# 1998 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 27,300 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 17,700 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:

| | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| Products manufactured or processed by the Company | 78 | 82 | 83 | 85 | 87 |
| Products manufactured or processed by others | 22 | 18 | 17 | 15 | 13 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

## COMMON STOCK AND DIVIDEND DATA

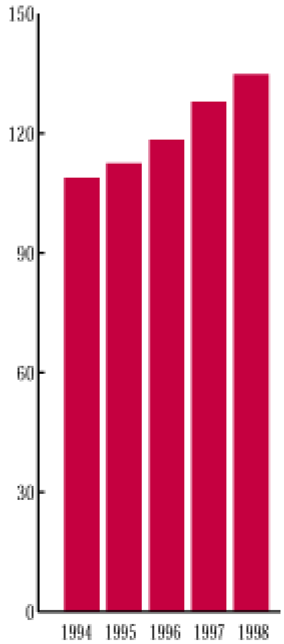
The common stock of the Company is traded in the national over-the-counter market and is authorized for quotation on The Nasdaq National Market under the symbol "BRID". The following table reflects the high and low closing prices and cash dividends paid as quoted by Nasdaq for each of the last eight fiscal quarters adjusted for the 10% stock dividend declared November 16, 1998.

| | ----- Prices ----- | | |
|---|---|---|---|
| **Fiscal Quarter Ended** | **$High** | **$Low** | **Cash Dividends Paid** |
| January 31, 1997 | 7 & 3/8 | 5 & 5/8 | $.05 |
| May 2, 1997 | 8 & 1/8 | 6 & 1/4 | $.05 |
| August 1, 1997 | 8 & 1/2 | 7 & 3/8 | $.05 |
| October 31, 1997 | 11 & 3/4 | 8 & 1/4 | $.05 |
| Jaunary 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 |

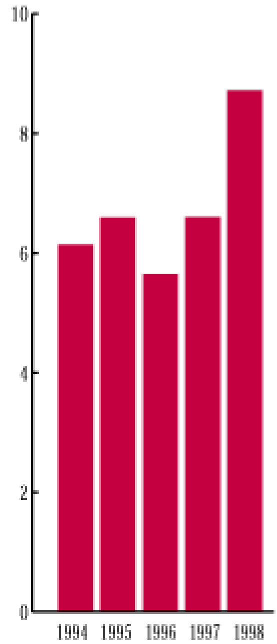
**ANNUAL SHAREHOLDERS MEETING**

The 1999 annual shareholders meeting will be held at the Four Points Sheraton, 1500 South Raymond Avenue, Fullerton, California at 10:00 a.m. on Wednesday March 10, 1999.

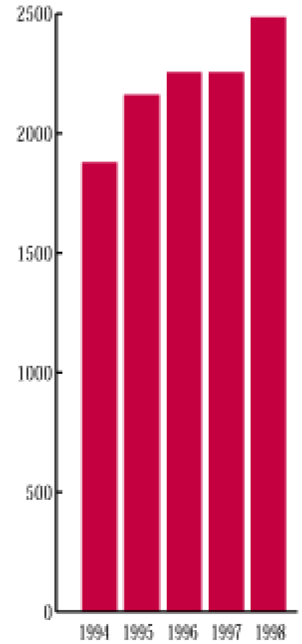
**RECENT HISTORICAL TRENDS**



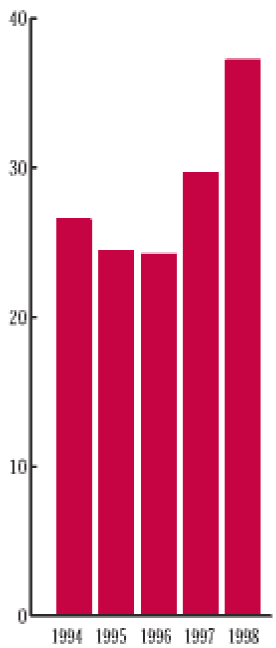

SALES
(In Millions)



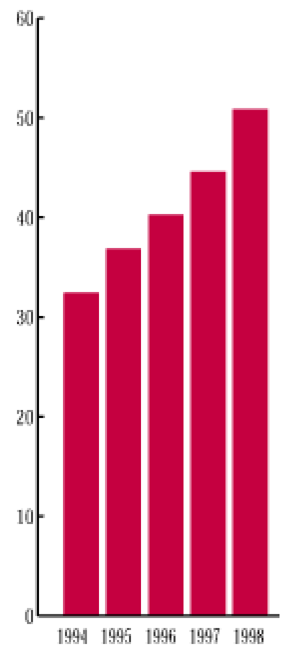

NET INCOME
(In Millions)




CASH DIVIDENDS
(In Thousands)




WORKING CAPITAL
(In Millions)




EQUITY
(In Millions)

# 1998 Annual Report

**TO OUR SHAREHOLDERS:**

1998 was an outstanding year for Bridgford Foods Corporation. All-time highs were established for sales, earnings and equity. Favorable commodity costs, manufacturing efficiencies, tight cost controls and strong marketing programs all contributed to the greatest one year success in company history.

**SALES, EARNINGS AND DIVIDENDS**

Sales in the fiscal year ended October 30, 1998 were $134,815,787, a 5.4% gain over sales in 1997. Fiscal 1998 was our 13th consecutive year of sales increases. Excellent sales gains were experienced in our dry sausage, meat snack and delicatessen sales divisions. Bridgford Four Ounce Beef Jerky, pictured on the cover of this report, became the number one selling meat snack item in Supermarkets and Warehouse Stores in the U.S. during 1998.

Frozen sandwich sales increased in both the retail and food service divisions during 1998. Sales of our new four pack sandwiches to supermarkets for their "large pack" sections have met with good success.

Net income for 1998 was $8,720,430, a 32% gain over 1997 income. Low pork costs during all of 1998 and favorable flour prices, combined with increased sales and efficiencies, made these gains possible.

Cash dividends of twenty-four cents per share were paid in 1998 on the 10,336,415 shares then outstanding.

On November 16,1998 your Board of Directors authorized a ten percent stock dividend for the second consecutive year and a regular six cent cash dividend to be paid on the 11,369,812 shares outstanding after the stock dividend. The financial statements reflect historical earnings and dividends based on the new number of shares outstanding.

Your company remained debt-free in 1998 while investing $2,285,000 in capital improvements and paying $2,484,000 in cash dividends. We continue to maintain a $2,000,000 bank line of credit that is available for future expansion.

**FINANCIAL CONDITION**

Shareholders' equity exceeded $50,000,000 for the first time in 1998, reaching $50,842,000. This is 14% more than the record equity reached in 1997. Working capital reached $37,251,000 in 1998, a 25% gain over the prior year. Our working capital ratio was 3.8 to 1 at October 30,1998.

**OPERATIONS**

During 1998 we broke ground on a $1,500,000 addition to our Chicago meat processing plant which will enable us to greatly improve our warehouse and distribution functions by the second half of 1999. We will also build an $800,000 freezer addition at our Dallas, Texas sandwich manufacturing plant during 1999. We have upgraded our biscuit production line in Dallas to increase line speeds by 50% with no increase in labor cost. These and other plant improvements will enable us to continue increasing our production efficiency in 1999.

We expect raw material costs to increase during the second half of 1999. Supplies of pork are projected to decrease. We anticipate increased grain prices during the same period.

**SUMMARY**

1998 was a record shattering year for Bridgford Foods. We have excellent people, facilities and equipment in place and are positioned to have another good year in 1999. We thank our directors, officers, customers, suppliers, associates and shareholders for helping us set all-time financial records in 1998.

Respectfully submitted,

Allan L. Bridgford
Chairman

Robert E. Schulze
President

**BRIDGFORD FOODS CORPORATION FINANCIAL SUMMARY**

| | Fiscal Year Ended October 30 1998 | Fiscal Year Ended October 31 1997 | % Change |
|---|---|---|---|
| Net sales | $134,815,787 | $127,859,491 | 5.4 |
| Income before taxes | 14,065,430 | 10,654,354 | 32.0 |
| Net income | 8,720,430 | 6,605,354 | 32.0 |
| Net income per share | .77 | .58 | 32.8 |
| Cash dividends per share | .22 | .20 | 10.0 |
| Working capital | 37,251,202 | 29,682,086 | 25.5 |
| Total assets | 75,792,941 | 65,663,892 | 15.4 |
| Shareholders' equity | 50,842,248 | 44,605,782 | 14.0 |
| Return on average equity | 18.27% | 15,57% | 17.3 |

# 1998 Annual Report

**SELECTED FINANCIAL DATA**

| | October 30 1998 | November 1 1997 | November 1 1996 | November 3 1995* | October 28 1994 |
|---|---|---|---|---|---|
| Net Sales | $134,815,787 | $127,859,491 | $118,316,470 | $112,497,590 | $108,883,562 |
| Net Income | 8,720,430 | 6,605,354 | 5,651,383 | 6,590,855 | 6,141,726 |
| Basic Earnings Per Share ** | .77 | .58 | .50 | .58 | .54 |
| Current Assets *** | 50,558,938 | 41,136,786 | 33,871,431 | 32,946,552 | 35,285,042 |
| Current Liabilities *** | 13,307,736 | 11,454,700 | 9,625,313 | 8,484,009 | 8,697,371 |
| Working Capital *** | 37,251,202 | 29,682,086 | 24,246,118 | 24,462,543 | 26,587,671 |
| Property, Plant and Equip., Net | 16,197,108 | 16,853,248 | 17,854,524 | 14,364,995 | 7,559,382 |
| Deferred Taxes on Income *** | 3,738,976 | 3,102,479 | 3,008,911 | 2,353,377 | 1,742,430 |
| Total Assets | 75,792,941 | 65,663,892 | 58,277,948 | 52,623,417 | 46,986,561 |
| Shareholders' Equity | 50,842,248 | 44,605,782 | 40,255,691 | 36,859,572 | 32,430,012 |
| Cash Dividends Per Share ** | .22 | .20 | .20 | .19 | .16 |

* 53 weeks
** Recalculated to give effect to a 10% stock dividend declared November 16, 1998.
*** Certain financial statement reclassifications have been recorded in years prior to 1997 to conform to the current year persentation.

**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 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.

# 1998 Annual Report

**RESULTS OF OPERATIONS**
**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% in 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 Company's capital expansion projects declined significantly compared to recent years. The Company expects to continue the growth and modernization of facilities and equipment used in the business and, after experiencing lower capital expenditures in 1998 and 1997, anticipates increased capital investments in future years. 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% in 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 resulted in a slight improvement in the gross margin.

Selling, general and administrative expenses increased $2,801,000 (9.1%) when compared to the prior year. This increase was generally consistent with the overall increase in sales. Advertising expenses continued to outpace the increase in sales as a result of aggressive promotional programs to increase sales of the Company's products and to maintain current distribution channels. Depreciation expense increased $457,000 (18%) when compared to the prior year. The Company completed significant expansion projects to existing facilities located in Texas and a food processing facility in North Carolina. Second year (half-year convention) depreciation related to these projects totaled approximately $980,000. The Company expects to continue the growth and modernization of facilities and equipment used in the business and, after experiencing lower capital expenditures in 1997, anticipates increased capital investments in future years. The effective tax rate remained consistent with the prior year at 38%.

**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 food 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 the prior year at 38%.

**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 $14,579,000 in the 1998 fiscal year compared to $10,189,000 in 1997 and $7,162,000 in 1996. Accounts receivable balances increased $699,000 (6%) in 1998 and $1,367,000 in 1997(13%) due to record fourth quarter sales and decreased by $185,000 in 1996 (2%) due to strong collections. Inventories decreased $1,490,000 in fiscal 1998 due primarily to significantly lower commodity costs and lower quantities compared to the prior fiscal year. Inventories increased $1,754,000 (13%) in 1996 due to continued business expansion, higher storage capacities, higher raw materials costs and increased distribution of the Company’s products. Non-current assets increased $1,363,000 (18%), $1,122,000 (17%) and $1,240,000 (23%) in 1998, 1997, and 1996, respectively, due primarily to the increased cash surrender value of life-insurance policies and increases in deferred income tax benefits due principally 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. In 1996 the $1,083,000 (13%) increase was primarily a result of increases in accrued advertising.

The Company’s capital improvement expenditures decreased in 1998 and 1997 compared to recent years. Cash used for additions to property, plant and equipment decreased $4,039,000 (67%) in 1997. Significant projects were completed at all locations in 1996, primarily the Dallas freezer expansion at a total cost of $6,005,000 and the North Carolina plant at a total cost of $5,070,000. Cash and cash equivalents increased $9,894,000 (80%) 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. Cash and cash equivalents decreased $1,023,000 (14%) in 1996 due primarily to significant investments made in property, plant and equipment and to increases in cash dividends paid. The Company has remained free of interest-bearing debt for twelve consecutive years. Working capital increased $7,569,000 (25.5%) and $5,436,000 (22.4%) in 1998 and 1997, respectively. The increase in working capital reflects lower capital spending, 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, 2000. There were no borrowings under this line of credit during 1998.

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 contained under Item 1., “Business” in Form 10-K for the fiscal year ended October 30, 1998.

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## Consolidated Balance Sheets

**ASSETS**

| | October 30 1998 | October 31 1997 |
|---|---|---|
| Current assets: | | |
| • Cash and cash equivalents | $22,272,141 | $12,377,932 |
| • Accounts receivable, less allowance for doubtful accounts of $582,787 and $577,156 | 12,072,818 | 11,374,263 |
| • Inventories | 14,066,898 | 15,556,750 |
| • Prepaid expenses | 233,848 | 137,747 |
| • Deferred income tax benefits | 1,913,233 | 1,690,094 |
| Total current assets | 50,558,938 | 41,136,786 |
| Property, plant and equipment, net of accumulated depreciation of $27,894,827 and $25,432,473 | 16,197,108 | 16,853,248 |
| Other non-current assets | 5,297,919 | 4,571,379 |
| Deferred income tax benefits | 3,738,976 | 3,102,479 |
| | **$75,792,941** | **$65,663,892** |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

| | October 30 1998 | October 31 1997 |
|---|---|---|
| Current liabilities: | | |
| • Accounts payable | $5,343,725 | $5,343,687 |
| • Accrued payroll and other expenses | 6,373,886 | 5,927,156 |
| • Income taxes payable | 1,590,125 | 183,857 |
| Total current liabilities | 13,307,736 | 11,454,700 |
| 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 - 11,369,812 (Note 7) | 11,426,695 | 10,393,298 |
| • Capital in excess of par value | 26,347,123 | 13,946,359 |
| • Retained earnings | 13,068,430 | 20,266,125 |
| | 50,842,248 | 44,605,782 |
| | **$75,792,941** | **$65,663,892** |

# 1998 Annual Report

## Consolidated Statements of Income

| | Fiscal year ended | | |
|---|---|---|---|
| | October 30 1998 | October 31 1997 | November 1 1996 |
| Net sales | $134,815,787 | $127,859,491 | $118,316,70 |
| Cost of products sold, excluding depreciation | 80,876,022 | 80,621,498 | 75,874,768 |
| Selling, general and administrative expenses | 36,935,860 | 33,633,263 | 30,832,011 |
| Depreciation | 2,938,475 | 2,950,376 | 2,493,308 |
| | 120,750,357 | 117,205,137 | 109,200,087 |
| Income before taxes | 14,065,430 | 10,654,354 | 9,116,383 |
| Provision for taxes on income | 5,345,000 | 4,049,000 | 3,465,000 |
| Net income | **$8,720,430** | **$6,605,354** | **$5,651,383** |
| Net income per share | **$0.77** | **$0.58** | **$0.50** |

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (NOTE 7)

| | Common stock | | | | |
|---|---|---|---|---|---|
| | Shares | Amount | Capital in excess of par | Retained earnings | Total shareholder's equity |
| Balance, November 3, 1995 | 9,396,933 | $9,453,816 | $3,024,881 | $24,380,875 | $36,859,572 |
| - Net income | | | | 5,651,383 | 5,651,383 |
| - Cash dividends paid ($.20 per share) | | | | (2,255,264) | (2,255,264) |
| Balance, November 1, 1996 | 9,396,933 | $9,453,816 | $3,024,881 | $27,776,994 | $40,255,691 |
| - Net income | | | | 6,605,354 | 6,605,354 |
| - Cash dividends paid* ($.20 per share) | | | | (2,255,265) | (2,255,265) |
| 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** |

* Per share amounts give effect to 10% stock dividends declared November 10, 1997 and november 16, 1998.

# 1998 Annual Report

## Consolidated Statements of Cash Flows

| | Fiscal year ended | | |
|---|---|---|---|
| | October 30 1998 | October 31 1997 | November 1 1996 |
| Cash flows from operating activities: | | | |
| Net income | $8,720,430 | $6,605,354 | $5,651,383 |
| Income charges not affecting cash: | | | |
| Depreciation | 2,938,475 | 2,950,376 | 2,493,308 |
| Provision for losses on accounts receivable | 254,150 | 149,150 | 139,150 |
| Gain on sale of assets | (81,941) | (50,129) | (52,729) |
| Effect on cash of changes in assets and liabilities: | | | |
| Accounts receivable | (952,705) | (1,516,171) | 45,388 |
| Inventories | 1,489,852 | 47,162 | (1,753,965) |
| Prepaid expenses | (96,101) | 206,099 | 90,281 |
| Deferred income tax benefits | (859,636) | (210,152) | (1,124,607) |
| Other non-current assets | (726,540) | (1,028,297) | (584,589) |
| Accounts payable and accrued expenses | 446,768 | 1,758,848 | 1,082,903 |
| Income taxes payable | 1,406,268 | 70,539 | 58,401 |
| Non-current liabilities | 2,039,547 | 1,206,466 | 1,117,108 |
| Net cash provided by operating activities | 14,578,567 | 10,189,145 | 7,162,032 |
| Cash used in investing activities: | | | |
| Proceeds from sale of assets | 84,941 | 50,129 | 57,601 |
| Additions to property, plant and equipment | (2,285,335) | (1,949,100) | (5,987,709) |
| Net cash used in investing activities | (2,200,394) | (1,898,971) | (5,930,108) |
| Cash used in financing activities: | | | |
| Cash dividends paid | (2,483,964) | (2,255,264) | (2,255,264) |
| Net increase (decrease) in cash and cash equivalents | 9,894,209 | 6,034,910 | (1,023,340) |
| Cash and cash equivalents at beginning of year | 12,377,932 | 6,343,022 | 7,366,362 |
| Cash and cash equivalents at end of year | **$22,272,141** | **$12,377,932** | **$6,343,022** |

| | | | |
|---|---|---|---|
| Cash paid for income taxes | **$4,891,000** | **$4,022,000** | **$3,955,717** |

# 1998 Annual Report

## 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 1998, 1997 and 1996 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 $20,985,000 at October 30, 1998 and $10,990,000 at October 31, 1997.

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.

Basic 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, after giving effect to 10% stock dividends declared November 10, 1997 and November 16, 1998.

***NOTE 2 - COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS:***

| | 1998 (in thousands) | 1997 (in thousands) |
|---|---|---|
| **Property, plant and equipment:** | | |

| | | |
|---|---|---|
| Land | $1,083 | $1,083 |
| Buildings and improvements | 11,310 | 10,736 |
| Machinery and equipment | 25,616 | 24,889 |
| Transportation equipment | 6,083 | 5,577 |
| | 44,092 | 42,285 |
| Accumulated depreciation | 27,895 | 25,432 |
| | **$16,197** | **$16,853** |
| **Inventories:** | | |
| Meat, ingredients and supplies | $3,695 | $4,453 |
| Work in progress | 1,353 | 1,357 |
| Finished goods | 9,019 | 9,747 |
| | **$14,067** | **$15,557** |
| **Accrued payroll and other expenses:** | | |
| Payroll, vacation and payroll taxes | $5,533 | $4,581 |
| Property taxes | 263 | 265 |
| Other | 578 | 1,081 |
| | **$6,374** | **$5,927** |

## 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):

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Cost of benefits earned during the year | $568 | $485 | $611 |
| Interest cost on projected benefit obligation | 907 | 810 | 689 |
| Actual return on plan assets | (748) | (1,602) | (1,238) |
| Deferral of unrecognized gain (loss) on plan assets | (34) | 931 | 679 |
| Amortization of unrecognized gain | (83) | (38) | |
| Amortization of transition asset | (76) | (76) | (76) |
| Amortization of unrecognized prior service costs | 34 | 34 | 34 |
| Net pension cost | **$568** | **$544** | **$699** |

The transition asset is being amortized using the straight-line method over 16.41 years, the average remaining service periods of active plan participants. The discount rate and expected long-term rate of return used in determining the projected benefit obligation for fiscal years 1998 and 1997 was 7.75%. The assumed rate of future compensation increases for fiscal years 1998 and 1997 were 4% and 6%, respectively.

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):

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Plan assets at fair market value | $10,622 | $10,081 | $8,657 |
| Actuarial present value of benefit obligations: | | | |
| &mbsp;Accumulated benefits based on current salary levels, including vested benefits of $9,974, $8,927 and $7,324 | 10,502 | 9,415 | 7,917 |
| &mbsp;Additional benefits based on estimated future salary levels | 817 | 1,152 | 2,044 |
| &mbsp;Projected benefit obligation | 11,319 | 10,567 | 9,961 |
| Projected benefit obligation in excess of plan assets | (3,463) | (3,065) | (1,661) |
| Unrecognized prior service costs | 247 | 281 | 315 |
| Unrecognized gain on plan assets | (3,463) | (3,065) | (1,661) |
| Unrecognized net transition asset | (445) | (520) | (596) |

| | | | |
|---|---|---|---|
| Accrued pension cost | **$(4,358)** | $(3,790) | $(3,246) |

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 1998, 1997 and 1996 was $303,000, $348,000 and $405,000 respectively. Benefits payable related to these plans and included in other non-current liabilities in the accompanying financial statements were $3,594,000 and $2,988,000 at October 30, 1998 and October 31, 1997, 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 $5,298,000 and $4,571,000 at October 30, 1998 and October 31, 1997, 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 $4,598,000 and $3,574,000 at October 30, 1998 and October 31, 1997, respectively. Future payments are approximately $1,252,000, $1,162,000, $925,000, $717,000 and $542,000 for fiscal years 1999 through 2003, respectively.

Postretirement health care benefits in the approximate amount of $345,000 and $340,000 are included in non-current liabilities at October 30, 1998 and October 31, 1997, respectively.

## Notes to Consolidated Financial Statements

***NOTE 4 - INCOME TAXES:***

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

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Current: | | | |
| Federal | $5,241 | $3,602 | $4,039 |
| State | 964 | 658 | 551 |
| | 6,205 | 4,260 | 4,590 |
| Deferred: | | | |
| Federal | (735) | (99) | (933) |
| State | (125) | (112) | (192) |
| | (860) | (211) | (1,125) |
| | **$5,345** | **$4,049** | **$3,465** |

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):

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Provision for federal income taxes at the applicable statutory rate | $4,782 | $3,622 | $3,100 |
| Increase in provision resulting from: State income taxes, net of federal income tax benefit | 518 | 416 | 335 |
| Other, net | 45 | 11 | 30 |
| | **$5,345** | **$4,049** | **$3,465** |

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.

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

| | 1998 | 1997 |
|---|---|---|

| | | |
|---|---|---|
| Receivables allowance | $235 | $233 |
| Inventory capitalization | 329 | 233 |
| Deferred compensation | 382 | 385 |
| Franchise tax | 154 | 107 |
| Employee benefits | 842 | 631 |
| Other | (29) | 44 |
| Current tax assets | **$1,913** | **$1,690** |
| Deferred compensation | $1,348 | $1,001 |
| Pension and health care benefits | 3,343 | 2,870 |
| Depreciation | (952) | (769) |
| Non-current taz assets, net | **3,739** | **3,102** |

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

# 1998 Annual Report

## Notes to Consolidated Financial Statements

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***NOTE 5 - LINE OF CREDIT:***

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.

***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 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 $316,000, $255,000 and $263,000 in fiscal years 1998, 1997 and 1996, respectively. Contingent payments were $105,000 in 1998, $98,000 in 1997 and $95,000 in 1996. Future minimum lease payments are approximately $130,000 in 1999. The Company also leases certain other properties which do not result in material commitments.

***NOTE 7 – SUBSEQUENT EVENTS:***

In November 1998, the Board of Directors declared a 10% stock dividend. Net income and cash dividends per share are calculated based on the weighted average number of shares after giving retroactive effect to the stock dividend. The weighted average shares used for computing basic earnings per share in the accompanying statements of income were 11,369,812 for all periods presented.

In November 1998 the Company sold land and recognized a pre-tax gain of approximately $610,000.

Subject to approval by the Company’s shareholders, the Board of Directors adopted the 1999 Stock Incentive Plan (the “1999 Plan”) on January 11, 1999.

# 1998 Annual Report

## 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 flows present fairly, in all material respects, the financial position of Bridgford Foods Corporation and its subsidiaries at October 30, 1998 and October 31, 1997 and the results of their operations and their cash flows for each of the three years in the period ended October 30, 1998, 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 18, 1998