

1999 Annual Report

DESCRIPTION OF BUSINESS

Bridgford Foods Corporation and its subsidiaries manufacture and/or distribute refrigerated, frozen and snack food products. The Company markets its products throughout the United States and Canada. The Company sells its products through wholesale outlets, restaurants and institutions. The products are sold by the Company's own sales force, brokers, cooperatives, wholesalers and independent distributors. Products are currently sold through approximately 29,000 retail food stores in forty-eight states within the continental United States, Hawaii and Canada that are serviced by Company-owned service routes. Company products are also sold throughout the country to approximately another 19,000 retail outlets and 19,000 restaurants and institutions.

The following summary represents the approximate percentage of net sales by class of product for each of the last five fiscal years:

	1999	1998	1997	1996	1995
Products manufactured or processed by the Company	69	78	82	83	85
Products manufactured or processed by others	31	22	18	17	15
Total	100	100	100	100	100

COMMON STOCK AND DIVIDEND DATA

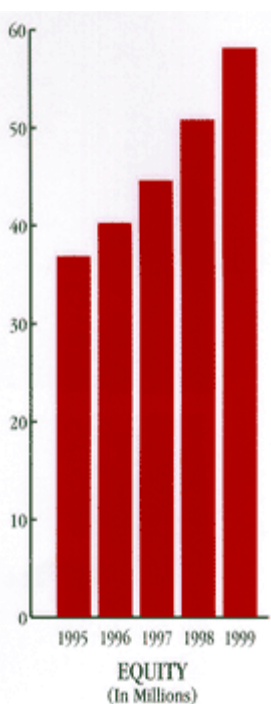
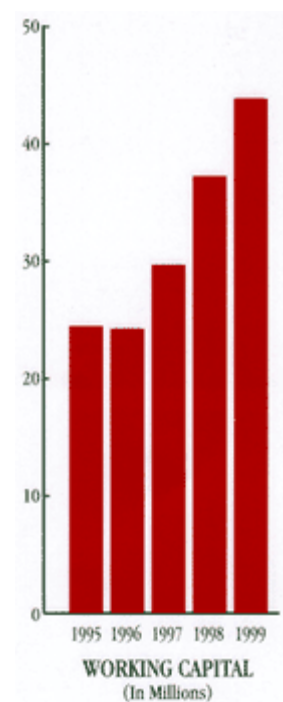
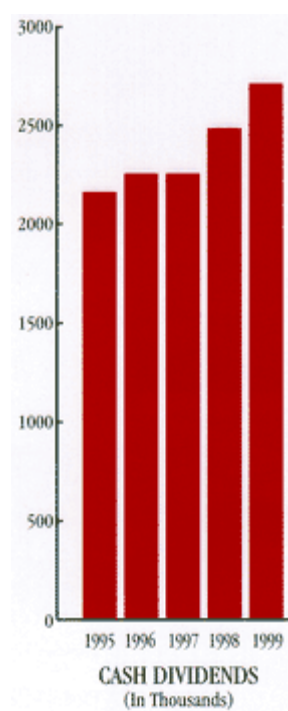
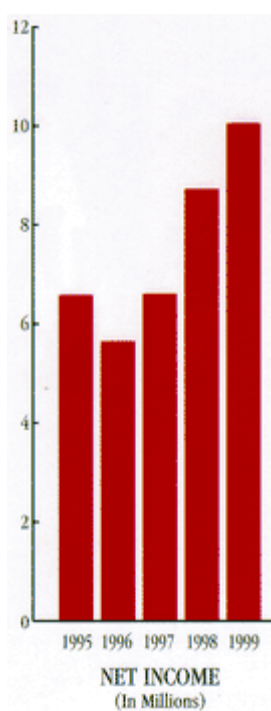
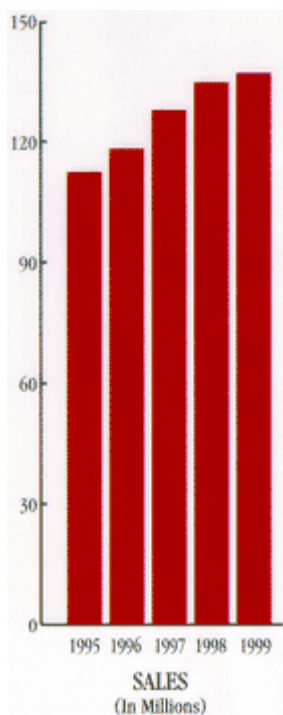
The common stock of the Company is traded in the national over-the-counter market and is authorized for quotation on The Nasdaq National Market under the symbol "BRID". The following table reflects the high and low closing prices and cash dividends paid as quoted by Nasdaq for each of the last eight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

Fiscal Quarter Ended	----- Prices -----		Cash Dividends Paid
	\$High	\$Low	
January 30, 1998	13 & 7/8	10 & 3/8	\$.055
May 1, 1998	12 & 3/4	9 & 1/2	\$.055
July 31, 1998	12 & 3/8	11 & 1/8	\$.055
October 30, 1998	11 & 7/8	10 & 1/4	\$.055
January 29, 1999	12 & 1/2	12 & 1/2	\$.06
April 30, 1999	10 & 1/4	10	\$.06
July 30, 1999	10 & 7/8	10 & 3/4	\$.06
October 29, 1999	9 & 15/16	9 & 7/8	\$.06

ANNUAL SHAREHOLDERS MEETING

The 2000 annual shareholders meeting will be held at the Four Points Sheraton, 1500 South Raymond Avenue, Anaheim, California at 10:00 a.m. on Wednesday March 15, 2000.

RECENT HISTORICAL TRENDS





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TO OUR SHAREHOLDERS:

It is a great pleasure to report that 1999 was a banner year for Bridgford Foods Corporation. New all-time record highs were attained in sales, earnings, dividends and capital. Net profits exceeded ten million dollars for the first time in our sixty-seven year history.

SALES, EARNINGS AND DIVIDENDS

Sales in fiscal 1999 reached \$138,786,260, a record high by 3%. It was our fourteenth consecutive annual sales gain. Our meat snack division, Bridgford Foods of Illinois, again recorded outstanding sales volume increases as we added a variety of new flavors, sizes and improved packaging graphics to our meat snack line. Especially successful are our new 8-ounce packages of natural beef jerky. Bridgford's 4-ounce natural beef jerky continued to maintain the number one sales ranking for a meat snack product in American supermarkets and mass merchandising stores in 1999.

During the year, hundreds of new customers have been added to our direct distribution deli and meat snack systems. Two new frozen retail-pack par-baked roll items were successfully tested during the fall of 1999. We expect to bring these new items to market in the year 2000. Also, our new french dip sandwiches, as well as our sausage, cheese and egg breakfast sandwiches, have shown excellent sales gains during 1999.

Net income in 1999 reached a record high of \$10,024,505. This represents a 15% gain over 1998 income. Bridgford has now set earnings records for three consecutive years and in 12 of the last 13 years. We experienced favorable flour costs in 1999. Meat costs increased substantially in the second half of 1999 when compared with costs in the first half of the year.

Cash dividends of twenty-four cents per share were paid in 1999 on the 11,369,812 shares outstanding. At the November 1999 Board of Directors meeting, the quarterly cash dividend rate was raised to 7¢ per share, a 17% increase.

FINANCIAL MATTERS

Shareholders equity increased more than 14% to \$58,134,865 during 1999, a gain of \$7,292,617. Working capital was \$43,760,200 at year-end, more than 17% higher than at the end of fiscal 1998.

Our working capital ratio was a very strong 4.2 to 1 at year-end. We continued to be debt-free for the 13th consecutive year while investing \$4,901,936 in property, plant and equipment. A \$2,000,000 bank line of credit remains available to us for new business opportunities.

Employee stock options were authorized and issued to members of the Corporate Operating Committee during 1999. Options for shares were issued at a price of \$10.00 per share. Members of the current Executive Committee are excluded from receiving options.

During November of 1999 the Board authorized the Company to repurchase up to 1,000,000 shares of its common stock on the open market. The Company believed that the stock was undervalued at the time and that the repurchase program is a good investment of available funds. The investment firm of Salomon Smith Barney was engaged to manage the repurchase program.

OPERATIONS

During 1999 we completed a new 27,000 square foot addition to our Chicago meat snack foods plant and warehouse. We also finished a 6,000 square foot freezer addition at our Dallas, Texas sandwich manufacturing plant. Plans for our 2000 fiscal year include expansion of the freezer at the Bridgford-Superior bakery and frozen dough plant in Dallas. We have offered to purchase property adjacent to both our Frozen-Rite and

Superior plants in Dallas to facilitate future growth. The Company is adding substantial amounts of new modern equipment to its Chicago and Dallas facilities for expanded production of current and new products. We are experiencing higher meat raw material costs in the first quarter of 2000. It appears that grain supplies are plentiful and we do not expect higher costs for our basic bakery raw materials.

SUMMARY

Thank you to our customers, shareholders, directors, officers, associates and suppliers for enabling us to experience an extraordinarily successful year in 1999.

We are poised to continue our progress in the year 2000.

Respectfully submitted,



Allan L. Bridgford
Chairman



Robert E. Schulze
President

BRIDGFORD FOODS CORPORATION FINANCIAL SUMMARY						
Fiscal Year Ended						
	October 29 1999	October 30 1998	% Change			
				\$138,786,260	\$134,815,787	14.94
				16,169,505	14,065,430	14.95
				10,024,505	8,720,430	14.29
Net sales				.88	.77	
Income before taxes				.24	.22	9.09
Net income				43,760,200	37,251,202	17.47
Net income per share				85,469,476	75,792,941	
Cash dividends per share				58,134,865	50,842,248	12.77
Working capital				18.40%	18.27%	
Total assets						14.34
Shareholders' equity						-
Return on average equity						

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SELECTED FINANCIAL DATA

	October 29 1999	October 30 1998	November 1 1997	November 1 1996	November 3 1995*
Net Sales	\$138,786,260	\$134,815,787	\$127,859,491	\$118,316,470	\$112,497,590
Net Income	10,024,505	8,720,430	6,605,354	5,651,383	6,590,855
Basic Earnings Per Share	.88	.77	.58	.50	.58
Current Assets **	57,236,926	50,558,938	41,136,786	33,871,431	32,946,552
Current Liabilities **	13,476,726	13,307,736	11,454,700	9,625,313	8,484,009
Working Capital **	43,760,200	37,251,202	29,682,086	24,246,118	24,462,543
Property, Plant and Equip., Net	17,764,652	16,197,108	16,853,248	17,854,524	14,364,995
Deferred Taxes on Income	4,605,530	3,738,976	3,102,479	3,008,911	2,353,377
Total Assets	85,469,476	75,792,941	65,663,892	58,277,948	52,623,417
Shareholders' Equity	58,134,865	50,842,248	44,605,782	40,255,691	36,859,572
Cash Dividends Per Share	.24	.22	.20	.20	.19

* 53 weeks

** Certain financial statement reclassifications have been recorded in years prior to 1997 to conform to the current year presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report constitute "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Such forward looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of Bridgford Foods Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Such factors include, among others, the following; general economic and business conditions; the impact of competitive products and pricing; success of operating initiatives; development and operating costs; advertising and promotional efforts; adverse publicity; acceptance of new product offerings; consumer trial and frequency; changes in business strategy or development plans; availability, terms and deployment of capital; availability of qualified personnel; commodity, labor, and employee benefit costs; changes in, or failure to comply with, government regulations; weather conditions; construction schedules; and other factors referenced in this report.

The Company's operating results are heavily dependent upon the prices paid for raw materials. The marketing of the Company's value-added products does not lend itself to instantaneous changes in selling prices. Changes in selling prices are relatively infrequent and do not compare with the volatility of commodity markets. The impact of inflation on the Company's financial position and results of operations has not been significant during the last three years. Management is of the opinion that the Company's strong financial position and its capital resources are sufficient to provide for its operating needs and capital expenditures.



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RESULTS OF OPERATIONS

1999 compared to 1998

Sales in fiscal year 1999 increased \$3,970,000 (2.9%) when compared to sales of the prior year, primarily as a result of increased sales volume.

Cost of products sold decreased by \$332,000 when compared to the prior year. The gross margin was approximately 42% in 1999, 40% in 1998 and 36.9% 1997. Costs for pork commodity products remained at historically low levels and flour costs continued to be favorable in 1999 and 1998.

Selling, general and administrative expenses increased \$1,844,000 (5.0%) when compared to the prior year. This increase was generally consistent with the overall increase in sales. Selling expenses slightly outpaced sales growth due to an increased sales force and higher performance bonuses due to record profitability.

The Company's capital expansion projects increased compared to recent years. The Company expects to continue the growth and modernization of facilities and equipment used in the business. The effective tax rate remained consistent with the prior year at 38%.

1998 compared to 1997

Sales in fiscal year 1998 increased \$6,956,000 (5.4%) when compared to sales of the prior year, primarily as a result of increased sales volume.

Cost of products sold increased by only \$255,000 when compared to the prior year. The gross margin was approximately 40% in 1998, 36.9% in 1997 and 35.9% 1996. Costs for pork commodity products reached historically low levels and flour costs continued to be favorable in 1998 and 1997 compared to the prior years.

Selling, general and administrative expenses increased \$3,303,000 (9.8%) when compared to the prior year. This increase was generally consistent with the overall increase in sales. Selling expenses outpaced sales growth due to an increased sales force and higher performance bonuses due to record profitability.

The effective tax rate remained consistent with the prior year at 38%.

1997 compared to 1996

Sales in fiscal year 1997 increased \$9,543,000 (8.1%) when compared to sales of the prior year, primarily as a result of increased sales volume.

Cost of products sold increased by \$4,747,000 (6.3%) when compared to the prior year. The gross margin was approximately 36.9% in 1997 and 35.9% 1996. Costs for pork commodity products remained at historically high levels while flour costs became more favorable in 1997 compared to the prior year. Improved sales of higher margin products and lower flour costs result in a slight improvement in the gross margin.

LIQUIDITY AND CAPITAL RESOURCES

Favorable operating results over the past several years have continued to provide significant liquidity to the Company. Net cash provided by operating activities was \$9,635,000 in the 1999 fiscal year compared to \$14,579,000 in 1998 and \$10,189,000 in 1997. Accounts receivable balances increased \$1,617,000 (13%) in 1999, \$699,000 (6%) in 1998 and \$1,367,000 (13%) in 1997 due to higher sales and slower collections. Inventories increased in 1999 \$2,083,000 due to higher unit quantities and decreased \$1,490,000 in fiscal 1998 due primarily to significantly lower commodity costs and lower quantities compared to the prior fiscal year. Non-current assets increased \$1,431,000 (16%), \$1,363,000 (18%), and \$1,122,000 (17%) in 1999, 1998, and

1997, respectively, due primarily to the increased cash surrender value of life-insurance policies and increases in deferred income tax benefits due primarily to increases in non-funded employee benefits. Accounts payable and accrued expenses increased \$1,759,000 (19%) in 1997, due to higher purchasing activity to support record fourth quarter sales volume, and increased product promotion and bonus accruals.

The Company's capital improvement expenditures increased in 1999 compared to recent years. Cash used for additions to property, plant and equipment increased \$2,617,000 (114%) compared to fiscal year 1998. Significant projects were completed in 1999, primarily the Dallas Sandwich Freezer expansion at a total cost of \$966,000 and the shipping dock expansion of the Chicago plant at a total cost of \$1,541,000. Cash and cash equivalents increased \$2,749,000 in 1999 (12.3%). The increase was lower than in recent years due to higher tax payments, increased capital expenditures and higher accounts receivable and inventory balances. Cash and cash equivalents increased \$9,894,000 in 1998 and \$6,035,000 (95%) in 1997 primarily as a result of lower capital expenditures, improved profitability and significant increases in non-funded employee benefits. The Company has remained free of interest-bearing debt for twelve consecutive years. Working capital increased \$6,509,000 (17.5%) and \$7,569,000 (25.5%) in 1999 and 1998. The increases in working capital reflect lower capital spending in 1998, improved profitability and significant increases in non-funded employee benefits. The Company maintains a line of credit with Bank of America that expires April 30, 2001. There were no borrowings under this line of credit during 1999.

The Company has and will continue to make certain investments in its software systems and applications to ensure year 2000 compliance. The financial impact to the Company has not been and is not anticipated to be material to its financial position or results of operations in any given year. Detail disclosure regarding the Company's year 2000 plan and discussion of risk factors is continued under Item 1., "Business" in Form 10-K for the fiscal year ended October 29, 1999.



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Consolidated Balance Sheets

ASSETS

	October 29 1999	October 30 1998
Current assets:		
• Cash and cash equivalents	\$25,020,839	\$22,272,141
• Accounts receivable, less allowance for doubtful accounts of \$647,219 and \$582,787	13,689,463	12,072,818
• Inventories	16,149,918	14,066,898
• Prepaid expenses	268,892	233,848
• Deferred income tax benefits	2,107,814	1,913,233
Total current assets	57,236,926	50,558,938
Property, plant and equipment, net of accumulated depreciation of \$30,533,865 and \$27,894,827	17,764,652	16,197,108
Other non-current assets	5,862,368	5,297,919
Deferred income tax benefits	4,605,530	3,738,976
	\$85,469,476	\$75,792,941

LIABILITIES AND SHAREHOLDERS' EQUITY

	October 29 1999	October 30 1998
Current liabilities:		
• Accounts payable	\$5,849,237	\$5,343,725
• Accrued payroll and other expenses	6,759,979	6,373,886
• Income taxes payable	867,510	1,590,125
Total current liabilities	13,476,726	13,307,736
Contingencies and commitments (Note 6)		
Shareholders' equity:		
• Preferred stock, without par value		
Authorized - 1,000,000 shares		
Issued and outstanding - none		
• Common stock, \$1.00 par value		
Authorized - 20,000,000 shares		

Issued and outstand - 11,369,812	11,426,695	11,426,695
• Capital in excess of par value	26,347,123	26,347,123
• Retained earnings	20,361,047	13,068,430
	<hr/>	<hr/>
	58,134,865	50,842,248
	\$85,469,476	\$75,792,941

*1999 Annual Report***Consolidated Statements of Income**

	Fiscal year ended		
	October 29 1999	October 30 1998	October 31 1997
Net sales	\$138,786,260	\$134,815,787	\$127,859,491
Cost of products sold, excluding depreciation	80,544,109	80,876,022	80,621,498
Selling, general and administrative expenses	38,780,300	36,935,860	33,633,263
Depreciation	3,292,346	2,938,475	2,950,376
	122,616,755	120,750,357	117,205,137
Income before taxes	16,169,505	14,065,430	10,654,354
Provision for taxes on income	6,145,000	5,345,000	4,049,000
Net income	\$10,024,505	\$8,720,430	\$6,605,354
Net income per share	\$0.88	\$0.77	\$0.58

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common stock		Capital in excess of par	Retained earnings	Total shareholder's equity
	Shares	Amount			
Balance, November 1, 1996	9,396,933	\$9,453,816	\$3,024,881	\$27,776,994	\$40,255,691
- Net income				6,605,354	6,605,354
- Cash dividends paid (\$.20 per share)				(2,263,265)	(2,255,265)
- 10% stock dividends, November 10, 1997		939,482	939,482	10,921,478	(11,860,960)
Balance, October 31, 1997	10,336,415	\$10,393,298	\$13,946,359	\$20,266,125	\$8,720,430
- Net income				8,720,430	8,720,430
- Cash dividends paid* (\$.22 per share)				(2,483,964)	(2,483,964)
- 10% stock dividends, November 16, 1998	1,033,397	1,033,397	12,400,764	(13,434,161)	
Balance, October 30, 1998	\$11,369,812	\$11,426,695	26,347,123	\$13,068,430	\$50,842,248
- Net income				10,024,505	10,024,505
- Cash dividends paid* (\$.24					

per share)				(2,731,888)	(2,731,888)
Balance, October 29, 1999	<u>\$11,369,812</u>	<u>\$11,426,695</u>	<u>26,347,123</u>	<u>\$20,361,047</u>	<u>\$58,134,865</u>

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Consolidated Statements of Cash Flows

	Fiscal year ended		
	October 29 1999	October 30 1998	October 31 1997
Cash flows from operating activities:			
Net income	\$10,024,505	\$8,720,430	\$6,605,354
Income charges not affecting cash:			
Depreciation	3,292,346	2,938,475	2,950,376
Provision for losses on accounts receivable	221,650	254,150	149,150
Gain on sale of assets	(705,288)	(81,941)	(50,129)
Changes in assets and liabilities:			
Accounts receivable	(1,838,295)	(952,705)	(1,516,171)
Inventories	(2,083,020)	1,489,852	47,162
Prepaid expenses	(35,044)	(96,101)	206,099
Deferred income tax benefits	(1,061,135)	(859,636)	(210,152)
Other non-current assets	(564,449)	(726,540)	(1,028,297)
Accounts payable and accrued expenses	891,605	446,768	1,758,848
Income taxes payable	(722,615)	1,406,268	70,539
Non-current liabilities	2,214,928	2,039,547	1,206,466
Net cash provided by operating activities	<u>9,635,188</u>	<u>14,578,567</u>	<u>10,189,145</u>
Cash used in investing activities:			
Proceeds from sale of assets	747,334	84,941	50,129
Additions to property, plant and equipment	(4,901,936)	(2,285,335)	(1,949,100)
Net cash used in investing activities	<u>(4,154,602)</u>	<u>(2,200,394)</u>	<u>(1,898,971)</u>
Cash used in financing activities:			
Cash dividends paid	(2,731,888)	(2,483,964)	(2,255,264)
Net increase (decrease) in cash and cash equivalents	2,748,698	9,894,209	6,034,910
Cash and cash equivalents at beginning of year	<u>22,272,141</u>	<u>12,377,932</u>	<u>6,343,022</u>
Cash and cash equivalents at end of year	<u>\$25,020,839</u>	<u>\$22,272,141</u>	<u>\$12,377,932</u>
Cash paid for income taxes	<u>\$7,837,000</u>	<u>\$4,891,000</u>	<u>\$4,022,000</u>



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Notes to Consolidated Financial Statements

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany transactions have been eliminated. The carrying amount of cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities approximate fair market value due to the short maturity of these instruments.

Business segment

The Company and its subsidiaries operate in one business segment - the manufacturing and/or distributing of refrigerated, frozen and snack food products.

Fiscal year

The Company maintains its accounting records on a 52-53 week fiscal basis. Fiscal years 1999, 1998 and 1997 include 52 weeks each.

Revenues

Revenues are recognized upon product shipment or delivery to customers.

Cash equivalents

The Company considers all investments with original maturities of three months or less to be cash equivalents. Cash equivalents include treasury bills of \$24,980,000 at October 29, 1999 and \$20,985,000 at October 30, 1998.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Property, plant and equipment

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

Income taxes

Deferred taxes are provided for items whose financial and tax bases differ.

Stock-based compensation

Statement of Financial Accounting Standards (SFAS No. 123), "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans based on the fair market value of options granted. The Company has chosen to account for stock based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation for stock options is measured as the excess, if any, of the fair market value of the Company's stock price at the date of grant as determined by the Board of Directors over the amount an employee must pay to acquire the stock.

Basic and diluted earnings per share

Basic earnings and cash dividends per share are calculated based on the weighted average number of shares outstanding, 11,369,812 for all periods presented. Diluted earnings per share is calculated based on the

weighted average number of shares outstanding plus shares issuable on conversion or exercise of all potentially dilutive securities.

NOTE 2 - COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS:

	1999 (in thousands)	1998 (in thousands)
Property, plant and equipment:		
Land	\$1,087	\$1,083
Buildings and improvements	12,511	11,310
Machinery and equipment	27,761	25,616
Transportation equipment	6,940	6,083
	48,299	44,092
Accumulated depreciation	(30,534)	(27,895)
	\$17,765	\$16,197
Inventories:		
Meat, ingredients and supplies	\$3,288	\$3,695
Work in progress	1,837	1,353
Finished goods	11,025	9,019
	\$16,150	\$14,067
Accrued payroll and other expenses:		
Payroll, vacation and payroll taxes	\$6,051	\$5,533
Property taxes	263	263
Other	446	578
	\$6,760	\$6,374



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Notes to Consolidated Financial Statements

NOTE 3 - RETIREMENT AND BENEFITS PLANS:

The Company has noncontributory-trusted defined benefit retirement plans for sales, administrative, supervisory and certain other employees. The benefits under these plans are primarily based on years of service and compensation levels. The Company's funding policy is to contribute annually the maximum amount deductible for federal income tax purposes.

Net pension cost consisted of the following (in thousands):

	1999	1998	1997
Cost of benefits earned during the year	\$646	\$568	\$485
Interest cost on projected benefit obligation	958	907	810
Actual return on plan assets	(990)	(748)	(1,602)
Deferral of unrecognized gain (loss) on plan assets	138	(34)	931
Amortization of unrecognized gain	(68)	(83)	(38)
Amortization of transition asset	(76)	(76)	(76)
Amortization of unrecognized prior service costs	34	34	34
Net pension cost	\$644	\$568	\$544

The transition asset is being amortized using the straight-line method over 15.02 years, the average remaining service period of active plan participants. The discount rate and expected long-term rate of return used in determining the projected benefit obligation for fiscal years 1999, 1998 and 1997 was 7.75%. The assumed rate of future compensation increases for fiscal years 1999 and 1998 was 4% and for fiscal year 1997 was 6%.

Plan assets are primarily invested in marketable equity securities, corporate and government debt securities and real estate and are administered by an investment management company.

The funded status of the plan is as follows (in thousands):

	1999	1998	1997
Plan assets at fair market value	\$11,455	\$10,622	\$10,081
Actuarial present value of benefit obligations:			
 Accumulated benefits based on current salary levels, including vested benefits of \$9,974, \$8,927 and \$7,324	12,970	10,502	9,415
 Additional benefits based on estimated future salary levels	946	817	1,152
 Projected benefit obligation	13,916	11,319	10,567
Projected benefit obligation in excess of plan assets	(2,461)	(3,463)	(3,065)
Unrecognized prior service costs	233	247	281
Unrecognized gain on plan assets	(2,404)	(3,463)	(3,065)
Unrecognized net transition asset	(369)	(445)	(520)

Accrued pension cost

\$(5,001) **\$(4,358)** \$(3,790)

In fiscal year 1991, the Company adopted a non-qualified supplemental retirement plan for certain key employees. Benefits provided under the plan are equal to 60% of the employee's final average earnings, less amounts provided by the Company's defined benefit pension plan and amounts available through Social Security. Total annual benefits are limited to \$120,000 for each participant in the plan. Effective January 1, 1991 the Company adopted a deferred compensation savings plan for certain key employees. Under this arrangement, selected employees contribute a portion of their annual compensation to the plan. The Company contributes an amount to each participant's account by computing an investment return equal to Moody's Average Seasoned Bond Rate plus 2%. Employees receive vested amounts upon death, termination or retirement. Total benefit expense recorded under these plans for fiscal years 1999, 1998 and 1997 was \$320,000, \$303,000 and \$348,000, respectively. Benefits payable related to these plans and included in other non-current liabilities in the accompanying financial statements were \$4,384,000 and \$3,594,000 at October 29, 1999 and October 30, 1998, respectively. In connection with this arrangement the Company is the beneficiary of life insurance policies on the lives of certain key employees. The aggregate cash surrender value of these policies, included in non-current assets, was \$5,862,000 and \$5,298,000 at October 29, 1999 and October 30, 1998, respectively.

The Company provides a deferred compensation plan for certain key executives, which is based upon the Company's pretax income and return on shareholders' equity. The payment of these bonuses is generally deferred over a five-year period. The total amount payable related to this arrangement was \$5,823,000 and \$4,598,000 at October 29, 1999 and October 30, 1998, respectively. Future payments are approximately \$1,700,000, \$1,434,000, \$1,226,000, \$942,000 and \$521,000 for fiscal years 2000 through 2004, respectively.

Postretirement health care benefits in the approximate amount of \$350,000 and \$345,000 are included in non-current liabilities at October 29, 1999 and October 30, 1998, respectively.

The Company's 1999 Stock Incentive Plan ("the Plan") was approved by the Board of Directors on January 11, 1999 and 275,000 shares were granted on April 29, 1999. Under the Plan, the maximum aggregate number of shares which may be optioned and sold is 900,000 shares of common stock, subject to adjustment upon changes in capitalization or merger. Generally, options granted under the plan vest in annual installments over four years following the date of grant (as determined by the Board of Directors) subject to the optionee's continuous service. Options expire ten years from the date of grant with the exception of an incentive stock option granted to an optionee who owns stock representing more than 10% of the voting power of all classes of stock of the Company, in which case the term of the option is five years. Options generally terminate three months after termination of employment or one year after termination due to permanent disability or death. Options are generally granted at a fair market value determined by the Board of Directors subject to the following:

- a.) With respect to options granted to an employee or service provider who, at the time of grant owns stock representing more than 10% of the voting power of all classes of stock of the Company, the per share exercise price shall be no less than 110% of the fair market value on the date of grant.
- b.) With respect to options granted to an employee or service provider other than described in the preceding paragraph, the exercise price shall be no less than 100% for incentive stock options and 85% for non-statutory stock options of the fair market value on the date of grant. Stock option activity under the plan was as follows:

	Options Outstanding	Exercise Price Per Share
Granted	900,000	\$10.00
Canceled	-	-
Exercised	-	-
Balance at October 29, 1999	900,000	\$10.00
Options Outstanding		Options Exercisable
	Weighted average	Weighted average

<u>Exercise price</u>	<u>Shares</u>	<u>remaining life (years)</u>	<u>average exercise price</u>	<u>Shares</u>	<u>exercise price (years)</u>
\$10	900,000	9.2	\$10	0	\$10

The Company adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123 ("FAS 123"). As permitted by FAS 123, the Company measures compensation cost in accordance with APB 25. Therefore, the adoption of FAS 123 had no impact on the Company's financial condition or results of operations. Had compensation cost for the Company's Stock Option Plan been determined based on the fair value of the options consistent with FAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	<u>October 29, 1999</u>	
Net Income	As reported	\$10,024,505
	Pro forma	\$9,845,208
Basic Earning Per Share	As reported	\$.88
	Pro forma	\$.87

The fair value of compensatory stock options was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	<u>October 29, 1999</u>
Risk-free interest rate	5.34%
Expected years until exercise	6.0 years
Expected stock volatility	40.0%
Expected dividends	2.20%

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Notes to Consolidated Financial Statements

NOTE 4 - INCOME TAXES:

The provision for taxes on income includes the following (in thousands):

	1999	1998	1997
Current:			
Federal	\$6,034	\$5,241	\$3,602
State	1,172	964	658
	<u>7,206</u>	<u>6,205</u>	<u>4,260</u>
Deferred:			
Federal	(867)	(735)	(99)
State	(194)	(125)	(112)
	<u>(1,061)</u>	<u>(860)</u>	<u>(211)</u>
	<u>\$6,145</u>	<u>\$5,345</u>	<u>\$4,049</u>

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

	1999	1998	1997
Provision for federal income taxes at the applicable statutory rate	\$5,498	\$4,782	\$3,622
Increase in provision resulting from: State income taxes, net of federal income tax benefit	596	518	416
Other, net	51	45	11
	<u>\$6,145</u>	<u>\$5,345</u>	<u>\$4,049</u>
Deferred income taxes result from differences in the bases of assets and liabilities for tax and accounting purposes.			

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

	1999	1998	1997
Receivables allowance	\$263	\$235	\$233

Inventory capitalization	367	329	233
Deferred compensation	478	382	385
Franchise tax	183	154	107
Employee benefits	853	842	631
Other	(36)	(29)	44
	<hr/>	<hr/>	
Current tax assets	\$2,108	\$1,913	\$1,690
Deferred compensation	\$1,673	\$1,348	\$1,001
Pension and health care benefits	3,951	3,343	2,870
Depreciation	(1,018)	(952)	(769)
Non-current tax assets, net	4,606	3,739	3,102

No valuation allowance was provided against deferred tax assets in the accompanying statements.



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Notes to Consolidated Financial Statements

NOTE 5 - LINE OF CREDIT:

Under the terms of a revolving line of credit with Bank of America, the Company may borrow up to \$2,000,000 through April 30, 2001. At any time prior to May, 2001, the Company may convert borrowings, if any, into a three-year term loan with principal and interest payable monthly commencing May 31, 2001. The interest rate is at the bank's reference rate unless the Company elects an optional interest rate. The borrowing agreement contains various covenants, the more significant of which require the Company to maintain certain levels of shareholders' equity and working capital. The Company was in compliance with all provisions of the agreement during the year. There were no borrowings under this line of credit during the year.

NOTE 6 - CONTINGENCIES AND COMMITMENTS:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the respective reporting periods. Actual results could differ from those estimates.

The Company leases certain transportation equipment under operating leases expiring in 2005. The terms of the lease provide for annual renewal options, and contingent rental payments based upon mileage and adjustments of rental payments based on the Consumer Price Index. Minimum rental payments were \$320,000, \$316,000, and \$255,000 in fiscal years 1999, 1998, and 1997, respectively. Contingent payments were \$102,000, \$105,000 and \$98,000 in 1999, 1998 and 1997, respectively. Future minimum lease payments are approximately \$320,000 in the years 2000 through 2004 and \$240,000 in 2005.

NOTE 7 - SUBSEQUENT EVENTS:

In November 1999 the City of San Diego redevelopment agency acquired, under eminent domain proceedings, land owned by the Company and a pretax gain of \$675,000 was recognized.

In November 1999 the Board of Directors approved the repurchase of up to 1,000,000 shares of common stock. These repurchases will be made on the open market at prevailing market prices or in negotiated transactions off the market.



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Report of Independent Accountants

PricewaterhouseCoopers LLP

To the Board of Directors and Shareholders of Bridgford Foods Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Bridgford Foods Corporation and its subsidiaries at October 29, 1999 and October 30, 1998, and the results of their operations and their cash flows for each of the three years in the period ended October 29, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers LLP".

Costa Mesa, California
December 10, 1999