548,346 and the Company had $4,000,000 of borrowings under the bank line of credit, representing an over-advance.

As part of the credit facility, Comerica Bank-California issued a $4,060,000 letter of credit to support $4,000,000 of industrial development bonds issued in 1998 for costs relating to the construction of the Company's meat plant. The bonds bear a variable rate of interest payable monthly and set weekly at a market rate - 1.35% per annum at December 31, 2001. The Company pays a 1.5% per annum fee on the amount of the letter of credit and fees of the bond trustee estimated at 0.5% of

the bond principal per year. Monthly payments of bond principal into a sinking fund began May 1, 2000, totaled $76,700 the first year and increase about 5.6% each year until May 1, 2022, when $813,500 of remaining principal is payable in 18 equal monthly payments.

Also as part of the credit facility, the bank made four loans to the Company in 1999 for the meat plant, a $1,280,000 real estate loan and three equipment loans totalling $2,614,788. The real estate loan was made in December 1999, bears a fixed rate of interest of 9.1% per annum and is payable in equal monthly payments of principal and interest over its 25 year term. Each equipment loan bears a variable rate of interest and is payable in equal monthly payments of principal plus interest over its term, with issue date, initial amount, term and rate as follows: July 1999, $1,000,000, 7 year, bank's "Base Rate"; September 1999, $1,200,000, 7 year, bank's "Base Rate" plus 0.25%; and December 1999, $414,788, 5 year, bank's "Base Rate" plus 0.75%.

All parts of the credit facility are secured by substantially all of the Company's assets, including accounts receivable, inventory, equipment and fixtures, the Company's two Chino buildings and the meat plant, none of which is otherwise encumbered. The credit facility prohibits mergers, acquisitions, disposal of assets, borrowing, granting security interests, and changes of management and requires a tangible net worth greater than $8,750,000, working capital not less than $50,000, debt service coverage not less than 1.3 and quarterly dividends not exceeding the net income of the prior quarter. The Company was in default under the working capital and debt service coverage covenants at December 31, 2001, and the bank has waived the defaults. The Company and the bank have reduced the minimum amounts required under the tangible net worth and working capital covenants and the Company expects to be in compliance with all covenants, as modified, at March 31, 2002.

In 1999, the Company completed the construction of a 85,000 square foot meat plant on a 5.3 acre parcel of land in Lathrop, California, and purchased an adjacent 2 acres for possible future expansion, for a total cost of about $13,225,000. The new meat plant has adequate production capacity to meet the foreseeable demand for its products.

The pasta plant has three short-good lines and one long-goods line. Because of the recent decline in pasta sales, the Company has deferred the purchase of a second long-goods line. The plant has adequate production capacity to meet the foreseeable demand for its products, with more than adequate short-goods capacity but limited long-goods capacity and flexibility. The two pasta buildings provide ample capacity for possible future expansion.

Additions to property and equipment of about $500,000 are anticipated for 2002.

In 2001, cash increased about $118,000. Operating activities used about $404,000 of cash, primarily from the net loss, increases in accounts receivable and inventories and decreases in deferred income taxes and accrued liabilities, offset by depreciation and amortization, a decrease in income taxes receivable and an increase in accounts payable. Accounts receivable and inventories were up 28% and 11%, respectively, on a 32% increase in sales. Deferred income taxes were reduced by tax benefits realized as a result of the loss. Income taxes receivable decreased from receipt of an income tax refund. Investing activities used about $196,000 for additions to property and equipment, primarily at Swiss. Financing activities produced about $719,000 from borrowings under the bank line, reduced by principal payments on notes payable and the excess of cash dividends paid over net proceeds from the sale of common stock.

In 2000, cash decreased about $746,000. Operating activities used about $86,000 of cash, primarily from the net loss, a decrease in deferred income taxes and increases in accounts receivable and income taxes receivable, offset by depreciation and amortization and an increase in accrued liabilities. Deferred income taxes were reduced and income taxes receivable were increased by tax benefits realized as a result of the loss. Investing activities used about $732,000, primarily final payments and completion of the new plant. Financing activities produced about $72,000 from borrowings under the bank line, reduced by principal payments on notes payable and the excess of cash dividends paid over net proceeds from the sale of common stock.

In 2001, quarterly dividends were paid in the first two quarters but not the last two. The declaration and timing of future dividends, if any, will depend on the Company's financial condition and results of operations, compliance with the bank covenant limiting quarterly dividends to quarterly net income, cash flow adequate to satisfy the Company's obligations and working capital requirements and other factors deemed relevant by the Board.

The Company adopted an employee stock purchase plan in 1988 to provide employees with the incentive of participation in the performance of the Company and to retain their services. Under the plan, employees other than officers and directors may authorize weekly payroll deductions which are matched by the Company and used monthly to purchase shares from the Company at the market price. The weekly payroll deduction is from $5 to $50 for each participant. The matching funds are an expense incurred by the Company, but the plan results in net cash flow to the Company because amounts equal to twice the matching funds are used to purchase shares from the Company. Cash flow to the Company from the plan was $96,465 in 2001.

Commitments and Contingencies

The following table shows the long-term debt principal and capital lease obligation payments due in the specified periods as of December 31, 2001. The lease payments are estimates because they are proportional to pounds of a product sold.

		Year Ended December 31,					
(amounts in thousands)	Totals	2002	2003	2004	2005	2006	Thereafter
Long-Term Debt	$6,891	495	504	504	435	341	4,612
Capital Lease Obligation	567	113	113	113	113	115	-0-
Totals	$7,458	608	617	617	548	456	4,612

The Company expects that its operations and bank line of credit will provide adequate working capital to satisfy the normal needs of its operations for the foreseeable future, including cash flow to service its debt. In 2001, the Company's operations and bank line provided adequate cash flow to pay the principal and interest on its debt and satisfy the needs of its operations, but the outstanding balance under the bank line increased almost $1,300,000. The increase in borrowings under the bank line equaled the over $1,000,000 increase in accounts receivable and inventories (on almost $9,000,000 of increased sales) plus $183,000 in dividends paid and $118,000 of increased cash on hand. Thus, if accounts receivable, inventories or interest rates increase significantly, the Company must improve its profitability to avoid increasing its borrowings. The Company anticipates increased sales in 2002, but believes its operations will produce adequate cash flow to cover any resultant increase in accounts receivable and inventories. The Company does not expect a significant increase in interest rates in 2002.

The Company believes that it has a good relationship with Comerica Bank-California, as evidenced by the bank's over-advances under the line of credit, waiver of defaults under the financial covenants and modifications of the financial covenants. That relationship is crucial to the Company, because the line of credit is payable on demand, the Company could not make an immediate repayment of the line of credit, and a failure to repay the line after demand would render the entire credit facility in default. As a result, neither a default under a financial covenant nor the bank's waiver of such a default affects the bank's power to cause the credit facility to be in default and require that it be restructured or refinanced. The Company regards the financial covenants as check-points triggering a review by the bank, and the bank's waiver as an indication of its current intention to maintain the credit facility.

Critical Accounting Policies

In December 2001, the Securities and Exchange Commission requested that all registrants list their most "critical accounting policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations, and indicated that a "critical accounting policy" is 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 is determining the allowance for doubtful accounts because of the risk of failing to foresee a major credit loss, and inventory valuation when inventory cost may exceed fair value less cost to sell because of the difficulty of determining the latter.

New Accounting Standards

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," SFAS No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 143, "Accounting for Asset Retirement Obligations" in June 2001 and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" in August 2001. A brief description of these standards follows. SFAS No. 141 requires that business combinations initiated after June 30, 2001 be accounted for under the purchase method and not the pooling-of-interests method. SFAS No. 142, effective January 1, 2002, requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. SFAS No. 143, effective January 1, 2003, requires that an obligation for retirement of a long-lived asset be recorded as a liability at fair value when the obligation is incurred and be reevaluated at the end of each period. SFAS No. 144, effective January 1, 2002, requires that the carrying amount of a long-lived asset be reduced to fair value if the carrying amount exceeds the future net cash flows expected to be generated by the asset. Application of these standards, in the opinion of management, will not have a material effect on the Company's financial position, results of operations or liquidity.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The industrial development bonds, the bank line of credit, and the equipment loans bear variable rates of interest (see Liquidity and Capital Resources under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and see Notes 4 and 5 of Notes to Financial Statements) 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 industrial development bonds would change annual interest expense by almost $40,000. Assuming an average bank line of credit balance of $4,000,000 plus $1,500,000 average of equipment loans, a 1% per annum change in the rate borne by those borrowings would change annual interest expense by $55,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements and Supplementary Data are submitted in a separate section at the end of this report beginning with the Index to Financial Statements and Schedule on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, principal position for the past five years and other relevant information for each of the current directors and executive officers of the Company is as follows:

John D. Determan, age 69, has been a vice president and director of the Company since 1972, General Counsel from 1986 to 1992, Chief Executive Officer from 1992 to 1998 and Chairman of the Board since 1992. He is a member of the option committee.

Theodore L. Arena, age 59, has been the General Manager of the Company's Swiss American Sausage Co. meat division since 1976, the President and a director of the Company since 1985 and the Chief Executive Officer since 1998. He is the nephew of Louis A. Arena, a director of the Company.

Ronald A. Provera, age 64, has been the secretary and a director of the Company since 1972 and was the General Manager of Sav-On Food Co., the Company's distribution business, from its formation in 1960 until its liquidation in 1991. He is currently providing sales support to the Company's Royal-Angelus Macaroni Company pasta division. He is a member of the option committee.

Santo Zito, age 65, has been the Company's plant engineer since 1976, and a vice president and director of the Company since 1972. He is currently the General Manager of the pasta division. He is a member of the option committee.

Thomas J. Mulroney, age 57, has been the Company's chief accountant since 1976, the Chief Financial Officer since 1987, a vice president since 1991, and a director since 1992.

Louis A. Arena, age 79, has been a director of the Company since 1972, a vice president from 1972 to 1989, and General Manager of the pasta division from 1975 until his retirement in 1989. He is a member of the audit committee.

Joseph W. Wolbers, age 72, has been a director of the Company since 1990. He retired in 1989 as a vice president of First Interstate Bank where he had been employed since 1950. He is Chairman of the audit committee.

John M. Boukather, age 65, is a management consultant. He was the Director of Operations of PW Supermarkets from 1993 to 1994, Vice President, Retail Sales, of Certified Grocers of California, Ltd. from 1992 to 1993 and president of Pantry Food Markets from 1983 to 1987. He has been a director of the Company since 1987. He is a member of the audit committee.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth for the years ended December 31, 2001, 2000 and 1999, all compensation of all executive officers of the Company serving at December 31, 2001.

Name and Position	Year	Annual Salary	SEP-IRA Contributions
John D. Determan,	2001	$ 83,810	$12,572
Chairman of the Board	2000	82,051	12,308
	1999	80,637	12,096
Theodore L. Arena,	2001	127,307	19,096
President and	2000	127,323	19,098
Chief Executive Officer	1999	127,344	19,102
Ronald A. Provera,	2001	127,766	19,165
Secretary	2000	127,568	19,135
	1999	127,536	19,130
Santo Zito,	2001	130,532	19,580
Vice President	2000	130,277	19,542
	1999	129,640	19,446
Thomas J. Mulroney,	2001	125,431	18,815
Chief Financial Officer	2000	126,160	18,924
	1999	127,757	19,164

See Incentive Stock Option Plan below for information on Incentive Stock Options. See Simplified Employee Pension Plan below for more information on SEP-IRA Contributions.

The Company does not currently pay bonuses or deferred compensation to executive officers or provide them with automobiles, employment contracts or "golden parachute" arrangements.

Compensation Committee Interlocks and Insider Participation

The Company has no compensation committee. All executive officers are members of the Board and participate in the Board's deliberations concerning executive compensation.

Simplified Employee Pension Plan

In 1988, the Company adopted a Simplified Employee Pension-Individual Retirement Accounts ("SEP-IRA") plan and executed SEP-IRA Agreements with Wells Fargo Bank, N.A. and Dean Witter Reynolds Inc., covering all employees at least 18 years old who have worked at least six months and earned at least $300 during the year, except certain union employees. Union plant employees at both divisions do not participate in the SEP-IRA plan under the terms of their current collective bargaining agreements.

The Company makes contributions under the plan in the discretion of the Board, allocated in proportion to compensation, to an Individual Retirement

Account ("IRA") established by each eligible employee.

Contributions, up to 15% of eligible compensation, are deductible by the Company and not taxable to the employee. An employee may withdraw SEP-IRA funds from the employee's IRA. Withdrawals are taxable as ordinary income, and withdrawals before age 59-1/2 may be subject to tax penalties.

For 2001, the Company contributed $332,183 to IRA's under the plan.

Incentive Stock Option Plan

In April 1987, the Company adopted an Incentive Stock Option Plan under Section 422A of the Internal Revenue Code of 1986. Under the plan, as amended in 1988, for a period of 10 years from the date of adoption, an Option Committee appointed by the Board of Directors was authorized in its discretion to grant to key management employees options to purchase up to an aggregate of 261,704 shares of common stock of the Company. The purchase price of shares covered by an option could not be less than the market value of the shares on the date of grant and the term of an option could not exceed 10 years.

Options may no longer be granted under the plan. No options were exercised in 2001. At January 1, 2002, outstanding options to purchase shares at $2-9/16 per share were held 91,458 by Theodore L. Arena and 15,653 by Thomas J. Mulroney. All outstanding options are exercisable at a price which exceeds the 2001 year end stock market closing price of $1.44 per share.

Compensation of Directors

Directors who are not officers or employees are paid a fee of $1,000 for each board meeting or board committee meeting attended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Management Stock Ownership

The following table sets forth, for each officer, director and 5% shareholder of the Company and for all officers and directors as a group (8 persons), the number and percent of outstanding shares of common stock of the Company owned on December 31, 2001.

	Shares Beneficially Owned			
	Without Options(5)		Options Exercised(6)	
Name or Category(1)	Number	Percent	Number	Percent
John D. Determan	335,327	10.9%	335,327	10.5%
Penny S. Bolton Estate (2)	378,463	12.2%	378,463	11.8%
Theodore L. Arena	140,994	4.6%	232,452	7.3%

Ronald A. Provera (3)	322,330	10.4%	322,330	10.1%
Santo Zito	369,830	12.0%	369,830	11.6%
Thomas J. Mulroney (4)	18,338	.6%	33,991	1.1%
Louis A. Arena	288,030	9.3%	288,030	9.0%
John M. Boukather	3,173	.1%	3,173	.1%
Joseph W. Wolbers	12,250	.4%	12,250	.4%
Officers and Directors	1,490,272	48.2%	1,597,383	50.0%
Shares Outstanding	3,089,516	100%	3,196,627	100%

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(1) The address for each person is c/o Provena Foods Inc., 5010 Eucalyptus Avenue, Chino, Ca. 91710.
(2) Penny S. Bolton was the widow of James H. Bolton, former chairman of the Company. Her estate's shares are not included in the group's shares.
(3) Includes 320,930 shares held by the family trust of Ronald A. Provera and his wife, Madelyn M. Provera.
(4) Includes 3,800 shares owned by Marsha Mulroney, wife of Thomas J. Mulroney.
(5) Excludes options under the Company's Incentive Stock Option Plan to Theodore L. Arena to purchase 91,458 shares, to Thomas J. Mulroney to purchase 15,653 shares and to all officers and directors as a group to purchase 107,111 shares.
(6) The options of Messrs. Arena, Mulroney and the group are deemed exercised.

No other person is known to the Company to own beneficially more than 5% of the outstanding shares of the Company.

Management Stock Transactions

During the specified quarter of 2001, officers and directors purchased the following numbers of outstanding shares of the Company's common stock: 1st quarter, John M. Boukather - 52 shares; 2nd quarter, Mr. Boukather - 50; 3rd quarter, Mr. Boukather - 47; 4th quarter, Santo Zito - 7,500. No sales and no other purchases of the Company's common stock by officers or directors were reported during the year.

Based on copies of filed forms and written representations, the Company believes that all officers, directors and 10% shareholders have timely filed all Forms 3, 4 and 5 required for 2001 and (except as previously disclosed) prior years by Section 16(a) of the Securities Exchange Act, except that Santo Zito made a late filing for a purchase of 7,500 shares in December 2001.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There are no transactions with related parties required to be disclosed under the above caption in this report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

Financial Statements and Schedules

The Financial Statements and Schedule filed with this report are in a separate section at the end of this report beginning with the Index to Financial

Statements and Schedule on page F-1.

Exhibits

3.7	Bylaws of the Company, as in effect on January 16, 1989 (1), (3)
3.8	Amended and restated Articles of Incorporation of the Company as filed with the California Secretary of State on June 17, 1987 (2)
3.9	Amendment to Articles of Incorporation of the Company re Liability of Directors and Indemnification as filed with the California Secretary of State on January 17, 1989 (6) 3.10 Amendment to Bylaws of the Company re Liability of Directors and Indemnification effective January 17, 1989 (6)
3.11	Amendment to Bylaws of the Company re Annual Meeting in April (7)
3.12	Amendment to Bylaws of the Company re relocating Principal Executive Office to Chino, California (8)
3.13	Amendment to Bylaws of the Company re President as Chief Executive Officer (10)
4.3	Form of Certificate evidencing common stock (8)
10.2	1987 Incentive Stock Option Plan, as amended to date (1)
10.20	1988 Stock Purchase Plan of the Company (4)
10.22	Dean Witter Simplified Employee Pension Plan Employer Agreement dated August 8, 1988 (5)
10.23	Wells Fargo Bank Simplified Employee Pension Plan Adoption Agreement dated July 18, 1988 (5)
10.36	Standard Industrial/Commercial Single-Tenant Lease - Gross dated December 18, 1995 between the Company, as Lessor, and R-Cold, Inc. and Therma-Lok, Inc., as Lessee of a portion of 5060 Eucalyptus Avenue, Chino, CA (9)
10.37	First Amendment to Lease dated December 18, 1995 between Company and R-Cold, Inc. and Therma-Lok, Inc. (10)
10.39	Master Revolving Note and Security Agreement, both dated July 14, 1998 between the Company and Comerica Bank- California, relating to the Company's line of credit (10)
10.40	Collective Bargaining Agreement dated April 1, 1998 between Swiss and United Food and Commercial Workers Union Local 101, AFL-CIO (10)
10.41	Loan Agreement dated October 1, 1998 between the California Economic Development Financing Authority and the Company (10)
10.42	Remarketing Agreement dated October 1, 1998 between the Company and Dain Rauscher Incorporated (10)
10.43	Purchase Contract among the California Economic Development Financing Authority, the Treasurer of the State of California and Dain Rauscher Incorporated (10)
10.44	Tax Regulatory Agreement dated October 1, 1998 among the California Economic Development Financing Authority, U.S. Bank Trust National Association, as trustee, and the Company (10)
10.45	Building Loan Agreement dated October 1, 1998 between the Company and Comerica Bank-California (10)
10.46	Reimbursement Agreement dated October 1, 1998 between the Company and Comerica Bank-California (10)
10.47	Loan Modification Agreement dated December 29, 1999 between the Company and Comerica Bank-California (11)
10.48	Variable Rate-Installment "Base Rate" + 0.25%, 10/1/06; and 12/6/99, Note for $1,000,000 dated $414,788, "Base Rate" + 0.75%, 12/6/04 (11) July 28, 1999 between the Company and Comerica Bank-California for equipment - two other notes differ only as to date, amount, rate and maturity as follows: 9/29/99, $1,200,000,
10.49	Loan and Security Agreement (Accounts Receivable and Inventory) dated July 31, 2000 between the Company and Comerica Bank-California (12)
10.50	Collective Bargaining Agreement dated October 2, 2000 between Royal and United Food and Commercial Workers Union Local 1428, AFL-CIO-CLC (12)

10.51 Second Amendment to Lease dated December 18, 1995 between Company and R-Cold, Inc. and Therma-Lok, Inc. (12)
10.52 Modification to Loan and Security Agreement dated August 2, 2001 between the Company and Comerica Bank- California
10.53 Third Amendment to Lease dated December 18, 1995 between Company and R-Cold, Inc. and Therma-Lok, Inc.
23.1 Consent of KPMG LLP

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(1) Exhibit to Form S-1 Registration Statement filed May 11, 1987
(2) Exhibit to Amendment No. 2 to Form S-1 Registration Statement filed June 17, 1987
(3) Exhibit to Amendment No. 3 to Form S-1 Registration Statement filed July 29, 1987
(4) Exhibit to 1987 Form 10-K Annual Report
(5) Exhibit to 1988 Form 10-K Annual Report
(6) Exhibit to 1989 Form 10-K Annual Report
(7) Exhibit to 1990 Form 10-K Annual Report
(8) Exhibit to 1991 Form 10-K Annual Report
(9) Exhibit to 1995 Form 10-K Annual Report
(10) Exhibit to 1998 Form 10-K Annual Report
(11) Exhibit to 1999 Form 10-K Annual Report
(12) Exhibit to 2000 Form 10-K Annual Report

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Reports on Form 8-K

During the year ended December 31, 2001 the Company filed no reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of section 13 or 15 (d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 9, 2002

PROVENA FOODS INC.

By /s/ John D. Determan

John D. Determan
Chairman of the Board

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

Signature	Title	Dat
/s/ John D. Determan John D. Determan	Chairman of the Board and Director	April 9,
/s/ Theodore L. Arena	President (Principal Executive Officer) and Director	April 9,

Theodore L. Arena		
/s/ Ronald A. Provera Ronald A. Provera	Vice President, Sales, Secretary and Director	April 9,
/s/ Santo Zito Santo Zito	Vice President and Director	April 9,
/s/ Thomas J. Mulroney Thomas J. Mulroney	Chief Financial Officer (Principal Financial and Accounting Officer)	April 9,
/s/ Louis A. Arena Louis A. Arena	Director	April 9,
/s/ Joseph W. Wolbers Joseph W. Wolbers	Director	April 9,
/s/ John M. Boukather John M. Boukather	Director	April 9,

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[LOGO]

PROVENA FOODS INC.

Financial Statements and Schedule

December 31, 2001 and 2000

(With Independent Auditors' Report Thereon)

PROVENA FOODS INC.

Index to Financial Statements and Schedule

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[Letterhead of KPMG]

Independent Auditors' Report

The Board of Directors
Provena Foods Inc.:

We have audited the accompanying balance sheets of Provena Foods Inc. as of December 31, 2001 and 2000 and the related statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2001. In connection with our audits of the financial statements, we also have audited the accompanying financial statement schedule, as listed in the accompanying index. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Provena Foods Inc. as of December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Orange County, California

January 29, 2002

PROVENA FOODS INC.

Balance Sheets

December 31, 2001 and 2000

Assets (Notes 1, 4, and 5)	2001
Current assets:	
Cash and cash equivalents	$ 206,777
Accounts receivable, net of allowance for doubtful accounts of $0 and $59,843 at December 31, 2001 and 2000, respectively (notes 4, 5, and 12)	3,238,935
Inventories (notes 2, 4, and 5)	3,190,660
Prepaid expenses	12,443
Income taxes receivable (note 8)	--
Deferred tax assets (note 8)	106,203
Total current assets	6,755,018
Property and equipment, net (notes 3, 4, 5, and 13)	16,128,662
Other assets	181,268
Deferred tax assets, net of current portion (note 8)	328,884
	$ 23,393,832
Liabilities and Shareholders' Equity	
Current liabilities:	
Line of credit (note 4)	$ 4,000,000
Current portion of long-term debt (note 5)	495,285
Current portion of capital lease obligation (note 13)	113,200
Deferred tax liability (note 8)	46,394
Accounts payable	1,362,058
Accrued liabilities (note 6)	1,229,273
Total current liabilities	7,246,210
Long-term debt, net of current portion (note 5)	6,395,906
Capital lease obligation, net of current portion (note 13)	453,628
Deferred tax liability, net of current (note 8)	416,802
Shareholders' equity (notes 7, 9, and 10):	
Common stock, no par value; authorized 10,000,000 shares; 3,089,516 and 3,035,009 shares issued and outstanding at December 31, 2001 and 2000, respectively	4,983,339
Retained earnings	3,897,947
Total shareholders' equity	8,881,286
Commitments and contingencies (notes 4, 5, 9, 13, and 14)	
	$ 23,393,832

See accompanying notes to financial statements.

PROVENA FOODS INC.

Statements of Operations

Years ended December 31, 2001, 2000, and 1999

	2001	200
Net sales (note 12)	$ 36,007,139	27,309,
Cost of sales	33,295,452	25,535,
Gross profit	2,711,687	1,773,
Operating expenses:		
Distribution	1,214,011	1,180,
General and administrative (note 9)	1,682,876	1,457,
	2,896,887	2,638,
Operating loss	(185,200)	(864,
Other income (expense):		
Interest income	828	
Interest expense (notes 4 and 5)	(690,203)	(746,
Other, net (note 15)	291,623	155,
Earnings (loss) before income taxes	(582,952)	(1,455,
Income tax expense (benefit) (note 8)	(312,635)	(577,
Net earnings (loss)	$ (270,317)	(878,
Earnings (loss) per common share (note 11):		
Basic	$ (0.09)	(0
Diluted	(0.09)	(0
Shares used in computing per common share amounts (note 11):		
Basic	3,064,033	3,005,
Diluted	3,064,033	3,005,

See accompanying notes to financial statements

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PROVENA FOODS INC.

Statements of Shareholders' Equity

Years ended December 31, 2001, 2000, and 1999

	Common stock		Retained	sh
	Shares issued	Amount	earnings	
Balance at December 31, 1998	2,913,098	$ 4,572,482	5,906,965	
Sale of common stock (note 9)	56,293	167,474	--	
Exercise of shares under				

stock option plan (note 10)	2,638	6,760	--	
Cash dividends paid, $0.12 per share	--	--	(354,046)	
Net earnings	--	--	38,096	
Balance at December 31, 1999	2,972,029	4,746,716	5,591,015	
Sale of common stock (note 9)	62,980	140,158	--	
Cash dividends paid, $0.12 per share	--	--	(361,325)	
Net loss	--	--	(878,121)	
Balance at December 31, 2000	3,035,009	4,886,874	4,351,569	
Sale of common stock (note 9)	54,507	96,465	--	
Cash dividends paid, $0.06 per share	--	--	(183,305)	
Net loss	--	--	(270,317)	
Balance at December 31, 2001	3,089,516	$ 4,983,339	3,897,947	

See accompanying notes to financial statements

PROVENA FOODS INC.

Statements of Cash Flows

Years ended December 31, 2001, 2000, and 1999

	2001
Cash flows from operating activities:	
Net earnings (loss)	$ (270,317
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	735,611
Loss on disposal of fixed assets	--
Provision for bad debts	--
Deferred income taxes	(343,881
Changes in assets and liabilities:	
Accounts receivable	(706,916
Insurance recovery receivable	--
Inventories	(309,174
Prepaid expenses	41,165
Income taxes receivable	407,843
Other assets	8,657
Accounts payable	182,497
Accrued liabilities	(149,323
Income taxes payable	--
Net cash provided by (used in) operating activities	(403,838
Cash flows from investing activities:	
Proceeds from sale of property and equipment	--

Additions to property and equipment	(196,484
Net cash used in investing activities	(196,484
Cash flows from financing activities:	
Payments on note payable to bank	(485,725
Proceeds from line of credit	1,291,079
Issuance of long-term debt	--
Decrease in restricted cash	--
Proceeds from sale of common stock	96,465
Exercise of stock options	--
Cash dividends paid	(183,305
Net cash provided by financing activities	718,514
Net increase (decrease) in cash and cash equivalents	118,192
Cash and cash equivalents at beginning of period	88,585
Cash and cash equivalents at end of period	$ 206,777
Supplemental disclosures of cash flow information:	
Cash paid (received) during the period for:	
Interest	$ 690,203
Income taxes	800
Supplemental disclosures of noncash investing and financing activities:	
Property and equipment acquired under capital leases	$ 566,828

See accompanying notes to financial statements

PROVENA FOODS INC.

Notes to Financial Statementes

December 31, 2001 and 2002

(1) Summary of Significant Accounting Policies

(a) Description of Business

Provena Foods Inc. (the Company) is a California-based specialty food processor. The Company grants credit to its customers in the normal course of business. The Company's meat processing business is conducted through its Swiss American Sausage Division (the Swiss American Division), and the Company's pasta business is conducted through its Royal-Angelus Macaroni Division (the Royal-Angelus Division).

(b) Liquidity

The Company has experienced net losses of $270,317 and $878,121 during fiscal 2001 and 2000, respectively, and its borrowings on the line of credit and long-term debt have increased from $10,085,837 at December 31, 2000 to $10,891,191 at December 31, 2001. In addition, the Company has a negative working capital of $491,192 at December 31, 2001. The recent losses are primarily the result of the fire that occurred at the Lathrop manufacturing facility in 1998 as well as a general economic downturn during 2000 and the first three quarters of 2001. The Company has built a new manufacturing facility in Lathrop to replace the facility destroyed by fire. The new manufacturing facility has a greater production capacity and as such the Company has begun to increase sales to an even greater level than those achieved prior to the fire. The Company has been successful in maintaining distribution, general, and administrative costs at a relatively consistent level over the past three years while sales have increased significantly over the same period. Management believes that because of the Company's ability to maintain consistent operating expenses, as the economy continues to improve and with the increase in production capability of the new manufacturing facility, the margin on the increased sales will have a positive effect on the profitability of the Company. The Company believes that, with respect to its current operations, cash on hand and funds from operations, together with its credit facilities, it will be sufficient to cover its reasonable foreseeable working capital, capital expenditure, and debt service requirements in fiscal 2002.

(c) Inventories

Inventories consist principally of food products and are stated at the lower of cost (first-in, first-out) or market.

(d) Property and Equipment

Property and equipment are stated at cost. Equipment acquired under capital lease is recorded at the present value of future minimum lease payments and amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset. Assets acquired prior to 1981 and

(Continued)

subsequent to 1986 are depreciated on the straight-line method. For assets acquired during the period from 1981 through 1986, accelerated methods of depreciation are used. Estimated useful lives are as follows:

Buildings and improvements	31.5 to 39 years
Machinery and equipment	5 to 10 years
Delivery equipment	5 years
Office equipment	7 years

(e) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers investments with maturities of three months or less at date of purchase to be cash equivalents.

(f) Earnings (Loss) per Common Share

Earnings (loss) per common share are calculated under the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share, (SFAS No. 128). SFAS No. 128 requires the Company to report both basic earnings (loss) per share, which is based on the weighted average number of common shares outstanding, and diluted earnings (loss) per share, which is based on the weighted average number of common shares plus all potential dilutive common shares outstanding (see note 11).

(g) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(h) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

(Continued)

(i) Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are measured at cost which approximates their fair value because of the short maturity of these instruments. The carrying amount of the Company's borrowings under the line of credit and long-term debt approximates their fair value because the interest rate on the instruments fluctuate with market interest rates or represents borrowing rates available with similar terms.

(j) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company accounts for long-lived assets in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to Be Disposed Of. This statement requires that long-lived assets and certain identifiable intangibles be 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 future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(k) Stock Option Plan

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB Opinion No. 25 issued in March 2000, to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123 (see note 10).

(l) Segment Information

The Company operates two reportable segments under criteria established in SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, (see note 12).

(m) Comprehensive Income

The Company has adopted SFAS No. 130, Reporting Comprehensive Income, which establishes rules for the reporting and display of comprehensive income (loss) and its components. The Company does not have any components of other comprehensive income (loss), and accordingly, the Company's comprehensive income (loss) is the same as its net earnings (loss).

(Continued)

(n) Revenue Recognition

Revenue is recognized upon shipment of goods to customers.

(o) Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform with the 2001 presentation.

(2) Inventories

A summary of inventories follows:

	2001	2000
Raw materials	$ 1,393,975	1,082,829
Work in process	842,577	710,152
Finished goods	954,108	1,088,505

	$ 3,190,660	2,881,486

(3) Property and Equipment

Property and equipment, at cost, consists of the following:

	2001	2000
Land	$ 1,296,803	1,296,803
Buildings and improvements	13,319,057	13,316,607
Machinery and equipment	6,422,184	5,664,320
Delivery equipment	6,700	6,700
Office equipment	180,597	177,912
	21,225,341	20,462,342
Less accumulated depreciation and amortization	(5,096,679)	(4,361,381)
	$ 16,128,662	16,100,961

The Company leases certain real property to outside parties under noncancelable operating leases. Rental income, included in other income, totaled approximately $122,000, $112,000, and $101,000 in 2001, 2000, and 1999, respectively.

(4) Line of Credit

The Company has a $4,000,000 secured bank line of credit, due on demand with no stated expiration date, at an interest rate of bank prime (4.75% at December 31, 2001) plus 0.75%. The line of credit is secured by accounts receivable, inventory and equipment. At December 31, 2001 and 2000 short-term borrowings

(Continued)

under this line of credit were $4,000,000 and $2,708,921, respectively. Amounts available under this line of credit are limited based on a formula that considers receivables and inventory balances. The Company had no amount available under this line of credit at December 31, 2001. The bank line of credit agreement is subject to certain covenants for which the Company was in compliance with or has obtained a waiver as of December 31, 2001.

(5) Long-Term Debt

Long-term debt at December 31, 2001 and 2000 consists of the following:

	2001

Equipment loans at variable interest rates from prime (4.75% at December 31, 2001) to prime plus 0.75%, secured by all Company assets. Maturity dates range from 2004 through 2006	$ 1,711,026
Real estate loan at fixed rate of 9.1%, secured by all Company assets, monthly principal and interest payments of $10,830, due and payable in 2004	1,255,165
Industrial Development Revenue Bonds (IDRB) at variable interest rate (1.35% at December 31, 2001), secured by an irrevocable letter of credit, and requiring monthly principal and interest payments ranging from $6,400 to $45,200 beginning in 2001 through the year 2023	3,925,000
	6,891,191
Less current portion	495,285
	$ 6,395,906

The $4,060,000 irrevocable letter of credit securing the IDRB, is collateralized by accounts receivable, inventories, equipment and certain real property. The commitment fee is 1.5% per annum, due at the beginning of each quarter.

The installments of long-term debt maturing in each of the next five years and thereafter are: 2002 - $495,285, 2003 - $504,443, 2004 - $504,314, 2005 - $435,485, 2006 - $340,864 and thereafter - $4,610,800.

(Continued)

(6) Accrued Liabilities

A summary of accrued liabilities follows:

	2001	2000
Accrued profit sharing (note 9)	$ 335,671	375,423
Accrued retirement	237,087	139,952
Accrued compensation	207,264	157,376
Other	449,251	705,845
	$ 1,229,273	1,378,596

(7) Shareholders' Equity

The Company sold shares to employees under its stock purchase plan (see note 9) in 2001, 2000, and 1999.

(8) Income Taxes

Income tax expense (benefit) for the years ended December 31, 2001, 2000, and 1999 consist of the following:

	2001	2000	1999
Current:			
Federal	$ 30,446	(421,633)	--
State	800	800	12,477
Deferred:			
Federal	(228,511)	(99,729)	23,422
State	(115,370)	(56,716)	(6,002)
	$ (312,635)	(577,278)	29,897

(Continued)

The sources and tax effects of temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities are as follows:

	2001
Deferred tax assets:	
Inventory	$ 106,016
Accounts receivable	--
Net operating loss	235,986
State taxes	92,898
Other	187
Total deferred tax assets	435,087
Less valuation allowance	--
Net deferred tax assets	$ 435,087
Deferred tax liability - gain on destroyed equipment	$ 463,196

As of December 31, 2001 the Company had net operating loss (NOL) carryforwards of approximately $549,000 and $843,000 for federal and state purposes, respectively. The federal NOL is available to offset future federal taxable income through the year 2021 and the state NOL is available to offset future state taxable income through 2011. The utilization of certain NOL carryforwards could be limited due to restrictions imposed under federal and state laws upon a change in ownership.

In assessing the realizability of the net deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon either the generation of future taxable income during the periods in which those temporary differences become deductible or the carryback of losses to recover income taxes previously paid during the carryback period.

Actual income tax expense (benefit) differ from "expected" income tax, computed by applying the U.S. federal corporate tax rate of 34% to earnings (loss) from operations before income taxes, as follows:

	2001		2000		1999	
	Amount	%	Amount	%	Amount	%
Computed "expected" income taxes	$ (198,204)	34.0%	$ (494,836)	34.0%	$ 23,117	34.
State income taxes, net of federal income tax benefit	(21,944)	3.8	(55,388)	3.8	4,208	6.
State manufacturing investment credit	(92,487)	8.6	--	--	--	-
Other	--	--	(27,054)	1.9	2,572	3.
	$ (312,635)	46.4%	$ (577,278)	39.7%	$ 29,897	44.

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(9) Employee Benefit Plans

In 1988, the Company adopted a Simplified Employee Pension - Individual Retirement Account (SEP IRA) plan covering all full-time, nonunion employees. The Company makes contributions under the plan at the discretion of the board of directors. The Company's contributions to the SEP IRA for 2001, 2000, and 1999 were approximately $332,000, $375,000, and $419,000, respectively.

In 1988, the Company adopted a stock purchase plan, enabling substantially all nonunion employees except officers and directors to purchase shares of the Company's common stock through periodic payroll deductions. Employees may contribute up to $50 per week and all contributions are 100% matched by the Company; the combined funds are used in the subsequent month to purchase whole shares of common stock at current market prices. Stock purchases under this Plan result in net cash flow to the Company as the contributions and employer-matching contributions are used to purchase stock from the Company. The Company matching contributions to the stock purchase plan for 2001, 2000, and 1999 were $48,288, $70,079, and $83,737, respectively.

The Company provides partial coverage for medical costs to its employees under a self-insured plan. Additionally, the Company carries a catastrophic policy that covers claims in excess of $50,000 for any covered individual. The Company has accrued the estimated liability for its self-funded costs (see note 14).

(10) Incentive Stock Option Plan

Under a stock option plan (the Plan) adopted in 1987, the Company has awarded options to certain of its key employees to purchase common stock at prices which approximate fair market value of the stock at the date of grant. The Plan provides for a maximum grant of 261,704 shares. All stock options have a maximum ten-year term and become fully exercisable in accordance with a predetermined vesting schedule that varies by employee.

There were no options granted in 2001, 2000, or 1999.

The Company applies the intrinsic-value based method of APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net earnings (loss) would have been reduced to the pro forma amounts indicated below:

			2001	2000
Net earnings (loss)	As reported	$	(270,317)	(8
	Pro forma		(270,317)	(8
Net earnings (loss) per share	As reported:			
	Basic	$	(0.09)	
	Diluted		(0.09)	
	Pro forma:			
	Basic	$	(0.09)	
	Diluted		(0.09)	

Pro forma net earnings (loss) reflect only options granted since December 31, 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net earnings (loss) amounts presented above because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to January 1, 1996 is not considered.

Stock option activity under the Plan during the periods indicated is as follows:

	Number of shares	Weighted exercis
Balance at December 31, 1998	109,749	$
Exercised	(2,638)	
Balance at December 31, 1999	107,111	
Exercised	--	
Balance at December 31, 2000	107,111	
Exercised	--	
Balance at December 31, 2001	107,111	

At December 31, 2001 the exercise price and remaining contractual life of outstanding options was $2.56 and 5 years, respectively.

At December 31, 2001 the number of options exercisable was 107,111, and the weighted average exercise price of those options was $2.56.

(11) Earnings (Loss) Per Share

The following table illustrates the computation of basic and diluted earnings (loss) per common share under the provisions of SFAS No. 128:

	2001	20
Numerator:		
Numerator for basic and diluted earnings (loss) per share - net earnings (loss)	$ (270,317)	
Denominator:		
Denominator for basic earnings (loss) per share - weighted average number of common shares outstanding during the period	3,064,033	
Incremental common shares attributable to exercise of outstanding options	--	
Denominator for diluted earnings (loss) per share	3,064,033	
Basic earnings (loss) per share	$ (0.09)	
Diluted earnings (loss) per share	$ (0.09)	

Substantially all options were included in the computation of diluted earnings per common share for 1999. In 2001 and 2000, all 107,111 stock options were excluded from the computation of diluted loss per share due to their antidilutive effect.

(12) Segment Data and Major Customers

The Company's reportable business segments are strategic business units that offer distinctive products that are marketed through different channels. The Company has two reportable segments; the meat processing division (Swiss American) and the pasta division (Royal-Angelus). The Swiss American Division produces meat products that are sold primarily to pizza restaurant chains, pizza processors, and food service distributors. The Royal-Angelus Division produces pasta that is sold primarily to food processors, private label customers, food service distributors, and specialty food distributors.

The following table represents financial information about the Company's business segments as of and for the three years ended December 31, 2001:

		2001	2000
Net sales to unaffiliated customers:			
Swiss American Division	$	30,310,182	21,428,485
Royal-Angelus Division		5,696,957	5,880,876
Total sales	$	36,007,139	27,309,361
Operating income (loss):			
Swiss American Division	$	435,580	(854,291)
Royal-Angelus Division		(616,381)	(41,958)
Corporate		(4,399)	32,170
Operating loss	$	(185,200)	(864,079)
Identifiable assets:			
Swiss American Division	$	18,428,801	17,641,810
Royal-Angelus Division		4,328,435	4,075,823
Corporate		636,596	639,622
Total assets	$	23,393,832	22,357,255
Capital expenditures:			
Swiss American Division	$	128,515	587,787
Royal-Angelus Division		65,809	143,866
Corporate		2,160	--
Total capital expenditures	$	196,484	731,653
Depreciation and amortization:			
Swiss American Division	$	503,234	480,024
Royal-Angelus Division		227,901	263,755
Corporate		4,476	5,561
Total depreciation and amortization	$	735,611	749,340

The Company had major customers during 2001, 2000, and 1999 that accounted for more than 10% of consolidated sales and purchased products, as follows:

	2001		2000		1999		Accounts receiva balance at Decembe	
Customer	Sales	%	Sales	%	Sales	%	2001	2
A	$ 4,695,600	13%	$ 4,117,550	15%	$ 1,397,090	7%	$ --	
B	4,443,520	12	3,854,702	14	3,316,544	16	636,618	63
C	3,955,478	11	2,943,984	11	2,555,701	12	88,000	36

(13) Commitments and Contingencies

Rent expense for all leases was approximately $197,000 in the year ended December 31, 1999. The Company did not have any operating leases in 2001 or 2000.

In December 2001, the Company entered into a capital lease for certain production equipment totaling $566,828, which is included in property and equipment on the accompanying 2001 balance sheet. The lease has a term of five years and requires minimum payments based on certain production volumes. Future minimum lease payments on the capital lease at December 31, 2001 is as follows:

2002	$	128,361
2003		128,361
2004		128,361
2005		128,361
2006		128,361
Total minimum lease payments		641,805
Less amount representing interest		(74,977)
Present value of net minimum lease payments		566,828
Less current portion		113,200
Long-term portion	$	453,628

As of December 31, 2001 approximately 65% of the Company's employees are covered by a collective bargaining agreement which expired March 31, 2002. In addition, another 12% of the Company's employees are covered by a collective bargaining agreement which expires September 29, 2002.

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. Although occasional adverse decisions or settlements may occur, the Company believes the final disposition of such matters will not have a material adverse effect on its financial position, results of operations or liquidity.

(14) Self-Insured Health Benefits

The Company is self-funded for Company provided health insurance benefits for its nonunion employees. The profit or loss effects of self-insuring cannot be foreseen and may be adverse. The Company has a reinsurance policy which covers claims in excess of $50,000 for any covered individual.

(15) Casualty Loss

On August 1, 1998, a fire destroyed one of the Company's two meat processing facilities located in San Francisco, CA. The destroyed facility was being leased under an operating lease that expired on November 1, 1998. The fire destroyed inventory with a net book value of $1,112,435 and certain

equipment and leasehold improvements with a net book value of $474,835. The inventory was insured at market value and the equipment and leasehold improvement were insured at replacement cost. The Company was also reimbursed for incremental operating costs under its "Business Interruption & Extra Expense" coverage. Total insurance proceeds recognized in 1999 and 1998 were $2,806,262 and $5,204,738, respectively, which resulted in gains of $2,806,262 and $3,204,342 which are included in other income in the accompanying 1999 and 1998 statements of operations, respectively. The claim was completely settled and all amounts were fully collected as of December 31, 1999.

(16) Selected Quarterly Financial Data (Unaudited)

The following summarizes certain unaudited quarterly financial information for 2001, 2000, and 1999:

		Quarter		
Fiscal 2001		1st	2nd	3rd
Net sales	$	7,738,681	7,905,495	9,757,489
Operating income (loss)		152,888	(15,453)	(284,676)
Net loss		9,866	(98,634)	(238,504)
Net loss per basic share		0.00	(0.03)	(0.08)
Net loss per diluted share		0.00	(0.03)	(0.08)
Fiscal 2000		1st	2nd	3rd
Net sales	$	5,927,400	5,892,722	7,735,279
Operating income (loss)		(253,693)	(492,817)	(297,088)
Net loss		(232,930)	(387,763)	(285,024)
Net loss per basic share		(0.08)	(0.13)	(0.09)
Net loss per diluted share		(0.08)	(0.13)	(0.09)
Fiscal 1999		1st	2nd	3rd
Net sales	$	4,935,510	4,773,677	5,069,039
Operating income (loss)		(654,068)	(863,419)	(1,103,399)
Net earnings (loss)		255,234	218,531	(513,197)
Net earnings (loss) per basic share		0.09	0.07	(0.17)
Net earnings (loss) per diluted share		0.09	0.07	(0.17)

PROVENA FOODS INC.

Schedule II - Valuation and Qualifying Accounts

and Reserves Years ended December 31,

2001, 2000, and 1999

Description	Balance at beginning of period	Provision, net of recoveries	Deductions uncollectib accounts
Allowance for doubtful receivables:			
2001	$ 59,843	--	59,843
2000	32,166	39,316	11,639
1999	--	32,166	--

See accompanying independent auditors' report.