CAL-MAINE FOODS, INC.

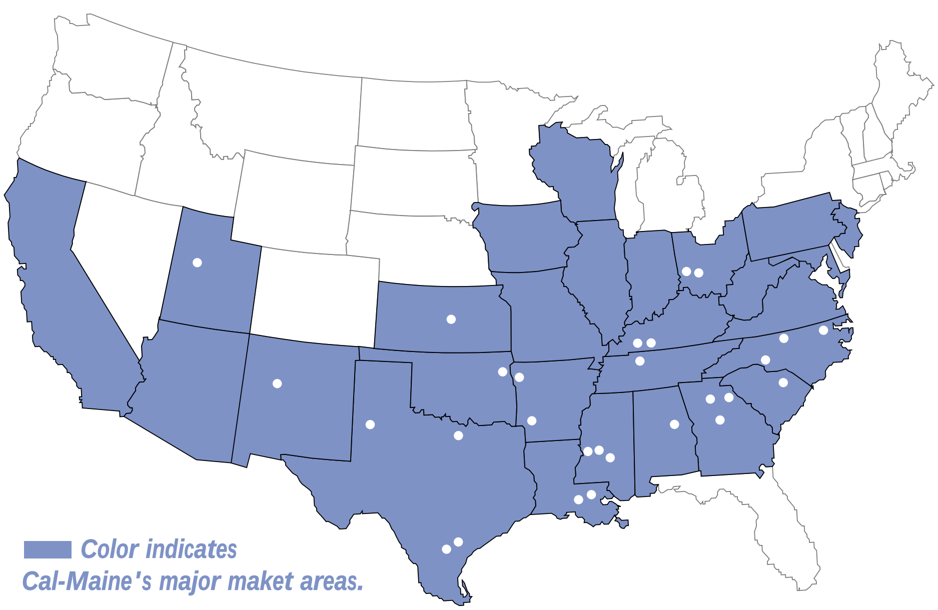
1999 ANNUAL REPORT

Cal-Maine Foods, Inc.

Cal-Maine Foods, Inc. is engaged in the production, cleaning, grading, packing and sale of fresh shell eggs. The Company currently is the nation's largest producer and distributor of fresh shell eggs, with fiscal 1999 sales of approximately 426 million dozen shell eggs, representing approximately 10% of all shell eggs sold in the United States. Cal-Maine primarily markets its shell eggs 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.

Cal-Maine Locations



Color indicates Cal-Maine's major maket areas.

Alabama
Ashland

Arkansas
Hope
Lincoln

Georgia
Gainesville
Hartwell
Shady Dale

Kansas
Chase

Kentucky
Bremen
Guthrie

Louisiana
Hammond
Pine Grove

Mississippi
Edwards
Jackson *(Corporate Offices)*
Mendenhall

New Mexico
Albuquerque

North Carolina
Albemarle
Louisburg
Winterville

Ohio
Rossburg
Union City

Oklahoma
Westville

South Carolina
Bethune

Tennessee
Clarksville

Texas
Idalou
Keller
Lagrange
Waelder

Utah
Delta

Letter to Stockholders

Fiscal 1999 was a good year for Cal-Maine Foods in many respects:

- We realized increased efficiency in our production, processing and marketing operations.
- We maintained and strengthened our customer base, with a number of new customers added during the year.
- In May, we completed the purchase of Hudson Brothers, Inc. of Guthrie, Kentucky. These operations added approximately 1.2 million laying hens; 250,000 pullets; modern, in-line housing for the layers; new pullet growing facilities; a modern feed mill and grain elevator; and delivery equipment for feed and eggs.
- We remained on schedule for construction of new state-of-the-art egg production facilities in Kansas and Texas. The Kansas facility began full production in April 1999 and the Texas facility began initial operations in July 1999.
- Early in fiscal 1999, we entered into a joint venture to construct and operate a modern, highly efficient egg production and marketing complex in Utah to serve the western regions of the U.S. The first egg production at this facility began in April 1999, and completion of the total project is scheduled for the second half of calendar 2000. Cal-Maine recently increased its ownership in the joint venture from its initial 33⅓% to 50%.
- Our acquisitions and new facilities allowed us to increase the percentage of laying hens housed in Company operations.
- Effective in the third quarter, we increased our regular quarterly dividend to stockholders by 25% to 1¼ cents per share.
- We repurchased 650,000 shares of the Company's common stock in the open market. We believe the repurchase of these shares represented a good value and sound use of available corporate funds.
- We maintained a strong balance sheet and good banker relations, which will support our planned growth.

Net sales for the year were $288.0 million compared with net sales of $309.1 million for the previous year. Although dozens of eggs sold were approximately the same as the year before, net dollar sales volume declined due to lower average selling prices per dozen eggs. Although domestic demand was good during the year, export demand for eggs and egg products was weak. Lower feed prices and improvements in the efficiency of our operations substantially offset the lower selling prices for eggs. Net income for fiscal 1999 was $5.1 million, or $.39 per basic share, compared with net income of $5.4 million, or $.41 per basic share, for fiscal 1998.

We expect that fiscal year 2000 will be a challenging year. Current indications suggest that feed prices will remain at attractive levels, with both the USDA and private sources projecting an abundance of corn and soybeans, our two primary feed components. However, the laying flock is projected to increase over the next several months compared with the previous year. This increased production, along with continued weak export sales, will probably keep egg prices under pressure despite favorable research and publicity on the dietary benefits of eggs from the scientific community and solid domestic demand for eggs.

As we have said before, fluctuations in egg prices are a normal part of our business. We are pleased with the efficiency of our operations and particularly with the performance of our management team and other employees. We will continue to pursue opportunities for further efficiency gains and actively look for good acquisition candidates.

Thank you for your support during the past year.

Sincerely,

Fred Adams Jr.

Fred Adams, Jr.
Chairman and Chief Executive Officer

Cal-Maine Foods – A Decade of Growth

The past decade has been one of aggressive growth for Cal-Maine Foods. Since 1989, the Company has completed nine acquisitions, built six major state-of-the-art production and processing facilities and one pullet growing facility, and participated in the construction and operation of a joint venture facility — all aimed at increasing its capacity and raising the efficiency of its operations.

Today, Cal-Maine is the nation's leading producer, processor and distributor of fresh shell eggs. The Company has a total flock of 18.4 million pullets, layers and breeders, and in fiscal 1999 sold approximately 426 million dozen eggs, representing roughly 10% of all shell eggs sold in the United States.

Cal-Maine is among the most modern and efficient egg companies in the industry. Its state-of-the-art production and processing facilities combine environmentally controlled housing and computer technology to maximize quality and productivity.

The Single Comb White Leghorn hen dominates today's egg industry, except in New England where the Rhode Island Red predominates.

As a fully integrated producer, Cal-Maine controls every aspect of production, processing and distribution. The Company produces chicks in its own hatcheries and manufactures carefully formulated feed for its laying flocks in its own feed mills. Its modern egg laying facilities have carefully controlled temperature, humidity and light, and employ automatic feeders and watering devices. In Cal-Maine's modern, in-line processing facilities, eggs are gathered, cleaned, graded and packaged mechanically, untouched by human hands from the point of production until they reach consumers.

To ensure the quality and freshness of its products, Cal-Maine quickly transports the eggs to its customers in its own fleet of trucks. The Company sells the majority of its eggs in 26 states in the Southwest, Southeast, Midwest and mid-Atlantic region of the U.S. In most of these states, Cal-Maine is a leading marketer of fresh shells eggs.

Cal-Maine's facilities can . . .

Hatch	13,000,000 pullet chicks per year
Grow	7,800,000 pullets per year
House	12,000,000 laying hens
Produce	600 tons of feed per hour
Process	165,000 dozen eggs per hour

Did you know...?

A laying hen typically produces 250 to 260 eggs per year.

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The 255 million laying hens in the U.S. produced about 5.5 billion dozen eggs in 1998.

• • •

On average, each person in the U.S. consumes 245 eggs each year, including those in processed foods.

• • •

Cal-Maine Foods is the largest fresh shell egg producer and one of only 8 companies with more than 5 million layers.

With state-of-the-art facilities and tight control over production and distribution, Cal-Maine produces the highest quality eggs available. While most of its products are sold under the Cal-Maine label or a retailer's private brand, the Company also produces two lines of specialty eggs to meet consumers' special needs. Under license from England's Best, Inc., it produces Egg•land's Best™ eggs, which studies show cause no increase in serum cholesterol when eaten as part of a low fat diet. In producing these eggs, Cal-Maine uses a proprietary vegetarian feed supplement and adheres to special production control standards. The Company also produces "Farmhouse" brand eggs, which come from hens that are not caged and are provided a diet of natural grains. Both types of specialty eggs command premium prices and offer an excellent opportunity for increasing sales to consumers with special needs and preferences.

Over the past few decades, the shell egg production and processing industry has experienced a growing concentration of production. In 1996, there were roughly 900 egg-producing operations in the US compared with 10,000 in 1975. Cal-Maine has been a leading participant in the industry consolidation. Through its nine acquisitions, as well as the construction of new facilities, the Company has expanded its total flock from approximately 6.8 million at the beginning of fiscal 1989 to approximately 18.4 million at the end of fiscal 1999. Over the same period, it has increased the number of shell eggs sold from roughly 117 million dozen to approximately 426 million dozen, and its sales from $70 million in 1988 to $288 million in its most recent fiscal year. With a solid foundation of facilities and a leading market share, Cal-Maine is well positioned to continue capitalizing on the consolidation trend.

Eggs are a good source of protein and contain 13 different vitamins and minerals.

Selected Financial Data

(in thousands, except per share amounts)

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
For the Year:										
Net sales	**$ 287,954**	$ 309,071	$ 292,526	$ 282,844	$ 242,649	$ 254,713	$ 235,908	$ 234,767	$ 268,804	$ 260,373
Cost of sales	**242,022**	264,636	236,273	230,850	223,965	225,227	204,115	211,428	217,763	197,568
Gross profit	**45,932**	44,435	56,253	51,994	18,684	29,486	31,793	23,339	51,041	62,805
Operating income (loss)	**9,526**	10,346	27,323	22,341	(9,250)	3,392	7,017	(1,355)	24,100	38,462
Income (loss) before income taxes	**7,987**	8,325	24,353	17,385	(13,285)	595	5,163	(3,392)	22,027	35,882
Net income (loss)	**5,080**	5,379	14,845	10,925	(8,685)	224	3,103	(2,192)	14,347	22,382
Net income (loss) per share [1]:										
Basic	**.39**	.41	1.21	.94	(.74)	.02	.26	(.18)	1.19	1.78
Diluted	**.39**	.40	1.18	.94	(.74)	.02	.26	(.18)	1.19	1.78
Cash dividends declared per common share	**.045**	.02	–	–	–	–	–	–	–	–
Weighted average shares outstanding [1]:										
Basic	**12,999**	13,191	12,285	11,584	11,700	11,760	11,821	11,921	12,063	12,571
Diluted	**13,114**	13,428	12,560	11,584	11,700	11,760	11,821	11,921	12,063	12,571
Depreciation and amortization	**12,199**	12,017	10,550	10,444	9,894	9,148	7,464	6,301	5,697	3,916
Fixed asset additions (including purchases of shell egg production and processing business)	**28,072**	18,576	23,145	8,768	18,827	27,758	14,525	17,848	8,415	27,677
At Year-End:										
Working capital	**$ 48,501**	$ 56,591	$ 45,390	$ 26,742	$ 10,092	$ 29,588	$ 30,426	$ 29,226	$ 41,920	$ 24,991
Total assets	**213,682**	203,188	182,294	149,991	147,402	144,859	128,260	125,662	123,018	100,806
Total debt (including current portion)	**84,004**	75,498	64,436	63,426	64,211	62,968	49,808	50,020	43,439	36,966
Total stockholders' equity	**80,584**	79,547	74,642	47,900	37,472	46,489	46,387	43,529	46,208	32,296

[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 1999			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	**$ 68,785**	**$ 77,948**	**$ 77,861**	**$ 63,360**
Gross profit	**6,081**	**17,303**	**15,691**	**6,857**
Net income (loss)	**(2,087)**	**4,254**	**3,979**	**(1,066)**
Net income (loss) per share:				
Basic	**$ (.16)**	**$ .32**	**$ .31**	**$ (.08)**
Diluted	**$ (.16)**	**$ .32**	**$ .30**	**$ (.08)**

	Fiscal Year 1998			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 63,723	$ 79,435	$ 89,344	$ 76,569
Gross profit	5,470	15,436	14,928	8,601
Net income (loss)	(1,737)	4,244	3,703	(831)
Net income (loss) per share:				
Basic	$ (.13)	$ .32	$ .28	$ (.06)
Diluted	$ (.13)	$ .32	$ .28	$ (.06)

Average Percentage of Net Sales and Net Income by Quarter

Fiscal Years 1990-1999

	Net Sales	Net Income
First quarter	22.3%	(11.7)%
Second quarter	26.0	48.7
Third quarter	27.6	60.3
Fourth quarter	24.1	2.8
	100.0%	100.0%

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

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

The Company's operations are fully integrated. At its facilities it hatches chicks, grows pullets, manufactures feed, and produces, processes, and distributes shell eggs. The Company currently is the largest producer and distributor of fresh shell eggs in the United States. The shell egg segment accounted for over 98% 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 operations, which accounted for approximately 4% of the Company's net sales in fiscal 1998, were discontinued in May 1998.

The Company currently uses contract producers for approximately 30% 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 consolidated statements of income expressed as a percentage of net sales.

	Percentage of Net Sales		
	Fiscal Years Ended		
	May 29, 1999	May 30, 1998	May 31, 1997
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**84.0**	85.6	80.8
Gross profit	**16.0**	14.4	19.2
Selling, general & administrative expenses	**12.6**	11.0	9.9
Operating income	**3.4**	3.4	9.3
Other income (expense)	**(0.6)**	(0.7)	(1.0)
Income before taxes	**2.8**	2.7	8.3
Income tax expense	**1.0**	1.0	3.2
Net income	**1.8%**	1.7%	5.1%

Fiscal Year Ended May 29, 1999 Compared to Fiscal Year Ended May 30, 1998

Net Sales. Net sales in the fiscal year ended May 29, 1999 were $288.0 million, a decrease of $21.1 million, or 6.8%, from net sales of $309.1 million in the fiscal year ended May 30, 1998. The closure of the egg products division, in fiscal 1998, accounts for $12.9 million of the decrease in net sales for the current fiscal year. The balance of the decrease is the result of lower selling prices for eggs. Due to increased egg supplies and lower exports, average shell egg market prices declined approximately 5.4%. In response to declining market prices, Cal-Maine's net average selling price of shell eggs decreased from $.657 per dozen for fiscal 1998 to $.623, a decrease of $.034 per dozen, or 5.2%. Total dozens of eggs sold remained about the same for both fiscal years, 425.5 million dozen for fiscal 1999, compared to 424 million for fiscal 1998, an increase of 1.5 million dozens. Outside feed sales increased $2.4 million, or approximately 15.0%, for the current fiscal year. The increase was the net result of an increase of 43.0% in tons of feed sold to outside producers, offset by a decrease of 20.0% in the net selling price per ton. Lower cost of feed ingredients brought market prices for feed down.

Cost of Sales. The cost of sales in fiscal 1999 was $242.0 million, a decrease of $22.6 million, or 8.5%, under the fiscal 1998 cost of sales of $264.6 million. The closed egg products division accounted for $13.0 million of the current fiscal year decrease. The balance of the decrease is mostly due to decreases in cost of feed ingredients, and lower shell egg market prices. The lower cost of feed ingredients is the result of a large 1998 corn and soybean harvest and indications of continued favorable feed prices as the 1999 crop season begins. Feed cost per dozen eggs produced during fiscal 1999 was $ .195, compared to $.248 per dozen in fiscal 1998, a decrease of 21.4%. During fiscal 1999, the Company purchased 116.0 million dozens from outside sources, compared to 101.8 million dozen during fiscal 1998, an increase of 13.9%. Due to decreased egg market prices, as discussed above, the Company was able to purchase all outside dozens at more favorable net prices. Lower shell egg market prices, offset by improvements in egg production and purchased egg costs, resulted in an increase in gross profit from 14.4% of net sales for fiscal 1998 to 16.0% of net sales for the 1999 fiscal year.

Selling, General and Administrative Expenses. Selling, general, and administrative expenses in fiscal 1999 were $36.4 million, an increase of $2.3 million, or 6.7%, as compared to $34.1 million for fiscal 1998. The increases are mostly in payroll and payroll related expenses, including cash payments to certain employees to terminate stock options and employee health insurance costs. During the second quarter of the 1999 fiscal year, the Company, in accordance with FASB Statement 121, incurred an impairment change of $500,000 on a facility, including feed mill and production and distribution properties, that was closed. In the current fiscal year, franchise fees have increased almost $500,000 as the Company expands its markets for specialty brands of eggs, primarily *Eggland's Best.* Sales of the specialty brands for the current year were 5.2% of net sales, as compared to 3.4% for last fiscal year, and 1.0% for fiscal 1997. Other costs, including delivery, remained approximately the same during both fiscal years. As a percent of net sales, general and administrative expenses increased from 11.0% for fiscal 1998 to 12.6% for the current fiscal year.

Operating Income. As a result of the above, the Company's operating income was $9.5 million in fiscal 1999, a decrease of $800,000 or 7.9%, as compared to operating income of $10.3 million for fiscal 1998. As a percent of net sales, operating income for fiscal 1999 was 3.4%, the same as for fiscal 1998.

Other Income (Expense). Other expense for fiscal 1999 was $1.5 million, a decrease of $482,000, or 23.8%, as compared to other expense of $2.0 million for fiscal 1998. The decrease in net other expense is due to an increase in interest income of $831,000 offset by an increase in interest expense of $611,000 and an increase in other income of $263,000. As a percent of net sales, other expenses were 0.6% for fiscal 1999 compared to 0.7% for fiscal 1998.

Income Taxes. As a result of the above, the Company's pre-tax income was $8.0 million in fiscal 1999, compared to pre-tax income of $8.3 million for fiscal 1998. For fiscal 1999, income tax expense totaled $2.9 million with an effective rate of 36.4% as compared to income tax expense of $2.9 million with an effective rate of 35.4% for fiscal 1998. The increase in the effective rate is primarily due to a decrease in tax-exempt interest income as a percentage of income before income taxes.

Net Income. As a result of the above, net income for fiscal 1999 was $5.1 million, or $0.39 per basic share, compared to net income of $5.4 million, or $0.41 per basic share for fiscal 1998.

Fiscal Year Ended May 30, 1998 Compared to Fiscal Year Ended May 31, 1997

Net Sales. Net sales in the fiscal year ended May 30, 1998 were $309.1 million, an increase of $16.6 million, or 5.7%, over net sales of $292.5 million in the fiscal year ended May 31, 1997. Although average shell egg market prices declined, the increase in sales was due to increased dozens sold and an increase in feed sales, which are part of the shell egg segment, to outside egg producers. Cal-Maine's net average selling price of shell eggs during fiscal 1998 was $.675 per dozen, as compared to $.722 per dozen for fiscal 1997, a decrease of 6.5%. Due to increased egg supplies and lower egg exports, average shell egg market prices declined approximately 9.0%. During fiscal 1998, the number of dozens sold increased approximately 6.0%, primarily due to acquisitions of production and processing facilities. The Company produced 327.7 million dozens of eggs in fiscal 1998, compared to 309.8 million dozens in fiscal 1997. The Company purchased 101.8 million dozens from outside sources during fiscal 1998, compared to 73.4 million dozens of eggs in fiscal 1997. Approximately one-third of the increase in outside purchases resulted from an acquisition in Georgia. This operation also contributed to the increase in outside feed sales. Outside feed sales increased from $2.8 million during fiscal 1997 to $15.7 million in the 1998 fiscal year. In April 1997, mid-fourth quarter of fiscal 1997, the Company purchased the egg production and processing facilities of Southern Empire Egg Farm, Inc. In November 1997, late second quarter of the 1998 fiscal year, the Company purchased the inventories and shell egg production and processing equipment of J&S Farms, Inc., and Savannah Valley Company Inc. These acquisitions accounted for approximately 14.0% of net sales for fiscal 1998, and 10.0% of dozens of eggs sold.

Cost of Sales. The cost of sales in fiscal 1998 was $264.6 million, an increase of $28.3 million, or 12.0%, above the fiscal 1997 cost of sales of $236.3 million. Although feed ingredient cost decreased, costs associated with the increased amount of dozens and feed tonnage sold resulted in a higher cost of sales. Feed cost per dozen eggs produced during fiscal 1998 was $.248, compared to $.284 per dozen in fiscal 1997, a decrease of 12.7%. As mentioned above in the sales discussion, the number of outside dozens of eggs purchased increased for fiscal 1998. Though purchased at lower per dozen prices, due to lower shell egg market prices, the increased quantities purchased resulted in an increase in cost of sales. With increasing units sold and decreasing sales price per unit, the gross profit decreased from 19.2% of net sales for fiscal 1997 to 14.4% for fiscal 1998.

Selling, General and Administrative Expenses. Selling, general and administrative expenses in fiscal 1998 were $34.1 million, an increase of $5.2 million, or 17.8%, as compared to the $28.9 million for fiscal 1997. The increase is generally due to acquisitions and increased sales volume. Approximately one-half of the cost increase is due to delivery expenses for the increased dozens sold. On a delivery cost per dozen comparison, overall operating costs have increased 6.5% for the 1998 fiscal year. The balance of the cost increase is due to specialty egg brands promotions, bad debt allowances, and an overall 4% increase in general administrative expenses. For the 1998 fiscal year, the Company incurred approximately $1.7 million in franchise and advertising expenses in opening new markets for specialty brand eggs, primarily the *Egg Land's Best* franchise in New York City. Sale of the specialty brands of eggs for the 1998 fiscal year were almost 3.4% of net sales, as compared to less than 1% for the prior year. As a percent of net sales, general and administrative expenses have increased from 9.9% for fiscal 1997 to 11.0% for the 1998 fiscal year.

Operating Income. As a result of the above, the Company's operating income was $10.3 million in fiscal 1998, a decrease of $17.0 million, or 62.1%, as compared to an operating income of $27.3 million for fiscal 1997. As a percent of net sales, operating income for fiscal 1998 was 3.4%, as compared to 9.3% for fiscal 1997.

Other Income (Expense). Other expense for fiscal 1998 was $2.0 million, a decrease of $1.0 million, or 32.0%, as compared to other expense of $3.0 million for fiscal 1997. The decrease in net expense is primarily due to an increase in interest income of $774,000, net insurance claim income of $662,000 and an increase in interest expense of $306,000. As a percent of net sales, other expenses were 0.7% for fiscal 1998 compared to 1.0% for fiscal 1997.

Income Taxes. As a result of the above, the Company's pre-tax income was $8.3 million in fiscal 1998, compared to pre-tax income of $24.4 million for fiscal 1997. For fiscal 1998, an income tax expense of $2.9 million was recorded with an effective rate of 35.4% as compared to an income tax expense of $9.5 million with an effective rate of 39.0% for fiscal 1997. The decrease in the effective rate is due primarily to an increase in tax exempt interest income as a percentage of income before income taxes. In addition, in fiscal 1997, income tax expense included an adjustment to reflect an increase in the statutory federal rate for the then current and deferred tax liabilities.

Net Income. As a result of the above, net income for fiscal 1998 was $5.4 million, or $0.41 per basic share, compared to net income of $14.8 million, or $1.21 per basic share, for fiscal 1997.

CAPITAL RESOURCES AND LIQUIDITY

The Company's working capital at May 29, 1999 was $48.5 million compared to $56.6 million at May 30, 1998. The Company's current ratio was 2.17 at May 29, 1999 as compared with 2.39 at May 30, 1998. The Company's need for working capital generally is highest in the last and first quarters ending in May and August, 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 $35.0 million line of credit with three banks at May 29, 1999. The Company's long-term debt at that date, including current maturities and capitalized lease obligations, amounted to $84.0 million, as compared to $75.5 million at May 30, 1998.

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 29, 1999.

For the fiscal year ended May 29, 1999, $24.0 million of net cash was provided by operating activities, and $5.1 million was provided from net proceeds from sales of property, plant, and equipment. Of this net cash, $15.9 million was used for construction and purchases of property, plant, and equipment and $12.2 million was used for the purchase of a shell egg operation and processing business. On May 29,1999 the Company purchased the shell egg operation of Hudson Brothers Inc. in Kentucky. Included in the purchase were approximately 1.2 million layers. The Company, as a 50% member, invested $1.8 million in a joint venture shell egg production and processing operation in Utah, Delta Egg Farm, LLC. Short-term construction advances of $2.5 million were also made to Delta Egg Farm which were repaid in the first quarter of fiscal 2000. The Company's cash flows from financing activities consisted of long-term borrowings of $13.1 million, principal payments on long-term debt of $11.3 million, purchases of common stock for the treasury of $3.5 million, and payments of $586,000 in dividends on the Company's common stock. The net result of these activities was a decrease in cash and cash equivalents of $4.9 million for fiscal 1999.

At May 29, 1999, the Company had expended, since the start of the project, approximately $7.5 million for construction of new shell egg production and processing facilities in Waelder, Texas. The estimated cost of construction is approximately $18.7 million with anticipated borrowings in fiscal 2000 of approximately $10.4 million from an insurance company.

The Company has $2.9 million of deferred tax liability due to a subsidiary's change from a cash basis to an accrual basis taxpayer on May 29, 1988. *The Taxpayer Relief Act of 1997* provides that the taxes on the cash basis temporary differences as of that date are generally payable over the next 20 years beginning in fiscal 1999 or in the first fiscal year in which there is a change in ownership control. Payment of the $2.9 million deferred tax liability would reduce the Company's cash, but would not impact the Company's statement of operations or 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.

YEAR 2000 ISSUE

The Company has a program underway to ensure that all of its significant computer systems are Year 2000 compliant. The program is divided into three major components: (1) identification of all information technology systems ("IT Systems") and non-information technology systems ("Non-IT Systems") that are not Year 2000 compliant; (2) repair or replacement of the identified non-compliant systems; and (3) testing of the repaired or replaced systems. The Company has no "in house" developed or proprietary IT Systems. The Company uses commercially developed software, the majority of which is periodically upgraded through existing maintenance contracts. For part (1), identification, the review phase has been completed. Identification will continue as new equipment, software, and upgrades are installed and as the Company goes through the testing phase of the program. Review of accounting and financial reporting systems is finished and the Company is continuing to review Non-IT Systems that may have embedded microprocessors in various types of equipment. Part (2), repairing and replacing, continues primarily under maintenance contracts with the Company's software vendors. While the Company's major systems are substantially Year 2000 compliant, the software vendors continue to send new programs, upgrades and patches as they get into final testing stages of their product. None of the vendors have, to date, indicated any serious problems or delays in becoming Year 2000 compliant in calendar 1999. Part (3), testing, has begun and will continue until vendors have completed all upgrades and patches. Testing should be substantially complete in the first quarter ending in August 1999, but will be ongoing throughout calendar 1999.

The Company has been contacting key suppliers and customers about the Year 2000 issue. While no assurances can be given that key suppliers and business partners will remedy their own Year 2000 issues, the Company, to date, has not identified any material impact on its ability to continue normal business operations with suppliers or other third parties who fail to address the issue. The Company, like other businesses, is dependent upon year 2000 compliance within the utilities, transportation, and financial industries.

Actual costs associated with implementation of the Company's Year 2000 program are expected to be insignificant to the Company's consolidated operations and financial condition. Costs of $50,000 to $100,000, primarily for hardware, are expected to be incurred. As of May 29, 1999, the Company has expended under $50,000 in the project. Significantly, all of these costs are will be capitalized since the hardware would have been replaced even if there were no Year 2000 issue.

The Company will continue to monitor and evaluate the impact of the Year 2000 issue on its operations. Until the Company as completed the final testing phase of its program, the risks for potential Year 2000 failures cannot be fully assessed. Thus, the Company cannot now finalize contingency plans until such testing is complete. These contingency plans will be developed as potential Year 2000 failures are identified in the final testing stages.

Forward Looking 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 Affecting Future Performance" below, 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 29, 1999	May 30, 1998
Assets		
Current assets:		
Cash and cash equivalents	**$ 36,198**	$ 41,126
Receivables:		
Trade receivables, less allowance for doubtful accounts of $52 in 1999 and $361 in 1998	**11,667**	13,223
Note receivable from affiliate	**2,500**	–
Other	**450**	468
	14,617	13,691
Recoverable federal and state income taxes	**–**	218
Inventories	**38,353**	41,437
Prepaid expenses and other current assets	**771**	791
Total current assets	**89,939**	97,263
Other assets:		
Notes receivable and investments	**7,468**	5,373
Goodwill	**4,260**	–
Other	**2,104**	1,183
	13,832	6,556
Property, plant and equipment, less accumulated depreciation	**109,911**	99,369
Total assets	**$ 213,682**	$ 203,188
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	**$ 16,597**	$ 17,705
Federal and state income taxes payable	**1,484**	–
Accrued wages and benefits	**4,975**	4,350
Accrued expenses and other liabilities	**3,970**	3,701
Current maturities of long-term debt	**4,118**	4,540
Deferred income taxes	**10,294**	10,376
Total current liabilities	**41,438**	40,672
Long-term debt, less current maturities	**79,886**	70,958
Deferred expenses	**1,489**	1,716
Deferred income taxes	**10,285**	10,295
Total liabilities	**133,098**	123,641
Stockholders' equity:		
Common stock, $.01 par value:		
Authorized shares - 30,000,000		
Issued and outstanding shares - 17,565,200	**176**	176
Class A common stock, $.01 par value:		
Authorized shares - 1,200,000		
Issued and outstanding shares -1,200,000	**12**	12
Paid-in capital	**18,784**	18,784
Retained earnings	**71,525**	67,031
Common stock in treasury (6,257,712 shares in 1999 and 5,608,212 shares in 1998)	**(9,913)**	(6,456)
Total stockholders' equity	**80,584**	79,547
Total liabilities and stockholders' equity	**$ 213,682**	$ 203,188

See accompanying notes.

Consolidated Statements of Income

(in thousands, except per share amounts)

	Fiscal year ended		
	May 29, 1999	May 30, 1998	May 31, 1997
Net sales	**$ 287,954**	$ 309,071	$ 292,526
Cost of sales	**242,022**	264,636	236,273
Gross profit	**45,932**	44,435	56,253
Selling, general and administrative	**36,406**	34,089	28,930
Operating income	**9,526**	10,346	27,323
Other income (expense):			
Interest expense	**(5,195)**	(4,583)	(4,277)
Interest income	**2,202**	1,371	597
Equity in income of affiliates	**357**	294	524
Other, net	**1,097**	897	186
	(1,539)	(2,021)	(2,970)
Income before income taxes	**7,987**	8,325	24,353
Income tax expense	**2,907**	2,946	9,508
Net income	**$ 5,080**	$ 5,379	$ 14,845
Net income per share:			
Basic	**$ .39**	$ .41	$ 1.21
Diluted	**$ .39**	$ .40	$ 1.18
Weighted average shares outstanding:			
Basic	**12,999**	13,191	12,285
Diluted	**13,114**	13,428	12,560

See accompanying notes.

Consolidated Statements of Stockholders' Equity

(in thousands, except per share amounts)

	Common Stock								Note	
			Class A	Class A	Treasury	Treasury	Paid-in	Retained	Receivable-	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Earnings	Stockholder	Total
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)
Purchases 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
Redemption of fractional shares of common stock	–	–	–	–	–	–	(1)	–	–	(1)
Purchases of common stock for treasury	–	–	–	–	50	(311)	–	–	–	(311)
Sale of common stock from treasury	–	–	–	–	(25)	89	–	–	–	89
Cash dividends paid ($.020 per common share)	–	–	–	–	–	–	–	(251)	–	(251)
Net income for fiscal 1998	–	–	–	–	–	–	–	5,379	–	5,379
Balance at May 30, 1998	17,565	176	1,200	12	5,608	(6,456)	18,784	67,031	–	79,547
Purchases of common stock for treasury	**–**	**–**	**–**	**–**	**650**	**(3,457)**	**–**	**–**	**–**	**(3,457)**
Cash dividends paid ($.045 per common share)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(586)**	**–**	**(586)**
Net income for fiscal 1999	**–**	**–**	**–**		**–**	**–**	**–**	**5,080**	**–**	**5,080**
Balance at May 29, 1999	**17,565**	**$ 176**	**1,200**	**$ 12**	**6,258**	**$(9,913)**	**$18,784**	**$71,525**	**$ –**	**$ 80,584**

See accompanying notes.

Consolidated Statements of Cash Flows

(in thousands)

	Fiscal year ended		
	May 29, 1999	May 30, 1998	May 31, 1997
Cash flows from operating activities			
Net income	**$ 5,080**	$ 5,379	$ 14,845
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**12,199**	12,017	10,550
Provision for doubtful accounts	**51**	361	52
Deferred income taxes	**(92)**	805	2,856
Equity in income of affiliates	**(357)**	(294)	(524)
(Gain) loss on sales of property, plant and equipment	**(355)**	(27)	69
Increase in deferred compensation	**50**	50	60
Change in operating assets and liabilities, net of effects from purchases of shell egg production and processing businesses:			
(Increase) decrease in receivables and other assets	**1,891**	(321)	1,702
Decrease in inventories	**5,967**	3,675	1,238
Increase (decrease) in accounts payable, accrued expenses and deferred expenses	**(367)**	3,262	1,635
Net cash provided by operating activities	**24,067**	24,907	32,483
Cash flows from investing activities			
Purchases of property, plant and equipment	**(15,911)**	(14,831)	(16,189)
Purchases of shell egg production and processing businesses	**(12,161)**	(3,745)	(6,956)
Payments received on notes receivable and from investments	**798**	297	1,634
Increase in notes receivable and investments	**(4,603)**	(725)	(15)
Net proceeds from sales of property, plant and equipment	**5,122**	898	914
Net cash used in investing activities	**(26,755)**	(18,106)	(20,612)
Cash flows from financing activities			
Net proceeds from sale of common stock	**–**	–	10,580
Long-term borrowings	**13,135**	35,800	3,000
Principal payments on long-term debt and capital leases	**(11,332)**	(24,738)	(6,990)
Payments received on note receivable - stockholder	**–**	–	1,694
Purchases of common stock for treasury	**(3,457)**	(311)	(371)
Sales of common stock from treasury	**–**	89	–
Payments of dividends	**(586)**	(251)	–
Redemption of fractional shares of common stock	**–**	(1)	(6)
Net cash provided by (used in) financing activities	**(2,240)**	10,588	7,907
Increase (decrease) in cash and cash equivalents	**(4,928)**	17,389	19,778
Cash and cash equivalents at beginning of year	**41,126**	23,737	3,959
Cash and cash equivalents at end of year	**$ 36,198**	$ 41,126	$ 23,737
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	**$ 80**	**$ –**	$ 88

See accompanying notes.

(in thousands, except share and per share amounts)

May 29, 1999

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 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 feed ingredients, corn and other grains.

Primarily all of the Company's sales are to wholesale egg buyers in the southeastern, southwestern, mid-western and mid-Atlantic regions of the United States. 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. No single customer accounted for more than 10% of the Company's net sales in fiscal 1999 or 1998. One customer accounted for 10.1% of the Company's net sales in fiscal 1997.

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.

Impairment of Long-Lived Assets

The Company continually reevaluates the carrying value of its long-lived assets for events or changes in circumstances which indicate that the carrying value may not be recoverable. As part of this reevaluation, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized through a charge to operations.

Intangible Assets

Included in other assets are loan acquisition costs which are amortized over the life of the related loan and franchise fees which are amortized over ten years.

Revenue Recognition

Revenue is recognized when product is shipped to customers.

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.

(in thousands, except share and per share amounts)

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.

Net Income per Common Share
Basic earnings per share is based on the weighted average common shares outstanding. Diluted earnings per share includes any dilutive effects of options and warrants.

Impact of Recently Issued Accounting Standards
In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). The provisions of SFAS No. 133 requires all derivatives to be recorded on the balance sheet at fair value. SFAS No. 133 establishes "special accounting" for derivatives that are hedges. Derivatives that are not hedges must be adjusted to fair value through income. Management has not determined the effect of the adoption of this statement to the earnings and financial position of the Company when it becomes effective for fiscal 2001.

Fiscal Year
The Company's fiscal year-end is on the Saturday nearest May 31 which was May 29, 1999 (52 weeks), May 30, 1998 (52 weeks) and May 31, 1997 (52 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 the 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 May 1999, The Company purchased all of the issued and outstanding common stock of a shell egg production and processing business for $12,161, net of cash acquired. The purchase price was allocated based upon the fair value of the assets acquired and liabilities assumed resulting in goodwill of $4,260, which is being amortized on the straight-line method over 15 years. The purchase price is subject to adjustment in fiscal 2000 based upon the final tax accounting of the company acquired for the period prior to the acquisition.

Unaudited pro forma results of operations of the Company, including the company acquired in fiscal 1999, for the periods prior to its acquisition by the Company were as follows:

	Fiscal year ended	
	May 29, 1999	May 30, 1998
Net sales	**$ 308,530**	$ 329,991
Net income	**5,646**	5,013
Net income per basic share	**.43**	.38
Net income per diluted share	**.43**	.37

Pro forma results do not purport to be indicative of actual results had the acquisition been made at June 1, 1997 or the results that may occur in the future.

In November 1997, the Company purchased, certain operating assets of a shell egg production and processing business for $3,745. In April 1997, the Company purchased, certain operating assets of a shell egg production and processing business for $5,654 in cash and a $5,000 note payable to the former owners. In January 1997, the Company purchased, for $1,302, certain operating assets of a shell egg production business. These acquisitions were accounted for by the purchase method of accounting.

The operating results of these businesses acquired are included in the consolidated statements of income of the Company for the periods subsequent to the acquisition dates. Prior operations of the businesses acquired in fiscal 1998 and 1997 were immaterial to the Company's consolidated net sales, net income and net income per basic and diluted common share for the fiscal years ended May 30, 1998 and May 31, 1997.

(in thousands, except share and per share amounts)

4. Investment in Affiliates

The Company owns 50% of BCM Egg Company ("BCM"), a partnership, Specialty Eggs LLC and Delta Eggs LLC and 32.5% of American Egg Products, Inc. at May 29, 1999. Equity in earnings of $357, $284 and $524, from these entities have been included in the consolidated statements of income for fiscal 1999, 1998 and 1997, respectively. The Company purchased $4,863, $5,189 and $9,831 of eggs from BCM during each of those fiscal years, which represented a significant percentage of BCM's sales. Note receivable from affiliate at May 29, 1999 consisted of a $2,500 demand note receivable from Delta Eggs LLC accruing interest at prime minus 1.00%. Payment for the demand note was received by the Company subsequent to May 29, 1999.

5. Inventories

Inventories consisted of the following:

	May 29, 1999	May 30, 1998
Flocks	**$ 24,662**	$ 26,866
Eggs and egg products	**2,471**	2,683
Feed and supplies	**7,847**	8,736
Livestock	**3,373**	3,152
	$ 38,353	$ 41,437

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	May 29, 1999	May 30, 1998
Land and improvements	**$ 23,635**	$ 22,180
Buildings and improvements	**65,985**	57,248
Machinery and equipment	**85,320**	84,204
Construction-in-progress	**9,414**	7,280
	184,354	170,912
Less accumulated depreciation	**74,443**	71,543
	$109,911	$ 99,369

Depreciation expense was $11,958, $11,595 and $10,172 in fiscal 1999, 1998 and 1997, respectively.

7. Leases

Future minimum payments under noncancelable operating leases that have initial or remaining noncancelable terms in excess of one year at May 29, 1999 are as follows:

2000	$ 3,525
2001	2,752
2002	2,800
2003	1,496
2004	1,260
Thereafter	1,246
Total minimum lease payments	$ 13,079

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 $3,824, $3,979 and $3,849 in fiscal 1999, 1998 and 1997, respectively. Included in rent expense are vehicle rents totaling $1,777, $1,876 and $1,837 in fiscal 1999, 1998 and 1997, respectively.

(in thousands, except share and per share amounts)

8. Credit Facilities and Long-Term Debt

Long-term debt consisted of the following:

	May 29, 1999	May 30, 1998
Note payable at 6.7%; due in monthly installments of $100, plus interest, maturing in 2009	**$ 18,000**	$ 12,515
Series A Senior Secured Notes at 6.87%; due in annual principal installments of $1,917 beginning on December 2002 through 2009 with interest due semi-annually	**11,500**	11,500
Series B Senior Secured Notes at 7.18%; due in annual principal installments of $2,143 beginning in December 2003 through 2009 with interest due semi-annually	**15,000**	15,000
Industrial revenue bonds at 7.21%; due in monthly installments of $40, plus interest, maturing in 2011	**13,191**	10,000
Note payable at 7.64%; due in monthly installments of $114, including interest, maturing in 2003	**9,269**	9,909
Note payable at 7.75%; due in monthly installments of $55, plus interest, maturing in 2003	**6,675**	7,335
Note payable at 8.25%; due in monthly installments of $79, including interest, maturing in 2004	**3,747**	4,353
Note payable at 6.85%; due in monthly installments of $66 commencing on August 1, 2000, plus interest, maturing in 2004	**2,850**	–
Note payable at 8.25%; due in monthly installments of $24, including interest, maturing in 2004	**1,405**	1,691
Adjustable rate industrial revenue bond	**1,805**	1,985
Other notes payable	**295**	802
Capital lease equipment obligations; due in monthly installments of $13, maturing in 2001	**267**	408
	84,004	75,498
Less current maturities	**4,118**	4,540
	$ 79,886	$ 70,958

The adjustable rate industrial revenue bond is due May 1, 2006 with interest due monthly at variable rates (6.15% at May 29,1999 and 5.6% at May 30, 1998). The bond is redeemable at the option of the Company on a monthly basis subject to certain mandatory redemption requirements. The bond is collateralized by a letter of credit of $1,842.

The aggregate annual maturities of long-term debt at May 29, 1999 are as follows:

2000	$ 4,118
2001	4,963
2002	5,209
2003	7,254
2004	14,437
Thereafter	48,023
	$ 84,004

The Company has a $35,000 line of credit with three banks all of which was unused at May 29, 1999. The line of credit is limited in availability based upon the levels of accounts receivable and inventories. Borrowings under the line of credit bear interest at 90 basis points above the federal funds rate or 90 basis points above LIBOR, at the Company's option. Facilities fees of 25 basis points 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 29, 1999.

Interest of $6,061, $4,402 and $4,614 was paid during fiscal 1999, 1998 and 1997, respectively. Interest of $450, $615 and $337 was capitalized for construction of certain facilities during fiscal 1999, 1998 and 1997, 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 $3,702, $2,579 and $2,110 in fiscal 1999, 1998 and 1997, 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 $1,335, $970 and $1,416 in fiscal 1999, 1998 and 1997, 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 or over as specified in the agreements. 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 $50 in fiscal 1999 and 1998 and $60 in fiscal 1997.

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 29, 1999 and May 30, 1998, 272,000 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 Company's common stock of .517, and a weighted-average expected life of the options of 5 years.

The weighted-average fair value of options granted during fiscal 1997 was $4.56. No options were granted in fiscal 1999 or 1998. The pro forma effect of the estimated fair value of the options granted in fiscal 1997 was insignificant to the fiscal 1999, 1998 and 1997 consolidated net income and net income per share of the Company.

(in thousands, except share and per share amounts)

A summary of the Company's stock option activity and related information is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at June 1, 1996	504,000	$ 3.42
Granted	24,000	4.33
Outstanding at May 31, 1997	528,000	3.46
Exercised	(23,000)	3.42
Outstanding at May 30, 1998	505,000	3.47
Terminated	(471,000)	3.42
Outstanding at May 29, 1999	34,000	4.06

During fiscal 1999, the Company and certain employees agreed to terminate stock options to purchase an aggregate of 471,000 shares of the Company's common stock. In connection with the termination of the options, the Company paid $870 to those employees, which is recognized as compensation expense in fiscal 1999, based upon the difference between the fair value of the Company's common stock and the exercise price of the option.

The weighted average remaining contractual life of the options outstanding was 5 years at May 29, 1999 and May 30, 1998, respectively. At May 29, 1999 and May 30, 1998, 19,600 and 385,000 options, respectively, were exercisable.

11. Income Taxes

Income tax expense consisted of the following:

	Fiscal year ended		
	May 29, 1999	May 30, 1998	May 31, 1997
Current:			
Federal	**$ 2,749**	$ 1,967	$ 6,502
State	**250**	174	150
	2,999	2,141	6,652
Deferred:			
Federal	**(80)**	696	2,390
State	**(12)**	109	466
	(92)	805	2,856
	$ 2,907	$ 2,946	$ 9,508

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

	Fiscal year ended	
	May 29, 1999	May 30, 1998
Current deferred tax liabilities:		
Inventories	**$ 10,057**	$ 10,641
Prepaid expenses	**104**	123
Accrued expenses	**(10)**	(257)
Other	**143**	(131)
Total current deferred tax liabilities	**10,294**	10,376
Long-term deferred tax liabilities:		
Property, plant and equipment	**7,450**	7,168
Investments	**214**	252
Deferred compensation	**(249)**	(310)
Cash basis temporary differences	**2,870**	3,185
Total long-term deferred tax liabilities	**10,285**	10,295
Total deferred tax liabilities	**$ 20,579**	$ 20,671

(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 *Taxpayer Relief Act of 1997* provides that taxes on the cash basis temporary differences as of that date are generally payable over 20 years beginning in fiscal 1999 or in the first fiscal in which there is a change in ownership control. 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 (34% in fiscal 1999 and 1998 and 35% in fiscal 1997) were as follows:

	Fiscal year ended		
	May 29, 1999	May 30, 1998	May 31, 1997
Statutory federal income tax	**$ 2,715**	$ 2,830	$ 8,524
State income taxes, net	**156**	187	700
Benefit of net operating loss carryover for certain states	**–**	–	(300)
Increase in federal income tax rate	**–**	–	495
Other, net (benefit)	**36**	(71)	89
	$ 2,907	$ 2,946	$ 9,508

Federal and state income taxes of $1,524, $7,989 and $7,597 were paid in fiscal 1999, 1998 and 1997, respectively. Federal and state income taxes of $237, $1,090 and $9 were refunded in fiscal 1999, 1998 and 1997, respectively.

12. Other Matters

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

The Company's interest expense is sensitive to changes in the general level of U.S. interest rates. The Company maintains certain of its debt as fixed rate in nature to mitigate the impact of fluctuations in interest rates. Under its current policies, the Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. A one percent (1%) adverse move (decrease) in interest rates would adversely affect the net fair value of the Company's debt by $3.2 million at May 29, 1999. The Company is a party to no other market risk sensitive instruments requiring disclosure.

In fiscal 1997, the Company issued warrants to purchase 220,000 shares of its common stock to the underwriter of the Offering. The warrants are exercisable at $8.40 per share through December 2001.

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

Report of Independent Auditors

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 29, 1999 and May 30, 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended May 29, 1999. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cal-Maine Foods, Inc. and subsidiaries at May 29, 1999 and May 30, 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 29, 1999, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Jackson, Mississippi
July 17, 1999

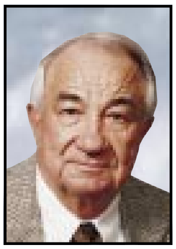
Board of Directors and Corporate Officers

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.

David Jenkins
Vice President/Operations
Cal-Maine Foods, Inc.

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

Corporate Information

Corporate Offices
Cal-Maine Foods, Inc.
3320 Woodrow Wilson Drive
Post Office Box 2960
Jackson, Mississippi 39207
(601) 948-6813

Transfer Agent
SunTrust Bank, Atlanta
Corporate Trust Department
58 Edgewood Avenue, Room 225 Annex
Atlanta, Georgia 30303
(404) 588-7817

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

Annual Meeting
10:00 a.m.
October 11, 1999
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 29, 1999, 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 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 24, 1999, was approximately 1,300.

The following table shows quarterly high and low prices for the common stock for the past two fiscal years. National Market System quotations are based on actual sales prices.

	Stock Price	
Fiscal Year 1998	High	Low
First Quarter	$ 7 5/8	$ 6 1/4
Second Quarter	$ 7	$ 5 7/8
Third Quarter	$ 7	$ 5 1/2
Fourth Quarter	$ 6 5/8	$ 4 3/4

	Stock Price	
Fiscal Year 1999	High	Low
First Quarter	$ 5 7/8	$ 4
Second Quarter	$ 5 1/2	$ 3 1/2
Third Quarter	$ 5 7/16	$ 4 1/8
Fourth Quarter	$ 5 5/8	$ 5 3/16

CAL-MAINE FOODS, INC.
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