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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. The Company sells its products through wholesale outlets, restaurants and institutions. The products are sold by the Company's own sales force, brokers, cooperatives, sholesalers and independent distributors. Products are currently sold through approximately 25,000 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 17,500 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:

	1996	1995	1994	1993	1992
Products manufactured or processed by the Company	83	85	87	89	89
Products manufactured or processed by others	17	15	13	11	11
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 fixcal quarters.

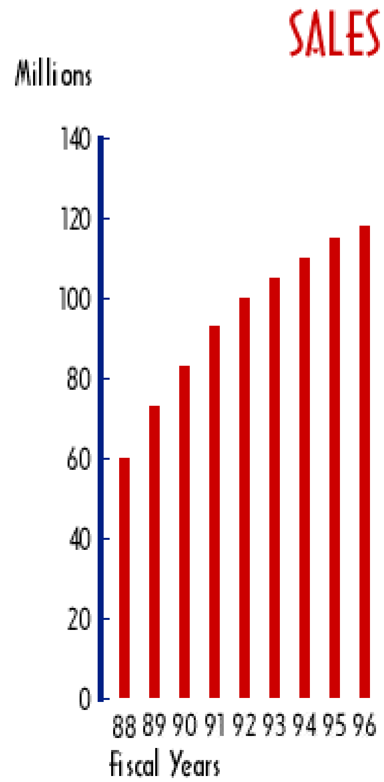
	----- Prices -----		
Fiscal Quarter Ended	**$High**	**$Low**	**Cash Dividends Paid**
January 27, 1995	10 & 3/4	9	$.08 **
April 28, 1995	13 & 1/2	9 & 1/4	$.05
July 28, 1995	14	10 & 5/8	$.05
November 3, 1995	12	9 & 3/4	$.05
February 2, 1996	10 & 3/4	8 & 1/2	$.06
May 3, 1996	11 & 1/4	8 & 1/4	$.06
August 2, 1996	9 & 3/4	6 & 1/2	$.06
November 1, 1996	9	7	$.06

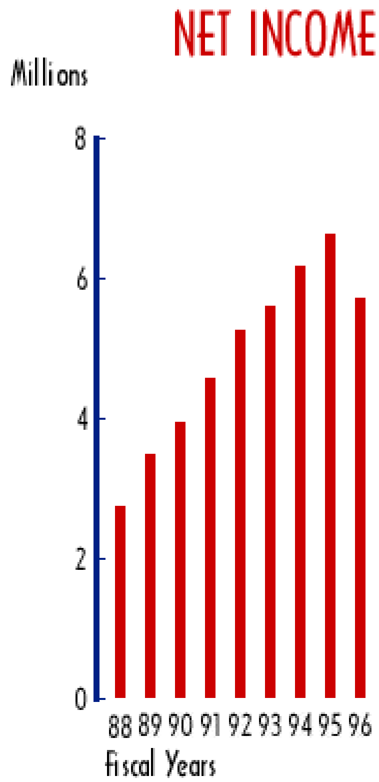
** Includes $.03 per share extra cash dividend.

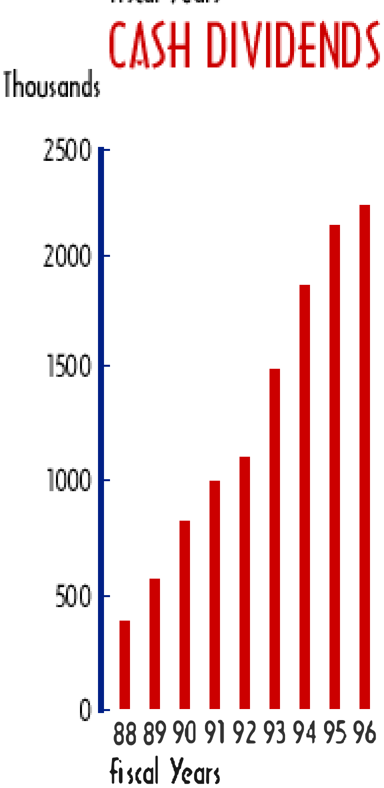
ANNUAL SHAREHOLDERS MEETING

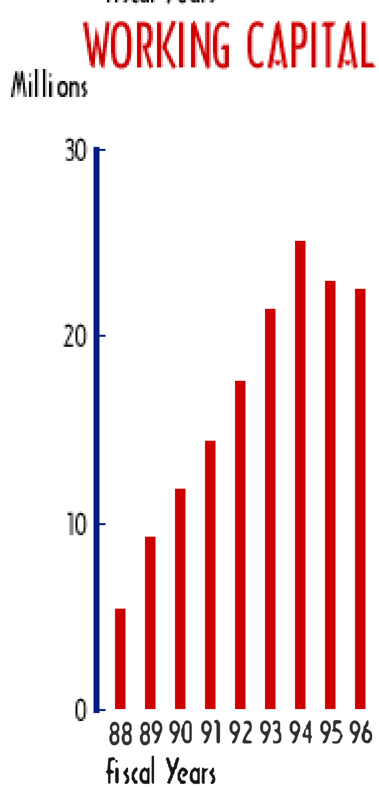
The 1997 annual shareholders meeting was held at the Holiday Inn, 222 W. Houston Avenue, Fullerton, California at 10:00 a.m. on Wednesday, March 12, 1997.

HISTORICAL TRENDS

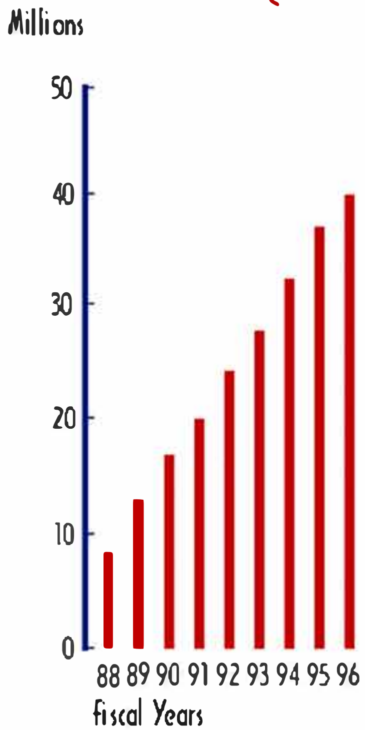








EQUITY



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TO OUR SHAREHOLDERS:

Sales set a new record for the eleventh consecutive year in 1996. Dividends were increased for the tenth year in a row. Three major capital improvement projects begun in our 1995 fiscal year, including the two largest in the Company's 64 year history, were completed with a total capitalized cost of $12,000,000. Net income for 1996 was $5.7 million, which reflects a decrease from 1995 due to extremely high raw material costs in both our meat and bakery divisions.

SALES, EARNINGS AND DIVIDENDS

Sales in our 52 week 1996 fiscal year increased to $118,316,470, a 5.2% gain over sales in the 53 week 1995 fiscal year. Most of our sales gains are attributed to increases In our number of direct store distribution customers and strong sales of our meat snack products such as pepperoni and beef jerky. We also added exciting new Focaccia Club and Focaccia Chicken sandwiches to our Bridgford Micro-Ready product line and developed new biscuit products for our foodservice customers.

Net income was $5,651,383 or sixty cents per share in 1996, 14.3% less than 1995 net income. During 1996 costs of pork raw materials required in our meat business and wheat flour used in our bakery operations unexpectedly reached extraordinary high levels. Where possible, price increases to pass on these higher costs have been implemented. Bakery costs have stabilized somewhat during the first quarter of fiscal 1997. Costs of pork raw materials will remain relatively high during 1997.

Cash dividends in 1996 were paid at a record level of twenty four cents per share. Cash dividends totaling $2,255,000 were paid to shareholders in the 1996 fiscal year. Your board of directors maintained the rate of six cents in the first quarter of 1997 based on our strong financial condition and positive business outlook.

FINANCIAL CONDITION

Bridgford Foods Corporation concluded 1996 with shareholders equity of $40,255,691, a gain of $3,396,119 or 9% over the prior year end. Working capital remained strong at $22,401,167 and our current asset to current liability ratio was maintained at a 2.2 to 1 level. Our excellent financial condition was sustained while we invested $5,988,000 in capital improvements during 1996. All improvements were financed internally and the company remained debt-free for the tenth consecutive year. A $2,000,000 line of credit with a major bank is available in the event it is needed for business opportunities.

OPERATIONS

A major portion of our expenditures were made to complete construction and equipping of our new state-of-the-art North Carolina frozen food plant and for the additions and modernization of our Frozen-Rite plant in Dallas, Texas. These factories are now running efficiently. We also renovated and enlarged the manufacturing facilities at our Chicago meat processing plant and equipped it with new processing machinery which will increase our capability to produce dry sausage products. Substantial savings in production, storage and distribution costs will result from these investments.

SUMMARY

We expect 1997 to be a good year for Bridgford Foods Corporation. The modernization and expansion of our manufacturing facilities, increased sales volume, new product development and more stable raw material costs are expected to produce improved operating results.

We thank our directors, customers, suppliers, coworkers and shareholders for their support and confidence during 1996.

Respectfully submitted,

Allan L. Bridgford
Chairman

Robert E. Schulze
President

BRIDGFORD FOODS CORPORATION FINANCIAL SUMMARY

	Fiscal Year Ended		
	November 1 1996	November 3 1995	% Change
Net sales	$118,316,470	$112,497,590	5
Income before taxes	9,116,383	10,630,855	(14)
Net income	5,651,383	6,590,855	(14)
Net income per share	.60	.70	(14)
Cash dividends per share	.24	.23	4
Working capital	22,401,167	22,494,577	-
Total assets	58,277,948	52,623,417	11
Shareholders' equity	40,255,691	36,859,572	9
Return on average equity	14.66%	19.02%	

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SELECTED FINANCIAL DATA

	November 1 1996	November 3 1995	October 28 1994	October 29 1993	October 30 1992
Net Sales	$118,316,470	$112,497,590	$108,883,562	$105,146,822	$100,113,269
Net Income	5,651,383	6,590,855	6,141,726	5,576,332	5,298,407
Net Income Per Share	.60	.70	.65	.59	.56
Current Assets	40,423,424	38,258,422	39,427,179	32,721,065	28,652,723
Current Liabilities	22,401,167	22,494,577	24,870,630	21,413,629	17,214,946
Working Capital	17,854,524	14,364,995	7,559,382	6,754,042	6,879,902
Property, Plant and Equip., Net	17,854,524	14,364,995	7,559,382	6,754,042	6,879,902
Total Assets	58,277,948	52,623,417	46,986,561	39,475,107	35,532,625
Long-term Debt	-	-	-	-	-
Deferred Taxes on Income	-	-	-	-	-
Shareholders' Equity	40,255,691	36,859,572	32,430,012	28,167,671	24,094,848
Cash Dividends Per Share	.24	.23	.20	.16	.12

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS LIQUIDITY AND CAPITAL RESOURCES

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 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. Higher flour and pork prices were experienced during the fiscal 1996 compared o prior fiscal years. Management anticipates that these costs will continue to stabilize into fiscal year 1997 although no assurances can be given. Costs of flour have declined in 10 to 20% range since the close of the third quarter of 1996 while pork prices have remained at historically high levels.

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 results and capital expenditures.

Favorable operating results over the past several years have continued to provide significant liquidity to the Company. Net cash provided by operating activities was $7,162,000 in the 1996 fiscal year compared to $5,580,000 in 1995 and $9,902,000 in 1994. Accounts receivable balances decreased by $185,000 in 2996 (2%) due to strong collections, and increased $769,000 (8%) in 1995 and $794,000 (9%) in 1994 due to the continued expansion of the business and changing nature of the customer base. Inventories increased $1,754,000 (13%) in 1196 and $1,790,000 (15%) in 1995 due to continued business expansion, higher storage capacities, higher raw materials costs and increased distribution of the Company's products. Prepaid expenses increased $494,000 (15%0, $894,000 (33%), and $256,000 (11%) in 1996, 1995, and 1994 due primarily to the increased cash surrender value of life-insurance policies. The Company also recorded income tax receivable in prepaid expenses of $287,000 in 1995. Accounts payable and accrued expenses increased $2,200,000 (14%) in 1996 and $1,462,000 (10%) in 1995 due primarily to increases in non-funded employee benefits and accrued advertising.

The Company's capital improvement programs continued into 1996. Cash used for additions to property, plant and equipment decreased $2,787,000 (32%). Significant projects were completed at all locations, primarily the Dallas Freezer expansion at a total cost of $6,005,000 ($1,820,000 for fiscal year 1996) and the North Carolina plant at a total cost of $5,070,000 ($2,177,000 for fiscal year 1996). The balance of projects in process at November 1, 1996 was $167,000. Capital expenditures in fiscal year 1995 for these projects totaled approximately $6.3 million. These investments are expected to yield higher production capacities, improved plant utilization and realize cost savings in future years, Although annual depreciation expense will increase as a result of these additions, such increase is not expected to have a material adverse impact on the operating results of the Company. Cash used for additions to property, plant and equipment increased $993,000 (57%) in 1994 compared to the prior year. Expenditures consisted primarily of additions of delivery vehicles, machinery and equipment and $1,554,000 in construction projects.

Cash flows used to pay cash dividends increased $94,000 (4%) in 1996, $282,000 (15%) in 1995 and $376,000 (25%) in 1994, when compared to the prior year, in recognition of the continuing success of the Company.

Cash and cash equivalents decreased $1,023,000 (14%) in 1996 and $5,282,000 (42%) in 1995 due primarily to significant investments made in property, plant and equipment and in an increase in cash dividends paid. Cash and cash equivalents increased in 1994 $5,375,000 (74%) due to the continued operating success of the Company and significant increases in non-funded employee benefits. The Company has remained free of interest-bearing debt for ten consecutive years. Working capital decreased by $93,000 (1%) in 1996 and $2,376,000 (10%) in 1995 after reaching a record high of $24,871,000 in 1994. The decrease in working capital is directly attributable to significant investments made by the Company in projects in-process during the 1996 and 1995 fiscal years. The Company maintains a $2,000,000 revolving line of credit with Bank of America that expires April 30, 1998. There were no borrowings under this line of credit during 1996.

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RESULTS OF OPERTAIONS

1996 (52 weeks) compared to 1995 (53 weeks)

Sales in fiscal year 1996 increased $5,819,000 (5.2%) when compared to sales of the prior year. After considering the 53 week year, sales volume increased approximately 7.2% when compared to the prior year.

Cost of products sold increased by $4,020,000 (5.6%) when compared to the prior year. The gross margin was approximately 36% in 1996 and 1995 compared to 35% for 1994. Costs for commodity products were less favorable in 1996 compared to prior years. However, a changing sales mix and increased selling prices helped mitigate the impact of these increased costs.

Selling, general and administrative expenses increased $2,784,000 (9.9%) when compared to the prior year. This increase was generally consistent with the overall increase in sales. Advertising expenses outpaced the increase in sales as a result of aggressive promotional allowances to promote the Company's products and to maintain current distribution channels.

Depreciation expense increased $530,000 (27%) when compared to the prior year. The Company completed significant expansion projects to existing facilities located in Texas and a flood processing facility in North Carolina. First year (half-year convention) depreciation from these projects totaled approximately $490,000. The Company expects to continue the growth and modernization of facilities and equipment used in the business. The effective tax rate remained consistent with prior year at 38%.

1995 Compared to 1994 (53 versus 52 weeks)

Sales in fiscal year 1995 increased $3,614,000 (3%) when compared to sales of the prior year. After considering the 53 week year, sales volume increased slightly more than 1% when compared to the prior year.

Cost of products sold increased by $1,274,000 (2%) when compared to the prior year. The gross margin increased to 36% in 1995 compared to 35% for 1994 and 1993. Commodity costs for meat products were made more favorable in 1995 compared to prior years and this trend helped improve margins in 1995 despite channels.

Selling, general and administrative expenses increased $1,125,000 (6%) when compared to the prior year. This increases was generally consistent with the overall increase in sales. Increased advertising expenses slightly outpaced the increase in sales as a result of efforts to more heavily promote the Company's products and to continue to expand distribution channels.

Depreciation expense increased $93,000 (5%) when compared to the prior year. The Company continued to expand its vehicle fleet in 1995 and this contributed to the increase. Several projects which were in process in the prior year were placed in service during 1995 which also contributed to the overall increase in depreciation. 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%.

1994 compared to 1993

Sales in fiscal year 1994 increased $3,737,000 (4%) when compared to sales of the prior year. Added unit sales volume was the principal reason for the increase while price increases had minor influence on the overall sales gain. The closing of Bridgford Meat Company, the Company's San Diego based fresh meat business, offset the increase by $2,665,000 in 1994.

Cost of products sold increased by $1,816,000 (3%) as compared to the prior fiscal year due higher unit sales volume. The gross profit margin remained consistent at 35% for 1994 and 1995.

Selling, General and administrative expenses increased $987,000 (4%) during fiscal 1994. The bulk of the increase was concentrated in the Company’s advertising programs. Advertising expenditures increased by approximately $700,000 during 1994 as compared to the prior year. Increases salaries and wages also contributed to higher costs.

Depreciation expense increased $36,000 (2%) in 1994 compared 1993. The continued expansion of the Company’s business requires the addition and replacement of facilities and equipment related to manufacturing and sales activities. The effective tax rate was 38% for 1994 and 1993.

Effective for fiscal year 1994, the Company adopted Statement of Financial Accounting Standards No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions.” Adoption of this statement did not materially impact the Company’s consolidated financial statements.

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Consolidated Balance Sheets

ASSETS	November 1 1996	November 3 1995
Current assets:		
• Cash and cash equivalents	$6,343,022	$7,366,362
• Accounts receivable, less allowance for doubtful accounts of $503,584 and $505,623	10,007,141	10,191,679
• Inventories	15,603,912	13,849,947
• Prepaid expenses	3,886,928	3,32,620
• Deferred income tax benefits	4,582,421	3,457,814
Total current assets	40,423,424	38,258,422
Property, plant and equipment, net of accumulated depreciation of $22,637,673 and $21,065,322	17,854,524	14,364,995
	$58,277,948	**$52,623,417**

LIABILITIES AND SHAREHOLDERS' EQUITY	November 1 1996	November 3 1995
Current liabilities:		
• Accounts payable	$4,464,855	$4,662,825
• Accrued payroll and other expenses	13,444,084	11,046,103
• Income taxes payable	113,318	54,917
Total current liabilities	18,022,257	15,763,845
Contingencies and commitments (Note 6) Shareholders' equity:		
• Preferred stock, without par value		
Authorized - 1,000,000 shares		
Issued and outstand - none		
Common stock, $1.00 par value		
Authorized - 20,000,000 shares		
Issued and outstand - 9,396,933 shares	9,453,816	9,453,816
• Capital in excess of par value	3,024,881	3,024,881

Retained earnings	27,776,994	24,380,875
	40,255,691	36,859,572
	$58,277,948	**$52,623,417**

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Consolidated Statements of Income

	Fiscal year ended		
	November 1 1996 (52 weeks)	November 3 1995 (53 weeks)	October 28 1994 (52 weeks)
Net sales	$118,316,470	$112,497,590	$108,883,562
Cost of products sold, excluding depreciation	75,874,768	71,854,739	70,580,426
Selling, general and administrative expenses	30,832,011	28,048,294	26,525,652
Depreciation	2,493,308	1,963,702	1,870,758
	109,200,087	101,866,735	98,976,836
Income before taxes	9,116,383	10,630,855	9,906,726
Provision for taxes on income	3,465,000	4,040,000	3,765,000
Net income	**$5,561,383**	**$6,590,855**	**$6,141,726**
Net income per share	**$0.60**	**$0.70**	**$0.65**

Consolidated Statements of Shareholders' Equity

	Common stock				
	Shares	Amount	Capital in excess of par	Retained earnings	Total shareholder's equity
Balance, October 29, 1993	9,396,933	$9,453,816	$3,024,881	$15,688,974	$28,167,671
- Net income				6,141,726	6,141,726
- Cash dividends paid ($.20 per share)				(1,879,385)	(1,879,385)
Balance, October 28, 1994	9,396,933	$9,453,816	$3,024,881	$19,951,315	$32,430,012
- Net income				6,590,855	6,590,855
- Cash dividends paid ($.23 per share)				(2,161,295)	(2,161,295)
Balance, november 3, 1995	9,396,933	$9,453,816	$3,024,881	$24,380,875	$36,859,572
- Net income				5,651,383	5,651,383
- Cash dividends paid ($.24 per share)				(2,255,264)	(2,255,264)
Balance, November 1, 1996	**$9,396,933**	**$9,453,816**	**3,024,881**	**$27,776,994**	**$40,255,691**

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Consolidated Statements of Cash Flows

	Fiscal year ended		
	November 1 1996	November 3 1995	October 28 1994
Cash flows from operating activities:			
Net income	$5,651,383	$6,590,855	$6,141,726
Income charges not affecting cash:			
Depreciation	2,493,308	1,963,702	1,870,758
Provision for losses on accounts receivable	139,150	138,650	64,545
Gain on sale of assets	(52,729)	(68,153)	(29,387)
Effect on cash of changes in assets and liabilities:			
Accounts receivable	45,388	(908,128)	(858,465)
Inventories	(1,753,965)	(1,789,927)	473,457
Prepaid expenses	(494,308)	(849,272)	(255,920)
Deferred income tax benefits	(1,124,607)	(704,572)	(754,275)
Accounts payable and accrued expenses	2,200,011	1,462,211	2,939,281
Income taxes payable	58,401	(254,915)	309,832
Net cash provided by operating activities	7,162,032	5,580,451	9,901,552
Cash used in investing activities:			
Proceeds from sale of assets	57,601	73,454	73,847
Additions to property, plant and equipment	(5,987,709)	(8,774,616)	(2,720,558)
Net cash used in investing activities	(5,930,108)	(8,701,162)	(2,646,711)
Cash used for financing activities:			
Cash dividends paid	(2,255,264)	(2,161,295)	(1,879,385)
Net (decrease) increase in cash and cash equivalents	(1,023,340)	(5,282,006)	5,375,456
Cash and cash equivalents at beginning of year	7,366,362	12,648,368	7,272,912
Cash and cash equivalents at end of year	**$6,343,022**	**$7,366,362**	**$12,648,368**
Cash paid for income taxes	**$3,955,717**	**$5,003,099**	**$4,021,490**

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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 1996 and 1994 include 52 weeks in each. Fiscal year 1995 includes 53 weeks.

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 $5,194,000 at November 1, 1996 and $6,987,000 at November 3, 1995.

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.

Earnings per share
Net income and cash dividends per share are calculated based on the weighted average number of shares outstanding, 9,396,933, for all periods presented.

NOTE 2 - COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS:

	1996 (in thousands)	1995 (in thousands)
Property, plant and equipment:		
Land	$1,083	$598
Buildings and improvements	10,683	7,083
Machinery and equipment	23,672	15,186
Transportation equipment	5,055	5,140
Construction in-progress		7,423
	40,493	35,430
Accumulated depreciation	22,638	21,065
	$17,855	**$14,365**
Inventories:		
Meat, ingredients and supplies	$4,320	$3,552
Work in progress	1,501	1,862
Finished goods	9,783	8,436
	$15,604	**$13,850**
Accrued payroll and other expenses:		
Payroll, vacation and payroll taxes	$12,057	$10,365
Property taxes	228	208
Other	1,159	473
	$13,444	**$11,046**

Notes to Consolidated Financial Statements

NOTE 3 - RETIREMENT AND BENEFITS PLANS:

The Company has noncontributory trusteed 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):

	1996	1995	1994
Cost of benefits earned during the year	$611	$568	$547
Interest cost on projected benefit obligation	689	585	532
Actual return on plan assets	120	152	85
Deferral of unrecognized gain on plan assets	(679)	(638)	(585)
Amortization of transition asset	(76)	(76)	(76)
Amortization of unrecognized prior service costs	34	24	23
Net pension cost	**$699**	**$615**	**$526**

The transition asset is being amortized using the straight-line method over 17.63 years, the average remaining service periods of active plan participants. The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.5% and 6%, respectively. The expected long-term rate of return on assets for all fiscal years was 7.5%.

Plan assets are primarily invested in marketable equity securities, corporate and government debt securities and real estate and are administered by a life insurance company.

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

	1996	1995	1994
Plan assets at fair market value	$8,657	$7,554	$6,538
Actuarial present value of benefit obligations:			
&mbsp;Accumulated benefirs based on current salary levels, including vested benefits of $7,324, $6,823 and $5,841	7,917	7,208	6,214
&mbsp;Additional benefits based on estimated future salary levels	2,044	1,978	1,902
&mbsp;Projected benefit obligation	9,961	9,186	8,116
Projected benefit obligation in excess of plan assets	(1,304)	(1,632)	(1,578)
Unrecognized prior service costs	315	235	236
Unrecognized loss (gain) on plan assets	(1,661)	(671)	156
Unrecognized net transition asset	(596)	(671)	(747)
Accrued pension cost	**$(3,246)**	$(2,547)	$(1,933)

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 contributed 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 1996, 1995 and 1994 was $405,000, $470,000 and $358,000, respectively. Benefits payable related to these plans and included in accrued payroll in the accompanying financial statements were $2,480,000 and $1,872,000 at November 1, 1996 and November 3, 1995, 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 prepaid expenses, was $3,341,000 and $2,763,000 at November 1, 1996 and November 3, 1995, respectively. The total (income) expense recorded related to these policies was approximately ($46,000), (20,000) and $6,000 for fiscal years 1996, 1995 and 1994, respectively.

Effective for fiscal year 1994, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions." This statement focuses principally on postreitrement health care benefits and requires accrual of the expected cost of providing those benefits over the service lives of the employees. Adoption of this statement did not materially impact the Company's consolidated financial statements.

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Notes to Consolidated Financial Statements

NOTE 4 - INCOME TAXES:

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

	1996	1995	1994
Current:			
Federal	$4,039	$4,102	$3,844
State	551	643	675
	4,590	4,745	4,519
Deferred:			
Federal	(933)	(609)	(657)
State	(192)	(96)	(97)
	(1,125)	(705)	(754)
	$3,465	**$4,040**	**$3,765**

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):

	1996	1995	1994
Provision for federal income taxes at the applicable statutory rate	$3,100	$3,614	$3,368
Increase in provision resulting from: State income taxes, net of federal income tax benefit	335	397	391
Other, net	30	29	6
	$3,465	**$4,040**	**$3,765**

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

Deferred tax assets (liabilities) are comprised of the following (in thousands):

	1996	1995
Receivables allowance	$199	$167
Inventory capitalization	297	218
Deferred compensation	1,335	1,098
Vacation benefits	407	321
Pension and health care benefits	2,638	1,676

Depreciation	(313)	(54)
Other	(74)	(62)
	$4,582	**$3,458**

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

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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, 1998. At any time prior to May 1998, the Company may convert borrowings, if any, into a three-year term loan with principal and interest payable monthly commencing May 31, 1998. 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 an operating lease expiring in 1999. 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 $263,000, $272,000 and $290,000 in fiscal years 1996, 1995 and 1994, respectively. Contingent payments were $95,000 in 1996 and 1995, and $92,000 in 1994. Future minimum lease payments are approximately $257,000 per year from 1996 through 1998, and $130,000 in 1999. The Company also leases certain other properties which do not result in material commitments.

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Report of Independent Accountants

Price Waterhouse 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 floes present fairly, in all material respects, the financial position of Bridgford Foods Corporation and its subsidiaries at November 1, 1996 and November 3, 1995, and the results of their operations and their cash flows for each of the three years in the period ended November 1, 1996, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards 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.

Price Waterhouse LLP

Costa Mesa, California
December 24, 1996