Cal-Maine Foods, Inc.
3320 Woodrow Wilson Drive
Post Office Box 2960
Jackson, Mississippi 39207

1997
Annual
Report

CAL-MAINE FOODS, INC.

Company Profile

Cal-Maine Foods, Inc. is engaged in the production, cleaning, grading, packing and sale of fresh shell eggs and the manufacture and sale of egg products. The Company currently is the nation's largest producer and distributor of fresh shell eggs, with fiscal 1997 sales of approximately 380 million dozen shell eggs, representing approximately 7.5% of all shell eggs sold in the United States. Cal-Maine primarily markets its shell eggs and egg products in 26 states, chiefly in the southwestern, southeastern, mid-western and mid-Atlantic regions of the United States.

The common shares of Cal-Maine Foods, Inc. are traded on the Nasdaq National Market under the symbol CALM.

Financial Highlights

(in thousands, except per share amounts and percentage data)

	May 31, 1997	June 1, 1996	% Change
FOR THE FISCAL YEAR			
Net sales	$292,526	$282,844	3%
Net income	$ 14,845	$ 10,925	36%
Net income per common share	$ 1.21	$ .94	29%
Weighted average shares outstanding	12,285	11,584	6%
AT FISCAL YEAR-END			
Working capital	$ 45,390	$ 26,742	70%
Total assets	$182,294	$149,991	22%
Total debt (including current portion)	$ 64,436	$ 63,426	2%
Stockholders' equity	$ 74,642	$ 47,900	56%

To Our Stockholders:

I am pleased to report to you on Cal-Maine's operations for fiscal 1997.

For the year ended May 31, 1997, the Company had total net sales of $292.5 million and net income of $14.8 million, or $1.21 per common share outstanding. These results compare favorably with net sales of $282.8 million and net income of $10.9 million, or $.94 per common share outstanding, for fiscal 1996.

The year as a whole was a good one, as the following highlights illustrate:

- The Company's profits were strong, representing 5.1 percent of net sales and increasing 36 percent compared with the previous year.
- Our management team did an outstanding job, capitalizing on strong market conditions and preparing the Company for future growth.

Egg prices were favorable for most of the year. We experienced strong demand from the domestic market, and exports also increased from the prior year. Feed costs were high compared with past levels, but the strength in egg prices more than offset the increased feed costs, enabling us to earn a solid profit margin.

For the year ahead, it appears that we will have substantially lower feed costs. The latest forecasts call for a good crop of corn and soybeans, which are the two main ingredients affecting feed costs.

The U.S. laying hen flock is slightly larger than a year ago. We believe that overall egg demand will be strong enough to consume an increase in production at profitable prices.

Profits were strong in 1997, increasing 36% compared with the previous year.

- We successfully completed an initial public stock offering in December 1996, which strengthened our balance sheet and provided $10.6 million in new equity for the Company.
- We maintained excellent banker relations, and have credit lines in place to support our planned growth.
- Our customer base was strengthened, with a number of significant new customers added during the year.
- We completed two acquisitions – Sunbest Farms, based in Arkansas with 600,000 layers, and Southern Empire Egg Farm, based in Georgia with 1.3 million layers, both of which complement our existing operations.
- The Company continued its program of constructing new egg production facilities and refurbishing existing facilities, which will make our operations more efficient in the future.
- We continued to phase out older facilities that were not cost effective.

In summary, we are pleased with the year just ended and are confident that we will achieve further improvements in efficiency in the year ahead. We will continue to pursue our aggressive growth strategy and actively explore acquisition opportunities.

Thank you for your support of Cal-Maine Foods and our management team during this past year.

Sincerely,

Fred Adams Jr.

Fred Adams, Jr.
Chairman and Chief Executive Officer

Cal-Maine Foods, Inc. is a leading producer, processor and distributor of fresh shell eggs and egg products. In fact, no company in the nation markets more fresh shell eggs than Cal-Maine Foods, which sold approximately 380 million dozen in fiscal 1997. But at Cal-Maine, being the biggest in the industry is not as important as being the best and most efficient.

No company in the nation markets more fresh shell eggs than Cal-Maine Foods.

Over the past nine years, Cal-Maine has pursued an aggressive growth strategy that involves both acquisition of existing facilities and construction of new ones. Since the beginning of fiscal 1989, the Company has completed seven acquisitions and built four major state-of-the-art, in-line shell egg production and processing facilities and one pullet growing facility. As it has added newer, more efficient facilities, Cal-Maine has retired older, less productive ones and reduced its reliance on contract producers. Today, Company-owned farms, representing 65 percent of Cal-Maine's egg production, are highly automated, in-line facilities that use the latest technology to gather, clean, grade and package the eggs.

As a result of its growth strategy, Cal-Maine's total flock increased from approximately 6.8 million at the end of fiscal 1988 to roughly 15 million at the close of fiscal 1997. Equally important, the percentage of layers housed in modern in-line facilities has increased dramatically, rising from 25 percent in fiscal 1992 to 65 percent in fiscal 1997. Compared with older facilities, these facilities not only generate significant cost savings per dozen eggs produced, they also have less breakage resulting in a higher percentage of grade A eggs.

Controlling the Process; Insuring the Quality

"Put all your eggs in one basket – and watch that basket," Mark Twain advised. A fully integrated producer of eggs and egg products, Cal-Maine controls every aspect of production, processing and distribution. Besides strictly adhering to all federal and state regulations regarding product quality, Cal-Maine maintains a detailed inspection program to assure compliance with its own high standards as well as its customers' specifications.

The Company produces chicks in its own hatcheries and manufactures 95 percent of the feed for the laying flocks in its own feed mills. Cal-Maine owns the flocks and provides the feed and supplies for layers grown by its contract producers. All of the eggs, whether from Company- owned or contract farms, are cleaned, graded and packed at the Company's processing plants. They are then transported to customers, primarily national and regional supermarket chains, in Cal-Maine's own fleet of trucks.

You Have to Break Some Eggs

Approximately 5 percent of the 310 million dozen eggs produced by Cal-Maine last year were processed into egg products at the Company's production facility in Jackson, Mississippi. These products include various liquid, frozen and dried forms of egg whites, egg yolks and whole eggs. The egg products are sold primarily to manufacturers of baked goods, mayonnaise and confections. Cal-Maine controls the production of egg products to match the seasonality of fresh eggs sales, operating its egg product plant at its highest capacity when prices for fresh shell eggs are at their lowest.

Making a Good Egg Better

Cal-Maine produces two lines of specialty eggs to meet consumers' special needs. Under license from Egg•land's Best, Inc., it

produces *Egg•land's Best*™ eggs, which their developers believe, based on scientific studies, cause no increase in serum cholesterol when eaten as part of a low fat diet. In producing these eggs, which command premium prices, Cal-Maine uses Egg•land's Best proprietary vegetarian feed supplement, adheres to strict quality control standards and uses approved packaging materials. Although *Egg•land's Best*™ eggs accounted for a small percentage of Cal-Maine's total sales in 1997, they offer an important opportunity for enhancing future results and increasing sales to health-conscious consumers.

In addition, Cal-Maine produces *"Farmhouse"* brand eggs, which come from hens that are not caged and are provided a diet of natural grains and drinking water that is free of hormones or other chemical additives. While these eggs represent a small part of the Company's sales, they meet the needs of the growing number of consumers who are particularly sensitive to environmental and animal welfare issues.

Looking to the Future

Today Cal-Maine Foods operates 22 facilities in 14 states and maintains a flock of 15 million layers. In fiscal 1997, the Company enhanced its capacity with the acquisition of Sunbest Farms, based in Arkansas, and Southern Empire Egg Farms, based in Georgia. Sunbest Farms added 600,000 layers and Southern Empire Egg Farms added 1.3 million layers to the flock. Both of these acquisitions added modern production and processing facilities and represent a continuation of Cal-Maine's strategy to acquire quality shell egg producers.

Cal-Maine also continues to carry out the other component of its growth strategy: building new facilities. Currently under construction are new egg production, processing and feed mill facilities in Chase, Kansas, scheduled for completion in fiscal 1999, and a new in-line egg laying facility in Waelder, Texas, scheduled for completion in fiscal 2000. Each of these state-of-the-art facilities will have a 1 million layer and 250,000 pullet capacity.

During 1997, Cal-Maine successfully completed an initial public stock offering, which strengthened the Company's balance sheet and provided $10.6 million in new equity capital. These funds, along with funds from operations and established credit lines, will support the Company's planned growth for the foreseeable future.

Whether acquiring quality producers or constructing new facilities, Cal-Maine's goal is to make its operations more efficient and to increase market share. With a sound strategy, solid financial position and experienced management team, Cal-Maine Foods has all the ingredients for success.

Cal-Maine's highly automated, in-line production facilities employ state-of-the-art technology.

Selected Financial Data

(in thousands, except per share data)

	1997	1996	1995
For the Fiscal Year:			
Net sales	$ 292,526	$ 282,844	$242,649
Cost of sales	236,273	230,850	223,965
Gross profit	56,253	51,994	18,684
Operating income (loss)	27,323	22,341	(9,250)
Income (loss) before income taxes	24,353	17,385	(13,285)
Net income (loss)	14,845	10,925	(8,685)
Net income (loss) per common share [1]	1.21	.94	(.74)
Weighted average shares outstanding [1]	12,285	11,584	11,700
Depreciation and amortization	10,550	10,444	9,894
Fixed asset additions (including purchases of shell egg production and processing business)	28,145	8,768	18,827
At Fiscal Year-End:			
Working capital	$ 45,390	$ 26,742	$ 10,092
Total assets	182,294	149,991	147,402
Total debt (including current portion)	64,436	63,426	64,211
Total stockholders' equity	74,642	47,900	37,472

[1] *Reflects the 1,200-for-1 stock split effective October 3, 1996 as if the split had occurred in the earliest period presented.*

Selected Quarterly Financial Data

(unaudited, in thousands, except per share amounts)

Fiscal Year 1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 65,563	$ 78,629	$79,649	$ 68,685
Operating income	2,711	10,744	11,631	2,237
Net income	1,097	5,931	6,937	880
Net income per share [1]	$ .10	$ .52	$ .54	$ .07

Fiscal Year 1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 56,219	$ 71,981	$82,557	$ 72,087
Operating income (loss)	(1,735)	6,996	10,829	6,251
Net income (loss)	(1,635)	3,664	5,910	2,986
Net income (loss) per share [1]	$ (.14)	$ .31	$ .51	$ .26

[1] *Reflects the 1,200-for-1 stock split effective October 3, 1996 as if the split had occurred in the earliest period presented.*

1994	1993	1992	1991	1990	1989
$254,713	$235,908	$234,767	$268,804	$260,373	$100,100
225,227	204,115	211,428	217,763	197,568	85,483
29,486	31,793	23,339	51,041	62,805	14,617
3,392	7,017	(1,355)	24,100	38,462	4,266
595	5,163	(3,392)	22,027	35,882	1,676
224	3,103	(2,192)	14,347	22,382	1,001
.02	.26	(.18)	1.19	1.78	.08
11,760	11,821	11,921	12,063	12,571	12,017
9,148	7,464	6,301	5,697	3,916	2,414
27,758	14,525	17,848	8,415	27,677	13,073
$ 29,588	$ 30,426	$ 29,226	$ 41,920	$ 24,991	$ 6,127
144,859	128,260	125,662	123,018	100,806	62,610
62,968	49,808	50,020	43,439	36,966	25,559
46,489	46,387	43,529	46,208	32,296	9,168

Average Percentage of Net Sales and Net Income by Quarter

Fiscal Years 1989-1997

	Net sales	Net income
First quarter	22.0%	(6.5)%
Second quarter	25.8	40.3
Third quarter	27.5	56.4
Fourth quarter	24.7	9.8
	100.0%	100.0%

OVERVIEW

The Company is primarily engaged in the production, cleaning, grading, packing and sale of fresh shell eggs and in the manufacture and sale of egg products. The Company's fiscal year-end is the Saturday closest to May 31.

The Company's operations are fully integrated. It owns facilities to hatch chicks, grow pullets, manufacture feed, and produce, process, manufacture and distribute shell eggs and egg products. The Company currently is the largest producer and distributor of fresh shell eggs in the United States. Shell eggs account for over 90% of the Company's net sales. The Company primarily markets its shell eggs in the southwestern, southeastern, mid-western and mid-Atlantic regions of the United States. Shell eggs are sold directly by the Company primarily to national and regional supermarket chains. Egg products are sold both on a direct basis and through egg product brokers to institutional users, including manufacturers of baked goods, mayonnaise and confections.

The Company currently uses contract producers for approximately 35% of its total egg production. Contract producers operate under agreements with the Company for the use of their facilities in the production of shell eggs by layers owned by the Company, which owns the eggs produced. Also, shell eggs are purchased, as needed, for resale by the Company from outside producers.

The Company's operating income or loss is significantly affected by wholesale shell egg market prices, which can fluctuate widely and are outside of the Company's control. Retail sales of shell eggs are greatest during the fall and winter months and lowest during the summer months. Prices for shell eggs fluctuate in response to seasonal factors and a natural increase in egg production during the spring and early summer.

The Company's cost of production is materially affected by feed costs, which average about 60% of Cal-Maine's total farm egg production cost. Changes in feed costs result in changes in the Company's cost of goods sold. The cost of feed ingredients is affected by a number of supply and demand factors such as crop production and weather, and other factors, such as the level of grain exports, over which the Company has little or no control.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items from the Company's Condensed Consolidated Statements of Income expressed as a percentage of net sales.

	Percentage of Net Sales Fiscal Years Ended		
	May 31, 1997	June 1, 1996	June 3, 1995
Net sales	100.0%	100.0%	100.0%
Cost of sales	80.8	81.6	92.3
Gross profit	19.2	18.4	7.7
Selling, general & administrative expenses	9.9	10.5	11.5
Operating income (loss)	9.3	7.9	(3.8)
Other income (expense)	(1.0)	(1.8)	(1.7)
Income (loss) before taxes	8.3	6.1	(5.5)
Income tax expense (benefit)	3.2	2.2	(1.9)
Net income (loss)	5.1%	3.9%	(3.6)%

Fiscal Year Ended May 31, 1997 Compared to Fiscal Year Ended June 1, 1996

Net Sales. Net sales in the fiscal year ended May 31, 1997 were $292.5 million, an increase of $9.7 million, or 3.4%, over net sales of $282.8 million in the fiscal year ended June 1, 1996. The increase was due to higher shell egg market prices. With improved average shell egg market prices, Cal-Maine's net average selling price during fiscal 1997 was $.722 per dozen shell eggs, as compared to $.684 per dozen shell eggs for fiscal 1996, an increase of 5.6%. During fiscal 1997, the number of dozens sold decreased due to reduced customer demand. The Company produced 309.8 million dozens of eggs in fiscal 1997, compared with 308.8 million dozens in fiscal 1996. The Company purchased approximately 73.4 million dozens of eggs from outside sources during fiscal 1997, compared to 80.2 million dozens of eggs in fiscal 1996. During fiscal 1997, the Company completed two acquisitions. In the second quarter of fiscal 1997, the shell egg production facilities of Sunbest Farms were purchased. Approximately 2% of fiscal 1997 dozens of eggs sold were attributed to this facility. As a production facility only, the eggs produced were transferred to other Company locations for processing and marketing. In April 1997, mid-fourth quarter, the shell egg production and processing facilities of Southern Empire Egg Farm, Inc. were acquired. Due to the late fiscal purchase date, these facilities accounted for approximately 1% of the dozens of eggs sold and net sales for fiscal 1997.

Cost of Sales. The cost of sales in fiscal 1997 was $236.3 million, an increase of $5.4 million, or 2.3%, above the fiscal 1996 cost of sales of $230.9 million. The increase was due to an increase in feed ingredient cost. The increase in ingredient cost began in fiscal 1996 and continued through the second quarter of fiscal 1997. Feed cost per dozen eggs produced during fiscal 1997 was $.284, compared to $.266 per dozen in fiscal 1996, an increase of 6.8%. As mentioned above in the sales discussion, the number of outside eggs purchased decreased for fiscal 1997. The potential dollar decease for fewer dozens purchased was offset by the higher per dozen price paid, due to the improved shell egg market prices. With increases in sales exceeding increases in cost of sales, the gross profit increased from 18.4% of net sales for fiscal 1996 to 19.2% for fiscal 1997.

Selling, General and Administration Expenses. Selling, general and administrative expenses in fiscal 1997 were $28.9 million, a decrease of $700,000, or 2.4%, as compared to the $29.6 million for fiscal 1996. For the current fiscal year, a decrease in health insurance expenses was the major reason for the lower dollar costs. As a percent of net sales, selling, general and administrative expenses have decreased from 10.5% for fiscal 1996 to 9.9% for the current fiscal year.

Operating Income. As the result of the above, the Company's operating income was $27.3 million in fiscal 1997, an increase of $5.0 million, or 22.3%, as compared to an operating income of $22.3 million for fiscal 1996. As a percent of net sales, operating income for fiscal 1997 increased to 9.3%, as compared to 7.9% for fiscal 1996.

Other Income (Expense). Other expense for fiscal 1997 was $3.0 million, a decrease of $2.0 million, or 40%, as compared to other expense of $5.0 million for fiscal 1996. Interest expense for fiscal 1997 was $4.3 million, a decrease of $1.2 million, or 22.1%, as compared to an interest expense of $5.5 million for fiscal 1996. Higher interest expense for fiscal 1996 was due to borrowings under lines of credit from banks that were repaid by fiscal 1996 year-end. Interest income was $597,000 for fiscal 1997, compared to $141,000 for fiscal 1996. As a percent of net sales, other expenses were 1.0% for fiscal 1997, compared to 1.8% for fiscal 1996.

Income Taxes. As a result of the above, the Company's pre-tax income was $24.4 million in fiscal 1997, compared to pre-tax income of $17.4 million for fiscal 1996. For fiscal 1997, an income tax expense of $9.5 million was recorded with an effective rate of 39.0%, as compared to an income tax expense of $6.5 million with an effective rate of 37.2% for fiscal 1996. The increase in the effective rate is due primarily to the increase to the maximum statutory federal rate of 35% from 34% because the Company's taxable income exceeded the amount for which the maximum rate is required. The Company also increased the deferred tax liability for the increased federal statutory rate.

Net income. As a result of the above, net income for fiscal 1997 was $14.8 million, or $1.21 per share, compared to net income of $10.9 million, or $.94 per share, for fiscal 1996.

Fiscal Year Ended June 1, 1996 Compared to Fiscal Year Ended June 3, 1995

Net Sales. Net sales in the fiscal year ended June 1, 1996 were $282.8 million, an increase of $40.2 million, or 16.6%, over net sales of $242.6 million in the fiscal year ended June 3, 1995. The increase was due to higher shell egg prices. Apart from the impact of acquisitions and new facilities construction, the sale price of shell eggs is the most important factor in year-to-year changes in the Company's net sales. Cal-Maine's net average selling price during fiscal 1996 was $.684 per dozen shell eggs, as compared to $.528 per dozen shell eggs for fiscal 1995. During fiscal 1996, the Company experienced a decrease in the number of eggs sold because of a slight reduction in flock size and fewer purchases from outside sources. The Company produced 308.8 million dozens of eggs in fiscal 1996, compared with 322.7 million dozens in fiscal 1995. The Company purchased approximately 80.2 million dozens of eggs from outside sources during fiscal 1996, compared to 105.0 million in fiscal 1995. Approximately 12.9% of net sales in fiscal 1996 were attributable to shell egg production and processing facilities acquired from Wayne Detling Farm in 1994 and A & G Farms in 1995, and approximately 8.6% of fiscal 1996 net sales were attributable to new facilities constructed by the Company in Edwards, Mississippi in 1994 and Waelder, Texas in 1995. Such acquired facilities and constructed facilities accounted for 11.6% and 5.4%, respectively, of fiscal 1995 net sales.

Cost of Sales. The total cost of sales in fiscal 1996 was $230.9 million, an increase of $6.9 million, or 3.1%, above the fiscal 1995 cost of sales of $224.0 million. The increase was primarily due to an increase in feed ingredient cost from $.211 per dozen eggs in fiscal 1995 to $.266 per dozen eggs in fiscal 1996. The gross profit margin increased to 18.4% in fiscal 1996 from 7.7% in fiscal 1995, as a result of the increase in shell egg prices, which more than offset the decrease in the number of eggs produced and the increase in feed cost. Cost of sales, as a percentage of net sales, sharply declined in the fiscal year ended June 1, 1996, primarily as a result of increases in shell egg prices.

Selling, General and Administrative Expenses. Selling, general and administrative expenses in fiscal 1996 were $29.7 million, an increase of $1.8 million, or 6.2%, from $27.9 million for fiscal 1995. Selling, general and administrative expenses, as a percent of net sales, were 10.5% in fiscal 1996, a decrease from 11.5% in fiscal 1995.

Operating Income. As the result of the above, the Company's operating income was $22.3 million in fiscal 1996, compared to an operating loss of $9.3 million in fiscal 1995.

Other Income (Expense). Other expense increased from $4.0 million in fiscal 1995 to $5.0 million in fiscal 1996. An increase of approximately $1.0 million in the Company's equity in the income of BCM Egg Company ("BCM"), a partnership in which Cal-Maine is a 50% owner, was more than offset by an increase in interest expense of $400,000 and a $1.2 million reduction in other income.

Income Taxes. As a result of the above, the Company's pre-tax income was $17.4 million in fiscal 1996, compared to a $13.3 million loss before income taxes in fiscal 1995. Income tax expense was $6.5 million in fiscal 1996, compared to an income tax benefit of $4.6 million in fiscal 1995. The effective income tax rate is 37.2% for the year ended June 1, 1996, compared to 34.6% for the year ended June 3, 1995. This increase was principally a result of the increased effective tax rate for state income taxes.

Net Income. As a result of the above, the Company had net income of $10.9 million, or $.94 per share, in fiscal 1996, compared to a net loss of $8.7 million, or $.74 per share, in fiscal 1995.

CAPITAL RESOURCES AND LIQUIDITY

The Company's working capital at May 31, 1997 was $45.4 million, compared to $26.7 million at June 1, 1996. The Company's current ratio was 2.26 at May 31, 1997, as compared with 1.79 at June 1, 1996. The Company's need for working capital generally is highest in the first and last fiscal quarters ending in August and May, respectively, when egg prices are normally at seasonal lows. Seasonal borrowing needs frequently are higher during these periods than during other fiscal periods. The Company had an unused $35 million line of credit with three banks at May 31, 1997. The Company's long-term debt at that date, including current maturities and capitalized lease obligations, amounted to $64.4 million, as compared to $63.4 million at June 1, 1996.

Substantially all trade receivables and inventories collateralize the Company's line of credit, and property, plant and equipment collateralize the Company's long-term debt. The Company is required by certain provisions of these loan agreements to (1) maintain minimum levels of working capital and net worth; (2) limit dividends, capital expenditures, lease obligations and additional long-term borrowings; and (3) maintain various current and cash-flow coverage ratios, among other restrictions. The Company was in compliance with these provisions at May 31, 1997.

On December 11, 1996, the Company sold 1,400,000 shares of Common Stock at a price of $7.00 per share in an underwritten public offering. On December 30, 1996 and January 9, 1997, the Company sold, at $7.00 per share, a total of 330,000 additional shares of Common Stock in connection with the public offering upon exercise of the underwriter over-allotment option. The $10.6 million of net proceeds from the public offering provide the Company additional funds for possible future acquisitions of shell egg operations and related facilities, for working capital requirements and for general corporate purposes. The Chairman of the Board of Directors and Chief Executive Officer of the Company also sold certain of his shares of Common Stock in the public offering and used $1.7 million of the proceeds received by him to pay, in full, his non-interest bearing note held by the Company.

For the fiscal year ended May 31, 1997, $32.5 million of net cash was provided by operating activities, of which $16.2 million was used for construction and purchases of property, plant and equipment and $7.0 million was used for the purchase of shell egg production and processing businesses. The Company has expended $11.5 million in the construction of new shell egg production, processing and feed mill facilities in Chase, Kansas. The Company is financing approximately $13.5 million of the estimated $16.0 million total project cost through industrial revenue bonds maturing in 2011. Borrowings under the industrial revenue bond agreement totaled $1.0 million at May 31, 1997. The Company financed $5.0 million of the purchase price of a shell egg production and processing business with the seller in fiscal 1997. In fiscal 1998, the Company plans to commence construction of new shell egg production and processing facilities in Waelder, Texas. The estimated cost of construction is approximately $13.9 million with financing plans of approximately $10.4 million in borrowings from an insurance company.

In fiscal 1997, $7.0 million was used to repay long-term debt and $3.3 million was received on notes receivable and from investments.

The net result of these activities was an increase in cash and cash equivalents of $19.8 million for fiscal 1997.

The Company has $3.2 million of deferred tax liability due to a subsidiary's change from a cash basis to an accrual basis taxpayer on May 29, 1988. This liability will become payable with respect to the first fiscal year in which the Company fails to qualify as a "family farming corporation" within the meaning of Section 447 of the Internal Revenue Code (the "Code"). The Company could lose such tax status as a result of a change in the tax laws, and will lose such tax status if its annual revenues from farming are less than $111.5 million, or if the members of a single family fail to own at least 50% of the voting power of all voting stock and at least 50% of all other classes of stock. The Company had farming revenues of $258.6 million for fiscal 1997. The Company's farming revenues and the ownership of its stock by Fred Adams, Jr. and other members of his family presently qualify the corporation as a "family farming corporation." If "family farming corporation" status is lost, payment of the $3.2 million deferred tax liability would reduce the Company's cash, but would not impact the Company's statement of operations or reduce stockholders' equity, as these taxes have been accrued and are reflected on the Company's balance sheet. See Note 11 of Notes to Consolidated Financial Statements.

The foregoing statements contain forward-looking statements which involve risks and uncertainties and the Company's actual experience may differ materially from that discussed above. Factors that may cause such a difference include, but are not limited to, those discussed in "Factors Afecting Future Performance" as well as future events that have the effect of reducing the Company's available cash balances, such as unanticipated operating losses or capital expenditures related to possible future acquisitions. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as the date hereof. The Company assumes no obligation to update forward-looking statements. See also the Company's reports to be filed from time to time with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

FACTORS AFFECTING FUTURE PERFORMANCE

The Company's future operating results may be affected by various trends and factors which are beyond the Company's control. These include adverse changes in shell egg prices and in the grain markets. Accordingly, past trends should not be used to anticipate future results and trends. Further, the Company's prior performance should not be presumed to be an accurate indication of future performance.

Consolidated Balance Sheets

(in thousands, except share amounts)

	May 31, 1997	June 1, 1996
Assets		
Current assets:		
Cash and cash equivalents	$ 23,737	$ 3,959
Receivables:		
Trade receivables, less allowance for doubtful accounts of $62 in 1997 and $31 in 1996 *(Note 8)*	12,779	13,387
Other	307	160
	13,086	13,547
Recoverable federal and state income taxes	1,137	460
Inventories *(Notes 5 and 8)*	42,594	40,969
Prepaid expenses and other current assets	986	1,513
Total current assets	81,540	60,448
Other assets:		
Notes receivable and investments	4,747	5,318
Other	661	529
	5,408	5,847
Property, plant and equipment, less accumulated depreciation *(Notes 6 and 8)*	94,454	82,426
Leased property under capital leases, less accumulated amortization *(Note 7)*	892	1,270
Total assets	$ 182,294	$149,991
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 15,267	$ 13,780
Accrued wages and benefits	4,314	4,077
Accrued expenses and other liabilities	2,114	2,237
Current maturities of:		
Long-term debt	4,302	3,807
Capitalized lease obligations	238	450
	4,540	4,257
Deferred income taxes *(Note 11)*	9,915	9,355
Total current liabilities	36,150	33,706
Long-term debt, less current maturities *(Note 8)*	59,177	58,214
Capitalized lease obligations, less current maturities *(Note 7)*	719	955
Deferred expenses *(Note 9)*	1,655	1,561
Deferred income taxes *(Note 11)*	9,951	7,655
Total liabilities	107,652	102,091
Commitments and contingencies *(Notes 8 and 12)*		
Stockholders' equity *(Note 2)*:		
Common stock, $.01 par value *(Notes 9 and 10)*:		
Authorized shares - 30,000,000 at May 31, 1997 and 18,000,000 at June 1, 1996		
Issued and outstanding shares - 17,565,200 at May 31, 1997 and 17,035,200 at June 1, 1996	176	170
Class A common stock, $.01 par value		
Authorized shares - 1,200,000 at May 31, 1997 and none at June 1, 1996		
Issued and outstanding shares -1,200,000 at May 31, 1997 and none at June 1, 1996	12	–
Paid-in capital	18,785	8,229
Retained earnings	61,903	47,058
Common stock in treasury (5,583,200 shares in 1997 and 5,522,400 shares in 1996)	(6,234)	(5,863)
Note receivable - stockholder	–	(1,694)
Total stockholders' equity	74,642	47,900
Total liabilities and stockholders' equity	$ 182,294	$149,991

See accompanying notes.

Consolidated Statements of Operations

(in thousands, except per share amounts)

	Fiscal year ended May 31, 1997	June 1, 1996	June 3, 1995
Net sales	$ 292,526	$ 282,844	$ 242,649
Cost of sales	236,273	230,850	223,965
Gross profit	56,253	51,994	18,684
Selling, general and administrative	28,930	29,653	27,934
Operating income (loss)	27,323	22,341	(9,250)
Other income (expense):			
Interest expense *(Note 8)*	(4,277)	(5,487)	(5,052)
Equity in income of affiliates *(Note 4)*	524	721	24
Other	783	(190)	993
	(2,970)	(4,956)	(4,035)
Income (loss) before income taxes	24,353	17,385	(13,285)
Income tax expense (benefit) *(Note 11)*	9,508	6,460	(4,600)
Net income (loss)	$ 14,845	$ 10,925	$ (8,685)
Net income (loss) per common share	$ 1.21	$ .94	$ (.74)

See accompanying notes.

Consolidated Statements of Stockholders' Equity

(in thousands)

	Common Stock									
	Shares	Amount	Class A Shares	Class A Amount	Treasury Shares	Treasury Amount	Paid-in Capital	Retained Earnings	Note Receivable - Stockholder	Total
Balance at May 28, 1994	17,035	$170	–	$ –	5,290	$ (5,036)	$ 8,231	$ 44,818	$(1,694)	$ 46,489
Redemption of fractional shares of common stock	–	–	–	–	–	–	(1)	–	–	(1)
Purchases of common stock for treasury	–	–	–	–	90	(331)	–	–	–	(331)
Net loss for fiscal 1995	–	–	–	–	–	–	–	(8,685)	–	(8,685)
Balance at June 3, 1995	17,035	170	–	–	5,380	(5,367)	8,230	36,133	(1,694)	37,472
Redemption of fractional shares of common stock	–	–	–	–	–	–	(1)	–	–	(1)
Purchases of common stock for treasury	–	–	–	–	142	(496)	–	–	–	(496)
Net income for fiscal 1996	–	–	–	–	–	–	–	10,925	–	10,925
Balance at June 1, 1996	17,035	170	–	–	5,522	(5,863)	8,229	47,058	(1,694)	47,900
Exchange of common stock for Class A common stock	(1,200)	(12)	1,200	12	–	–	–	–	–	–
Issuance of common stock	1,730	18	–	–	–	–	10,562	–	–	10,580
Redemption of fractional shares of common stock	–	–	–	–	–	–	(6)	–	–	(6)
Purchase of common stock for treasury	–	–	–	–	61	(371)	–	–	–	(371)
Repayment of note receivable - stockholder	–	–	–	–	–	–	–	–	1,694	1,694
Net income for fiscal 1997	–	–	–	–	–	–	–	14,845	–	14,845
Balance at May 31, 1997	17,565	$176	1,200	$ 12	5,583	$(6,234)	$18,785	$61,903	$ –	$74,642

See accompanying notes.

Consolidated Statements of Cash Flows

(in thousands)

	Fiscal year ended May 31, 1997	June 1, 1996	June 3, 1995
Cash flows from operating activities			
Net income (loss)	$ 14,845	$ 10,925	$ (8,685)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,550	10,444	9,894
Provision for doubtful accounts	52	41	4
Provision for deferred income taxes	2,856	4,660	(3,210)
Equity in income of affiliates	(524)	(721)	(24)
(Gain) loss on sales of property, plant and equipment	69	956	(873)
Increase in deferred compensation	60	60	60
Change in operating assets and liabilities, net of effects from purchases of shell egg production and processing businesses in 1997 and 1995:			
(Increase) decrease in receivables and other assets	1,702	(2,220)	2,388
(Increase) decrease in inventories	1,238	(2,599)	2,205
Increase (decrease) in accounts payable, accrued expenses and deferred expenses	1,635	3,728	(2,033)
Net cash provided by (used in) operating activities	32,483	25,274	(274)
Cash flows from investing activities			
Purchases of property, plant and equipment	(16,189)	(8,768)	(15,944)
Purchases of shell egg production and processing businesses	(6,956)	–	(2,883)
Payments received on notes receivable and from investments	1,634	513	136
Increase in note receivable and investments	(15)	(13)	(40)
Net proceeds from sales of property, plant and equipment	914	687	1,292
Net cash used in investing activities	(20,612)	(7,581)	(17,439)
Cash flows from financing activities			
Net proceeds from sale of common stock	10,580	–	–
Net borrowings (payments) under line of credit	–	(15,500)	15,500
Long-term borrowings	3,000	5,050	6,000
Principal payments on long-term debt and capital leases	(6,990)	(5,835)	(5,432)
Payments received on note receivable - stockholder	1,694	–	–
Purchases of common stock for treasury	(371)	(497)	(332)
Redemption of fractional shares of common stock	(6)	(2)	(1)
Net cash provided by (used in) financing activities	7,907	(16,784)	15,735
Increase (decrease) in cash and cash equivalents	19,778	909	(1,978)
Cash and cash equivalents at beginning of year	3,959	3,050	5,028
Cash and cash equivalents at end of year	$ 23,737	$ 3,959	$ 3,050
Non-cash investing and financing activities:			
Note payable for purchase of shell egg production and processing business	$ 5,000	$ –	$ –
Notes received from sales of properties	$ 88	$ 664	$ 330
Capital lease obligations for equipment	$ –	$ –	$ 676

See accompanying notes.

(in thousands, except share and per share amounts)

1. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Cal-Maine Foods, Inc. and its subsidiaries (the "Company") all of which are wholly-owned. All significant intercompany transactions and accounts have been eliminated in consolidation.

Business

The Company is engaged in the production, processing and distribution of shell eggs and egg products and livestock operations. The Company's operations are significantly affected by the market price fluctuation of its principal products sold, shell eggs, and the costs of its principal ingredients, corn and other grains. In fiscal years 1997 and 1996, corn prices were historically high, which adversely affected cost of goods sold. Management anticipates lower corn prices in fiscal year 1998 which will have a positive effect on the fiscal 1998 cost of goods sold.

Primarily all of the Company's sales are to wholesale egg and egg products buyers in the southeastern, midwestern and mid-Atlantic regions of the United States. Revenue is recognized when shell eggs and products are shipped to customers. Credit is extended based upon an evaluation of each customer's financial condition and credit history and generally collateral is not required. Credit losses have consistently been within management's expectations. One customer accounted for 10.1% of the Company's net sales in fiscal 1997. No single customer accounted for more than 10% of the Company's net sales in fiscal years 1996 and 1995.

Use of Estimates

The preparation of the consolidated financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect the amount reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventories of eggs, feed, supplies and livestock are valued principally at the lower of cost (first-in, first-out method) or market.

The cost associated with flocks, consisting principally of chick purchases, feed, labor, contractor payments and overhead costs, are accumulated during a growing period of approximately 18 weeks. Flock costs are amortized over the productive lives of the flocks, generally one to two years.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is provided by the straight-line method over the estimated useful lives, which is 15 to 25 years for buildings and improvements and 3 to 8 years for machinery and equipment.

Income Taxes

Income taxes have been provided using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Stock Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to or above the fair value of the shares at the date of the grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, recognizes no compensation expense for the stock option grants.

(in thousands, except share and per share amounts)

Net Income Per Common Share

Net income per common share is based upon the weighted average number of common shares outstanding of 12,285,000, 11,584,000, and 11,700,000 during fiscal 1997, 1996 and 1995, respectively.

Impact of Recently Issued Accounting Standards

Effective June 2, 1996, the Company adopted FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Statement No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The effect of this adoption was not material to the Company's financial position or results of its operations.

In February 1997, the FASB Statement No. 128, "Earnings per Share," was issued. Effective in the third quarter of fiscal 1998, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement 128 on the calculation of earnings per share is not expected to be material.

Fiscal Year

The Company's fiscal year-end is on the Saturday nearest May 31 which was May 31, 1997 (52 weeks), June 1, 1996 (52 weeks), and June 3, 1995 (53 weeks) for the most recent three fiscal years.

2. Initial Public Offering

During December 1996 and January 1997, the Company sold 1,730,000 shares in aggregate of its common stock at $7 per share in an underwritten initial public offering (the "Offering"). Net proceeds from the Offering were $10,580.

3. Acquisitions

In April 1997, the Company purchased certain operating assets of a shell egg production and processing business for $10,654, which included a $5,000 note payable to seller. The transaction was accounted for as a purchase.

In January 1997, the Company purchased, for $1,302, certain operating assets of a shell egg production business and accounted for the transaction as a purchase.

In June 1994, the Company purchased, for $2,883, certain inventories, land and equipment of a shell egg production and processing business and accounted for the transaction as a purchase. In connection with the purchase, the Company leased substantially all facilities and certain equipment of the business under an operating lease with monthly rentals of $79 through May 1998. The Company may renew the lease for three years with monthly rentals of $79 through May 2001. The Company has the option to purchase the facilities and equipment for approximately $3,820 after fiscal 1999 or $1,750 after fiscal 2002.

The operating results of these assets acquired are included in the consolidated statements of operations of the Company for the periods subsequent to the acquisition dates. Prior operations of these assets acquired are immaterial to the Company's net sales, net income (loss) and net income (loss) per common share for the fiscal years ended May 31, 1997, June 1, 1996 and June 3, 1995.

4. Investment in Affiliates

The Company owns 50% of BCM Egg Company ("BCM"), a partnership. Equity in earnings of $681, $721, and $24, from BCM have been included in the consolidated statements of operations in fiscal 1997, 1996 and 1995, respectively. The Company purchased approximately $9,831, $9,929, and $7,492 of eggs from BCM during each of those fiscal years, which represented a significant percentage of BCM's sales.

The Company owns 32.5% of American Egg Products, Inc. ("AEP"). Equity in losses of $157 from AEP have been included in the consolidated statement of operations in fiscal 1997. The Company did not record equity in income or losses from AEP in fiscal 1996 or 1995 because its ownership interest in AEP was less than 20%.

(in thousands, except share and per share amounts)

5. Inventories

Inventories consisted of the following:

	May 31, 1997	June 1, 1996
Flocks	$ 26,674	$ 23,501
Eggs and egg products	4,030	3,127
Feed and supplies	8,377	10,424
Livestock	3,513	3,917
	$ 42,594	$ 40,969

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	May 31, 1997	June 1, 1996
Land and improvements	$ 19,752	$ 18,854
Buildings and improvements	53,593	48,830
Machinery and equipment	75,069	68,836
Construction-in-progress	10,603	3,617
	159,017	140,137
Less accumulated depreciation and amortization	64,563	57,711
	$ 94,454	$ 82,426

7. Leases

Leased property under capital leases consisted of the following:

	May 31, 1997	June 1, 1996
Machinery and equipment	$ 2,100	$ 2,100
Less accumulated amortization	1,208	830
	$ 892	$ 1,270

Future minimum payments under capital leases and noncancelable operating leases that have initial or remaining noncancelable terms in excess of one year at May 31, 1997 are as follows:

	Capital Leases	Operating Leases
1998	$ 303	$ 2,746
1999	303	1,600
2000	322	1,179
2001	151	756
2002	–	417
Thereafter	–	144
Total minimum lease payments	1,079	$ 6,842
Less amount representing interest (rates from 7.25% to 9.0%)	122	
Present value of minimum lease payments	957	
Less amounts due within one year	238	
Amounts due after one year	$ 719	

Substantially all of the leases provide that the Company pay taxes, maintenance, insurance and certain other operating expenses applicable to the leased assets. The Company has guaranteed under certain operating leases the residual value of transportation equipment at the expiration of the leases. Rent expense was $ 3,849, $3,901, and $3,726 in fiscal 1997, 1996, and 1995, respectively. Included in rent expense are vehicle rents totaling $1,837, $1,718, and $1,726 in fiscal 1997, 1996 and 1995, respectively.

(in thousands, except share and per share amounts)

8. Credit Facilities and Long-Term Debt

Long-term debt consisted of the following:

	May 31, 1997	June 1, 1996
Note payable at 6.62%; due in monthly installments of $130, plus interest, maturing in 2000	$ 14,075	$ 15,890
Note payable at 7.64%; due in monthly installments of $114, including interest, maturing in 2003	10,503	11,053
Note payable at federal funds rate plus 1.50%; due in quarterly installments of $298, plus interest, maturing in 2000	8,884	10,079
Note payable at 9.625%; due in monthly installments of $60, plus interest, maturing in 2001	6,780	7,485
Note payable at 7.75%; due in monthly installments of $55, plus interest, maturing in 2003	7,995	8,655
Note payable at 8.25%; due in monthly installments of $79, including interest, maturing in 2004	4,911	–
Note payable, federal funds rate plus 1.50%; due in monthly installments of $24, plus interest, maturing in 2004	1,976	–
Note payable, federal funds rate plus 1.50%; due in quarterly installments of $36, plus interest, maturing in 2000	–	643
Note payable at 8.69%; due in monthly installments of $8, including interest, maturing in 2001	329	392
Note payable at 6.61%; due in monthly installments of $7, including interest, maturing in 2000	266	335
Note payable at 4%; due in monthly installments of $4, including interest, maturing in 1999	105	149
Adjustable rate industrial revenue bonds	6,655	7,340
Fixed rate industrial revenue bonds	1,000	–
	63,479	62,021
Less current maturities	4,302	3,807
	$ 59,177	$ 58,214

The adjustable rate industrial revenue bonds with principal balances of $4,670 and $1,985 are due November 1, 2005 and May 1, 2006, respectively, with interest due monthly at variable rates (5.65% at May 31, 1997 and 5.60% at June 1, 1996). The bonds are redeemable at the option of the Company on a monthly basis subject to certain mandatory redemption requirements. The bonds are collateralized by letters of credit of approximately $7,000.

The Company has available to borrow $13,500 of fixed rate industrial revenue bonds for the construction of certain operating facilities, of which $1,000 has been borrowed as of May 31, 1997. The estimated total construction cost of the facilities is $16,000, of which $11,500 was expended as of May 31, 1997. Principal payments consist of monthly principal payments equal to the outstanding borrowings on September 30, 1998 divided by 150 beginning November 1, 1998. Interest is payable monthly at a fixed rate based upon the average-life US Treasury rate plus 2% (8.84% weighted average rate at May 31, 1997) at the date the funds are advanced to the Company.

The aggregate annual maturities of long-term debt at May 31, 1997 are as follows:

1998	$ 4,302
1999	5,452
2000	16,005
2001	15,590
2002	3,375
Thereafter	18,755
	$63,479

The Company has a $35,000 line of credit with three banks all of which was unused at May 31, 1997. The line of credit is limited in availability based upon the levels of accounts receivable and inventories.

(in thousands, except share and per share amounts)

Borrowings under the line of credit bear interest at 1.5% above the federal funds rate or LIBOR, at the Company's option. Facilities fees of .25% per annum are payable quarterly on the unused portion of the line.

Substantially all trade receivables and inventories collateralize the line of credit and property, plant and equipment collateralize the long-term debt. The Company is required, by certain provisions of the loan agreements, to maintain minimum levels of working capital and net worth; to limit dividends, capital expenditures and additional long-term borrowings; and to maintain various current and debt-to-equity ratios. Additionally, the chief executive officer of the Company, or his family, must maintain ownership of not less than 50% of the outstanding voting stock of the Company. The Company was in compliance with these provisions as of May 31, 1997.

Interest of $4,614, $5,910, and $5,594 was paid during fiscal 1997, 1996, and 1995, respectively. Interest of $337, $305, and $438 was capitalized for construction of certain facilities during fiscal 1997, 1996, and 1995, respectively.

9. Employee Benefit Plans

The Company maintains a medical plan that is qualified under Section 401(a) of the Internal Revenue Code and not subject to tax under present income tax laws. Under its plan, the Company self-insures, in part, coverage for substantially all full-time employees with coverage by insurance carriers for certain stop-loss provisions for losses greater than $60 for each occurrence. The Company's expenses, including accruals for incurred but not reported claims, were approximately $2,110, $3,130, and $2,100 in fiscal 1997, 1996 and 1995, respectively.

The Company has a 401(k) plan which covers substantially all employees. Participants in the Plan may contribute up to the maximum allowed by Internal Revenue Service regulations.

The Company has an employee stock ownership plan (ESOP) that covers substantially all employees. The Company has historically made contributions to the ESOP of 3% of participants' compensation, plus an additional amount determined at the discretion of the Board of Directors. Contributions may be made in cash or the Company's common stock. The contributions vest 20% annually beginning with the participant's third year of service. The Company's contributions to the plan were approximately $1,416, $992, and $808 in fiscal 1997, 1996 and 1995, respectively.

The Company has deferred compensation agreements with certain officers for payments to be made over specified periods beginning when the officers reach age 65. Amounts accrued for these agreements are based upon deferred compensation earned, discounted over the estimated remaining service life of each officer. Deferred compensation expense totaled $60 in fiscal 1997, 1996 and 1995, respectively.

10. Stock Option Plan

The Company has elected to follow APB No. 25 and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, *Accounting for Stock-Based Compensation*, requires use of option valuation models that were not developed for use in valuing employee stock options.

The Company has reserved 800,000 shares under its 1993 Stock Option Plan. The options have ten-year terms and vest annually over five years beginning one year from the grant date. At May 31, 1997 and June 1, 1996, 272,000 and 296,000 shares, respectively, were available for grant under the 1993 plan.

Pro forma information regarding net income and net income per share is required by FASB Statement No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for fiscal 1997: risk-free interest rate of 6.5%; no dividend yield; volatility factor of the expected market price of the Companys common stock of .517, and a weighted-average expected life of the options of 5 years.

(in thousands, except share and per share amounts)

The weighted-average fair value of options granted during fiscal 1997 was $4.56. No options were granted in fiscal 1996. The pro forma effect of the estimated fair value of the options granted in fiscal 1997 was insignificant to the fiscal 1997 net income and net income per share of the Company.

A summary of the Companys stock option activity and related information is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at June 3, 1995	552,000	$ 3.42
Forfeited	(48,000)	3.42
Outstanding at June 1, 1996	504,000	3.42
Granted	24,000	4.33
Outstanding at May 31, 1997	528,000	3.46

At May 31, 1997, the weighted average remaining contractual life of the options outstanding was 6.2 years and 302,400 options were exercisable.

11. Income Taxes

Income tax expense (benefit) consisted of the following:

	Fiscal year ended May 31, 1997	June 1, 1996	June 3, 1995
Current:			
Federal	$ 6,502	$ 1,700	$ (1,390)
State	150	100	–
	6,652	1,800	(1,390)
Deferred:			
Federal	2,390	4,020	(2,810)
State	466	640	(400)
	2,856	4,660	(3,210)
	$ 9,508	$ 6,460	$ (4,600)

Significant components of the Company's deferred tax liabilities were as follows:

	May 31, 1997	June 1, 1996
Current deferred tax liabilities:		
Inventories	$ 10,175	$ 9,330
Prepaid expenses	175	235
Accrued expenses	(415)	(200)
Other	(20)	(10)
Total current deferred tax liabilities	9,915	9,355
Long-term deferred tax liabilities:		
Property, plant and equipment	6,741	5,830
Investments	335	385
Deferred compensation	(310)	(300)
State net operating loss carryforwards	–	(255)
Alternative minimum tax credit carryforwards	–	(1,105)
Cash basis temporary differences	3,185	3,100
Total long-term deferred tax liabilities	9,951	7,655
Total deferred tax liabilities	$ 19,866	$ 17,010

(in thousands, except share and per share amounts)

Effective May 29, 1988, the Company could no longer use cash basis accounting for its farming subsidiary because of tax law changes. The taxes on the cash basis temporary differences as of that date will not be payable under current tax laws provided there are no changes in ownership control and future annual revenues of the farming subsidiary exceed 1988 revenues. Management does not anticipate the payment of such taxes related to these cash basis timing differences during 1997. The Company uses the farm-price method for valuing inventories for income tax purposes.

The differences between income tax expense at the Company's effective income tax rate and income tax expense (benefit) at the statutory federal income tax rate (35% in fiscal 1997 and 34% in fiscal 1996 and 1995) were as follows:

	Fiscal year ended		
	May 31, 1997	June 1, 1996	June 3, 1995
Statutory federal income tax (benefit)	$8,524	$ 5,911	$(4,517)
State income taxes (benefit), net	700	488	(268)
Benefit of net operating loss carryover for certain states	(300)	–	–
Increase in federal income tax rate	495	–	–
Other, net	89	61	185
	$9,508	$ 6,460	$(4,600)

Federal and state income taxes of $7,597, $1,985 and $294 were paid in fiscal 1997, 1996 and 1995, respectively. Federal and state income taxes of $9, $1,500 and $3,267 were refunded in fiscal 1997, 1996 and 1995, respectively.

12. Other Matters

The carrying amounts reported in the balance sheet for cash and cash equivalents, notes receivable and investments, long-term debt and capitalized leases approximate their carrying value. The fair values for notes receivables, long-term debt and capitalized leases are estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

The Company is the defendant in certain legal actions. It is the opinion of management, based on advise of legal counsel, that the outcome of these actions will not have a material adverse effect on the Company's financial position or results of operations.

The Board of Directors and Stockholders
Cal-Maine Foods, Inc.

We have audited the accompanying consolidated balance sheets of Cal-Maine Foods, Inc. and subsidiaries as of May 31, 1997 and June 1, 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended May 31, 1997. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cal-Maine Foods, Inc. and subsidiaries at May 31, 1997 and June 1, 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 1997, in conformity with generally accepted accounting principles.

Ernst + Young LLP

Jackson, Mississippi
July 10, 1997

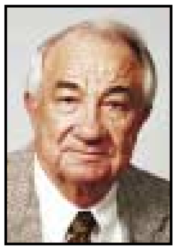
Board of Directors and Corporate Officers

Fred R. Adams, Jr.
Chairman of the Board of Directors and Chief Executive Officer
Cal-Maine Foods, Inc.
Director

Richard K. Looper
Vice Chairman of the Board of Directors
Cal-Maine Foods, Inc.
Director

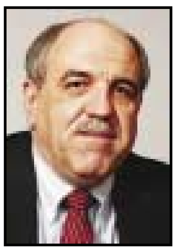
Adolphus B. Baker
President and Chief Operating Officer
Cal-Maine Foods, Inc.
Director

Bobby J. Raines
Vice President, Chief Financial Officer, Treasurer and Secretary
Cal-Maine Foods, Inc.
Director



Jack B. Self
Vice President/Operations and Production
Cal-Maine Foods, Inc.
Director

Joe M. Wyatt
Vice President/Feed Mill Division
Cal-Maine Foods, Inc.
Director



Charles F. Collins
Vice President, Controller
Cal-Maine Foods, Inc.
Director

W. D. Cox
Consultant
Director

R. Faser Triplett, M.D.
Practicing Physician
Director

Bob Scott
Vice President/Operations
Cal-Maine Foods, Inc.

Stephen R. Storm
Vice President/Operations
Cal-Maine Foods, Inc.

James H. Neeld III
General Counsel
Young, Williams, Henderson & Fuselier, P.A.

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Independent Auditors
Ernst & Young LLP
One Jackson Place, Suite 400
188 East Capitol Street
Jackson, Mississippi 39201

Annual Meeting
10:00 a.m.
October 8, 1997
Cal-Maine Corporate Offices
3320 Woodrow Wilson Drive
Jackson, Mississippi

Form 10-K
The Form 10-K, including the financial statements and schedules thereto, for the year ended May 31, 1997, as well as other information about Cal-Maine Foods, Inc., may be obtained without charge by writing to Ms. Delores McMillin, Investor Relations, at the Company's corporate offices.

Stock Price and Dividend Information
The Company's common stock trades on the Nasdaq National Market under the symbol CALM. The number of stockholders, including beneficial owners holding shares in nominee or "street" name, as of August 1, 1997, was approximately1,830.

The following table shows quarterly high and low prices for the common stock from December 11, 1996, the date of the Company's initial public offering to May 31, 1997. National Market System quotations are based on actual sales prices.

	Stock Price	
Fiscal Year 1997	High	Low
First Quarter	–	–
Second Quarter	–	–
Third Quarter	$9 3/8	$6 5/8
Fourth Quarter	$8 1/2	$5

Although the Company has not paid any cash dividends on its capital stock, the Board of Directors will consider the possible declaration of cash dividends in the future in the light of the Company's results of operations, financial condition, capital requirements for possible acquisitions and new construction, and other relevant economic factors. Under the terms of the Company's agreements with its principal lenders, Cal-Maine is subject to various financial covenants limiting its ability to pay dividends. For the foreseeable future, the Company expects to retain earnings for use in its business.