

CAL-MAINE FOODS INC  
Form 10-Q  
December 22, 2016  
Index

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q  
(mark one)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended November 26, 2016

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-04892

CAL-MAINE FOODS, INC.  
(Exact name of registrant as specified in its charter)

Delaware 64-0500378  
(State or other jurisdiction of incorporation or organization) (I.R.S Employer Identification No.)

3320 Woodrow Wilson Avenue, Jackson, Mississippi 39209  
(Address of principal executive offices) (Zip Code)

(601) 948-6813  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non – Accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There were 43,729,753 shares of Common Stock, \$0.01 par value, and 4,800,000 shares of Class A Common Stock, \$0.01 par value, outstanding as of December 21, 2016.

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CAL-MAINE FOODS, INC. AND SUBSIDIARIES  
 FORM 10-Q  
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 FOR THE QUARTER ENDED NOVEMBER 26, 2016

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
CAL-MAINE FOODS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

	November 26, 2016	May 28, 2016
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,491	\$29,046
Investment securities available-for-sale	180,410	360,499
Trade and other receivables (less allowance for doubtful accounts of \$564 and \$727 at November 26, 2016 and May 28, 2016, respectively)	81,718	67,448
Income tax receivable	39,932	11,830
Inventories	162,291	154,799
Prepaid expenses and other current assets	2,885	2,661
Total current assets	484,727	626,283
Property, plant and equipment, net	448,547	392,274
Goodwill	32,492	29,196
Other investments	63,894	53,975
Other intangible assets, net	28,159	4,958
Other assets	4,824	5,079
<b>TOTAL ASSETS</b>	<b>\$ 1,062,643</b>	<b>\$ 1,111,765</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 67,005	\$67,131
Current maturities of long-term debt	15,510	16,320
Total current liabilities	82,515	83,451
Long-term debt, less current maturities	7,000	9,250
Other noncurrent liabilities	8,111	6,321
Deferred income taxes	100,100	95,382
Total liabilities	197,726	194,404
Commitments and Contingencies - see Note 5		
Stockholders' equity:		
Common stock, \$0.01 par value, 120,000 and 70,261 shares authorized and issued at November 26, 2016 and May 28, 2016, respectively		
43,730 and 43,737 shares outstanding at November 26, 2016 and May 28, 2016, respectively	703	703
Class A convertible common stock, \$.01 par value, 4,800 shares authorized, issued and outstanding at November 26, 2016 and May 28, 2016, respectively	48	48
Paid-in capital	48,065	46,404
Retained earnings	836,552	890,440
Accumulated other comprehensive loss, net of tax	(69	) (48
Common stock in treasury at cost – 26,531 and 26,524 shares at November 26, 2016 and May 28, 2016, respectively	(22,336	) (22,272
Total Cal-Maine Foods, Inc. stockholders' equity	862,963	915,275

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Noncontrolling interest in consolidated entities	1,954	2,086
Total stockholders' equity	864,917	917,361
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,062,643</b>	<b>\$ 1,111,765</b>

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	13 Weeks Ended		26 Weeks Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
Net sales	\$253,544	\$ 545,975	\$493,389	\$ 1,155,870
Cost of sales	249,596	334,378	499,010	681,202
Gross profit (loss)	3,948	211,597	(5,621 )	474,668
Selling, general, and administrative expense	41,991	45,438	82,247	88,401
Operating income (loss)	(38,043 )	166,159	(87,868 )	386,267
Other income (expense):				
Interest income, net	781	616	1,872	643
Royalty income	324	298	730	905
Equity in income of affiliates	645	1,302	836	2,031
Other, net	(475 )	(366 )	(878 )	(1,180 )
Total other income (expense)	1,275	1,850	2,560	2,399
Income (loss) before income taxes and noncontrolling interest	(36,768 )	168,009	(85,308 )	388,666
Income tax expense (benefit)	(13,801 )	58,099	(31,361 )	134,666
Net income (loss) before noncontrolling interest	(22,967 )	109,910	(53,947 )	254,000
Less: Net income (loss) attributable to noncontrolling interest	43	680	(1 )	1,747
Net income (loss) attributable to Cal-Maine Foods, Inc.	\$(23,010 )	\$ 109,230	\$(53,946 )	\$ 252,253
Net income (loss) per common share attributable to Cal-Maine Foods, Inc.:				
Basic	\$(0.48 )	\$ 2.27	\$(1.12 )	\$ 5.24
Diluted	\$(0.48 )	\$ 2.26	\$(1.12 )	\$ 5.22
Dividends per common share	\$—	\$ 0.751	\$—	\$ 1.734
Weighted average shares outstanding:				
Basic	48,250	48,164	48,249	48,164
Diluted	48,250	48,361	48,249	48,354

See Notes to Condensed Consolidated Financial Statements.

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CAL-MAINE FOODS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (in thousands)  
 (unaudited)

	13 Weeks Ended		26 Weeks Ended	
	November 2016	November 2015	November 2016	November 2015
Net income (loss), including noncontrolling interests	\$(22,967)	\$ 109,910	\$(53,947)	\$ 254,000
Other comprehensive loss, before tax:				
Unrealized holding loss on available-for-sale securities, net of reclassification adjustments	(536 )	(158 )	(34 )	(458 )
Income tax benefit related to items of other comprehensive income	204	60	13	180
Other comprehensive loss, net of tax	(332 )	(98 )	(21 )	(278 )
Comprehensive income (loss)	(23,299 )	109,812	(53,968 )	253,722
Less: comprehensive income (loss) attributable to the noncontrolling interest	43	680	(1 )	1,747
Comprehensive income (loss) attributable to Cal-Maine Foods, Inc.	\$(23,342)	\$ 109,132	\$(53,967)	\$ 251,975

See Notes to Condensed Consolidated Financial Statements.

IndexCAL-MAINE FOODS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	26 Weeks Ended	
	November 26, 2016	November 28, 2015
Operating activities:		
Net income (loss) including noncontrolling interest	\$(53,947)	\$ 254,000
Depreciation and amortization	22,975	22,107
Other adjustments, net	(39,217 )	24,345
Net cash provided by (used in) operations	(70,189 )	300,452
Investing activities:		
Purchase of investments	(13,324 )	(260,242 )
Sales of investments	193,280	104,503
Acquisition of business	(68,643 )	—
Investment in joint ventures	(10,750 )	(19,709 )
Purchases of property, plant and equipment	(40,649 )	(34,028 )
Payments received on notes receivable and from affiliates	1,750	853
Net proceeds from disposal of property, plant and equipment	163	219
Net cash provided by (used in) investing activities	61,827	(208,404 )
Financing activities:		
Purchase of common stock by treasury	(60 )	(62 )
Distributions to noncontrolling interests	(73 )	(459 )
Principal payments on long-term debt	(3,060 )	(22,090 )
Payments of dividends	—	(63,074 )
Net cash used in financing activities	(3,193 )	(85,685 )
Net change in cash and cash equivalents	(11,555 )	6,363
Cash and cash equivalents at beginning of period	29,046	8,667
Cash and cash equivalents at end of period	\$17,491	\$ 15,030

See Notes to Condensed Consolidated Financial Statements.



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## CAL-MAINE FOODS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 26, 2016

(unaudited)

## 1. Presentation of Interim Information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the results for the interim periods presented have been included. The preparation of condensed consolidated financial statements requires us to make estimates and assumptions. These estimates and assumptions affected reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions. Operating results for the thirteen and twenty-six ended November 26, 2016 are not necessarily indicative of the results that may be expected for the year ending June 3, 2017.

The condensed consolidated balance sheet at May 28, 2016 has been derived from the audited consolidated financial statements at that date. It does not include all of the information and footnotes required by GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in Cal-Maine Foods, Inc.'s annual report on Form 10-K for the fiscal year ended May 28, 2016. References to “we,” “us,” “our,” or the “Company” refer to Cal-Maine Foods, Inc.

## 2. Acquisitions

On October 16, 2016, the Company acquired substantially all of the egg production assets and assumed certain liabilities of Foodonics International, Inc. ("Foodonics") and its related entities doing business as Dixie Egg Company for \$68.6 million of cash and \$3.0 million of deferred purchase price. The acquired assets include commercial egg production and processing facilities with capacity for 1.6 million laying hens, contract grower arrangements for an additional 1.5 million laying hens, and related feed production, milling and distribution facilities in Georgia, Alabama, and Florida. The Company also acquired Foodonics' interest in American Egg Products, LLC ("AEP") and the Egg-Land's Best franchise with licensing rights for portions of certain markets in Alabama, Florida, and Georgia as well as Puerto Rico, Bahamas and Cuba. The Company now owns 100% of AEP. The operations of the acquisition are included in the accompanying financial statements as of October 16, 2016, the effective date of the transaction.

Pending the finalization of the Company's valuation, the following table presents the preliminary fair values of the assets acquired and liabilities assumed (in thousands):

Inventory	\$7,669
Property, plant and equipment	38,683
Intangible assets	24,000
Liabilities assumed	(2,005 )
Total identifiable net assets	68,347
Goodwill	3,296
Purchase price	71,643
Deferred purchase price	(3,000 )
Cash consideration paid	\$68,643

These fair value measurements were primarily based on significant inputs that are not observable in the markets. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent

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economic utility, was utilized for certain property, plant and equipment of Foodonics. The cost to replace given assets reflects the estimated reproduction or replacement cost of the asset, less an allowance for loss in value due to depreciation. The market approach, which indicates value for a subject asset based on available market pricing for comparable assets, was utilized for inventory and the Egg-Land's Best franchise of Foodonics. The franchise fees will be amortized over a period of 15 years. Goodwill on business combination recognizes the difference in the fair value of the assets acquired and liabilities assumed, net of the acquisition price. Goodwill associated with the acquisition is tax deductible over a 15 years period.

Pro-forma information, which is usually presented for information purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been completed as of an earlier time, was not material to the Company's Condensed Consolidated Financial Statements.

### 3. Stock Based Compensation

Total stock based compensation expense for the twenty-six weeks ended November 26, 2016 and November 28, 2015 was \$1.7 million and \$1.5 million, respectively.

Unrecognized compensation expense as a result of non-vested shares of the 2012 Omnibus Long-Term Incentive Plan at November 26, 2016 was \$3.9 million and will be recorded over a weighted average period of 1.8 years. Refer to Note 11 of our May 28, 2016 audited financial statements for further information on our stock compensation plans.

At November 26, 2016, there were 279,050 restricted shares outstanding, with a weighted average grant date fair value of \$35.99 per share. A summary of the Company's restricted share activity for the twenty-six weeks ended November 26, 2016 follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding, May 28, 2016	288,900	\$ 35.97
Vested	(4,548 )	30.23
Forfeited	(5,302 )	39.64
Outstanding, November 26, 2016	279,050	\$ 35.99

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## 4. Inventories

Inventories consisted of the following (in thousands):

	November 26, 2016	May 28, 2016
Flocks	\$ 101,413	\$94,312
Eggs	12,227	11,519
Feed and supplies	48,651	48,968
	\$ 162,291	\$ 154,799

We grow and maintain flocks of layers (mature female chickens), pullets (young female chickens, under 18 weeks of age), and breeders (male and female chickens used to produce fertile eggs to be hatched for egg production flocks). Our total flock at November 26, 2016, consisted of approximately 9.6 million pullets and breeders and 38.1 million layers.

## 5. Contingencies

## Financial Instruments

The Company maintained standby letters of credit (“LOC”) totaling \$3.7 million at November 26, 2016. These LOCs are collateralized with cash which is included in the line item “Other assets” in the Condensed Consolidated Balance Sheets. The outstanding LOCs are for the benefit of certain insurance companies. The LOCs are not recorded as a liability on the consolidated balance sheets.

## Legal Contingencies

The Company is a defendant in certain legal actions, and intends to vigorously defend its position in these actions. If the Company’s assessment of a contingency indicates it is probable a material loss has been incurred and the amount of the liability can be reasonably estimated, the estimated liability is accrued in the Company’s financial statements. If the assessment indicates a potential material loss contingency is not probable, but is reasonably possible, or probable but cannot be reasonably estimated, then the nature of the contingent liability, together with an estimate of the possible loss or range of possible loss will be disclosed, or a statement will be made that such an estimate cannot be made.

These legal actions are discussed in detail at Part II, Item 1, of this report.

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## 6. Net Income per Common Share

Basic net income per share was calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share was calculated by dividing net income by the weighted-average number of common shares outstanding during the period plus the dilutive effects of options and restricted stock. Due to the net loss in the thirteen and twenty-six weeks ended November 26, 2016, restricted shares in the amount of 155,285 and 147,753, respectively, were excluded from the calculation of diluted earnings per share because their inclusion would have been antidilutive. The computations of basic and diluted net income per share attributable to the Company are as follows (in thousands, except per share data):

	13 Weeks Ended		26 Weeks Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
Net income (loss) attributable to Cal-Maine Foods, Inc.	\$(23,010)	\$ 109,230	\$(53,946)	\$ 252,253
Basic weighted-average common shares	48,250	48,164	48,249	48,164
Effect of dilutive securities:				
Restricted shares	—	197	—	190
Dilutive potential common shares	48,250	48,361	48,249	48,354
Net income (loss) per common share attributable to Cal-Maine Foods, Inc.:				
Basic	\$(0.48 )	\$ 2.27	\$(1.12 )	\$ 5.24
Diluted	\$(0.48 )	\$ 2.26	\$(1.12 )	\$ 5.22

## 7. Accrued Dividends Payable and Dividends per Common Share

We make an accrual of dividends payable at the end of each quarter according to the Company's dividend policy adopted by its Board of Directors. The Company pays a dividend to shareholders of its Common Stock and Class A Common Stock on a quarterly basis for each quarter for which the Company reports net income attributable to Cal-Maine Foods, Inc. computed in accordance with generally accepted accounting principles in an amount equal to one-third (1/3) of such quarterly income. Dividends are paid to shareholders of record as of the 60th day following the last day of such quarter, except for the fourth fiscal quarter. For the fourth quarter, the Company pays dividends to shareholders of record on the 65th day after the quarter end. Dividends are payable on the 15th day following the record date. Following a quarter for which the Company does not report net income attributable to Cal-Maine Foods, Inc., the Company will not pay a dividend for a subsequent profitable quarter until the Company is profitable on a cumulative basis computed from the date of the last quarter for which a dividend was paid. At November 26, 2016, cumulative losses that must be recovered prior to paying a dividend were \$54.3 million. When applicable, the amount of the accrual appears on the Condensed Consolidated Balance Sheets as "Accrued dividends payable."

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On our condensed consolidated statement of income, we determine dividends per common share in accordance with the computation in the following table (in thousands, except per share data):

	13 Weeks Ended		26 Weeks Ended	
	November 28, 2016	November 28, 2015	November 28, 2016	November 28, 2015
Net income (loss) attributable to Cal-Maine Foods, Inc. available for dividend	\$(23,010)	\$ 109,230	\$(53,946)	\$ 252,253
1/3 of net income attributable to Cal-Maine Foods, Inc.	—	36,410	—	84,084
Common stock outstanding (shares)	43,730	43,695		
Class A common stock outstanding (shares)	4,800	4,800		
Total common stock outstanding (shares)	48,530	48,495		
Dividends per common share*	\$—	\$ 0.751	\$—	\$ 1.734

\*Dividends per common share = 1/3 of Net income (loss) attributable to Cal-Maine Foods, Inc. available for dividend ÷ Total common stock outstanding (shares)

## 8. Fair Value Measurements

The Company is required to categorize both financial and nonfinancial assets and liabilities based on the following fair value hierarchy. The fair value of an asset is the price at which the asset could be sold in an orderly transaction between unrelated, knowledgeable, and willing parties able to engage in the transaction. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor in a transaction between such parties, not the amount that would be paid to settle the liability with the creditor.

Level 1 - Quoted prices in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 - Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The disclosure of fair value of certain financial assets and liabilities that are recorded at cost are as follows:

Cash and cash equivalents: The carrying amount approximates fair value due to the short maturity of these instruments.

Long-term debt: The carrying value of the Company's long-term debt is at its stated value. We have not elected to carry our long-term debt at fair value. Fair values for debt are based on quoted market prices or published forward interest rate curves, which are level 2 inputs. Estimated fair values are management's estimate, which is a level 3 input; however, when there is no readily available market data, the estimated fair values may not represent the amounts that could be realized in a current transaction, and the fair values could change significantly. The fair value and carrying value of the Company's borrowings under its long-term debt were as follows (in thousands):

	November 26, 2016		May 28, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
5.4% – 6.4% Notes payable	\$22,510	\$22,568	\$25,570	\$25,824

\$22,510 \$22,568 \$25,570 \$25,824

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## Assets and Liabilities Measured at Fair Value on a Recurring Basis

In accordance with the fair value hierarchy described above, the following table shows the fair value of financial assets and liabilities measured at fair value on a recurring basis as of November 26, 2016 and May 28, 2016 (in thousands):

November 26, 2016	Level 1	Level 2	Level 3	Total Balance
Assets				
US government and agency obligations	—	\$17,248	—	\$17,248
Municipal bonds	—	57,050	—	57,050
Corporate bonds	—	98,251	—	98,251
Foreign government obligations	—	2,019	—	2,019
Asset backed securities	—	5,842	—	5,842
Mutual funds	2,028	—	—	2,028
Total assets measured at fair value	\$2,028	\$180,410	—	\$182,438

May 28, 2016	Level 1	Level 2	Level 3	Total Balance
Assets				
US government and agency obligations	\$—	\$18,814	\$—	—\$18,814
Municipal bonds	—	79,643	—	79,643
Corporate bonds	—	240,537	—	240,537
Foreign government obligations	—	2,046	—	2,046
Asset backed securities	—	15,893	—	15,893
Mutual funds	5,503	—	—	5,503
Total assets measured at fair value	\$5,503	\$356,933	\$—	—\$362,436

Investment securities – available-for-sale, classified as level 2, consist of U.S. government and agency obligations, taxable and tax exempt municipal bonds, zero coupon municipal bonds, foreign government obligations, asset backed securities and corporate bonds with maturities of three months or longer when purchased. We classify these securities as current, because amounts invested are available for current operations. Observable inputs for these securities are yields, credit risks, default rates, and volatility.

## 9. Investment Securities

The following represents the Company's investment securities as of November 26, 2016 and May 28, 2016 (in thousands):

November 26, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
US government and agency obligations	\$17,296	\$—	\$48	\$17,248
Municipal bonds	56,960	90	—	57,050
Corporate bonds	98,318	—	67	98,251
Foreign government obligations	2,021	—	2	2,019
Asset backed securities	5,841	1	—	5,842



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Total current investment securities	\$ 180,436	\$ 91	\$ 117	\$ 180,410
Mutual funds	1,448	580	—	2,028
Total noncurrent investment securities	\$ 1,448	\$ 580		\$ 2,028

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May 28, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
US government and agency obligations	\$ 18,809	\$ 5	\$ —	\$ 18,814
Municipal bonds	79,481	162	—	79,643
Corporate bonds	240,593	—	56	240,537
Foreign government obligations	2,044	2	—	2,046
Asset backed securities	15,908	—	15	15,893
Mutual funds	3,565	1	—	3,566
Total current investment securities	\$ 360,400	\$ 170	\$ 71	\$ 360,499
Mutual funds	1,448	489	—	1,937
Total noncurrent investment securities	\$ 1,448	\$ 489		\$ 1,937

Proceeds from sales of available-for-sale securities were \$193.3 million and \$104.5 million during the twenty-six weeks ended November 26, 2016 and November 28, 2015, respectively. Gross realized gains on those sales during the twenty-six weeks ended November 26, 2016 and November 28, 2015 were \$221,000 and \$18,000, respectively. Gross realized losses on those sales during the twenty-six weeks ended November 26, 2016 and November 28, 2015 were \$6,000 and \$36,000, respectively. For purposes of determining gross realized gains and losses, the cost of securities sold is based on the specific identification method.

Unrealized holding losses, net of tax, on current investment securities in the amount of \$78,000 were recorded for the twenty-six weeks ended November 26, 2016 compared with unrealized holding losses, net of tax, of \$267,000 for the same period of fiscal 2016. Unrealized holding gains, net of tax, on noncurrent investment securities of \$57,000 were recorded for the twenty-six weeks ended November 26, 2016 compared with unrealized holding losses, net of tax, of \$11,000 for the same period of fiscal 2016.

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Contractual maturities at November 26, 2016, are as follows (in thousands):

	Estimated Fair Value
Within one year	\$91,976
1-5 years	88,434
Total	\$ 180,410

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## 10. Equity

The following reflects the equity activity, including our noncontrolling interest, for the twenty-six weeks ended November 26, 2016:

	Cal-Maine Foods, Inc. Stockholders							
	Common Stock							
	Class A	Treasury	Paid In	Accum. Other Comp. Loss	Retained Earnings	Noncontrolling Interest	Total	
	Amount	Amount	Capital					
Balance at May 28, 2016	\$703	\$ 48	\$(22,272)	\$46,404	\$(48 )	\$890,440	\$ 2,086	\$917,361
Other comprehensive loss, net of tax	—	—	—	—	(21 )	—	—	(21 )
Forfeiture of restricted stock	—	—	(4 )	4	—	—	—	—
Buyback of 1,426 shares to satisfy withholding obligation in connection with the vesting of restricted stock	—	—	(60 )	—	—	—	—	(60 )
Distribution to noncontrolling interest partners	—	—	—	—	—	—	(73 )	(73 )
Restricted stock compensation	—	—	—	1,657	—	—	—	1,657
Reclass of equity portion of American Egg Products in connection with acquisition, see Note 2	—	—	—	—	—	58	(58 )	—
Net income	—	—	—	—	—	(53,946 )	(1 )	(53,947 )
Balance at November 26, 2016	\$703	\$ 48	\$(22,336)	\$48,065	\$(69 )	\$836,552	\$ 1,954	\$864,917

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains numerous forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act") relating to our shell egg business, including estimated production data, expected operating schedules, projected construction costs, and other operating data, including anticipated results of operations and financial condition. Such forward-looking statements are identified by the use of words such as "believes," "intends," "expects," "hopes," "may," "should," "plans," "pro," "contemplates," "anticipates," or similar words. Actual production, operating schedules, capital costs, results of operations, and other projections and estimates could differ materially from those projected in the forward-looking statements. The forward-looking statements are based on management's current intent, belief, expectations, estimates, and projections regarding the Company and its industry. These statements are not guarantees of future performance and involve risks, uncertainties, assumptions, and other factors that are difficult to predict and may be beyond our control. The factors that could cause actual results to differ materially from those projected in the forward-looking statements include, among others, (i) the risk factors set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 28, 2016, as updated by our subsequent Quarterly Reports on Form 10-Q, (ii) the risks and hazards inherent in the shell egg business (including disease, pests, weather conditions, and potential for product recall), (iii) changes in the demand for and market prices of shell eggs and feed costs, (iv) our ability to predict and meet demand for cage-free and other specialty eggs, (v) risks, changes, or obligations that could result from our future acquisition of new flocks or businesses and risks or changes that may cause conditions to completing a pending acquisition not to be met, and (vi) adverse results in pending litigation matters. Readers are cautioned not to place undue reliance on forward-looking statements because, while we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate. Further, forward-looking statements included herein are only made as of the respective dates thereof, or if no date is stated, as of the date hereof. Except as otherwise required by law, we disclaim any intent or obligation to update publicly these forward-looking statements, whether because of new information, future events, or otherwise.

OVERVIEW

Cal-Maine Foods, Inc. ("we," "us," "our," or the "Company") is primarily engaged in the production, grading, packaging, marketing, and distribution of fresh shell eggs. Our fiscal year end is the Saturday closest to May 31.

Our operations are fully integrated. At our facilities we hatch chicks, grow and maintain flocks of pullets (young female chickens, under 18 weeks of age), layers (mature female chickens) and breeders (male and female birds used to produce fertile eggs to be hatched for egg production flocks), manufacture feed, and produce, process, and distribute shell eggs. We are the largest producer and marketer of shell eggs in the United States (U.S.). We market the majority of our shell eggs in the southwestern, southeastern, mid-western, and mid-Atlantic regions of the U.S. We market shell eggs through an extensive distribution network to a diverse group of customers, including national and regional grocery store chains, club stores, foodservice distributors, and egg product consumers.

The Company has one operating segment, which is the production, grading, packaging, marketing and distribution of shell eggs. The majority of our customers rely on us to provide most of their shell egg needs, including specialty and non-specialty eggs. Specialty eggs represent a broad range of products. We classify nutritionally enhanced, cage free, organic and brown eggs as specialty products for accounting and reporting purposes. We classify all other shell eggs as non-specialty products. While we report separate sales information for these types of eggs, we note there are a number of cost factors which are not specifically available for non-specialty or specialty eggs due to the nature of egg production. We manage our operations and allocate resources to these types of eggs on a consolidated basis based on the demands of our customers.



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Our operating results are directly tied to egg prices, which are highly volatile and subject to wide fluctuations, and are outside of our control. For example, the annual average Urner-Barry Southeastern Regional Large Egg Market Price per dozen eggs, for our fiscal 2005-2016 ranged from a low of \$0.72 during fiscal 2005 to a high of \$2.97 during fiscal 2016. The shell egg industry has traditionally been subject to periods of high profitability followed by periods of significant loss. In the past, during periods of high profitability, shell egg producers tended to increase the number of layers in production with a resulting increase in the supply of shell eggs, which generally caused a drop in shell egg prices until supply and demand returned to balance. As a result, our financial results from year to year may vary significantly. Shorter term, retail sales of shell eggs historically have been 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 shell egg production during the spring and early summer. Shell egg prices tend to increase with the start of the school year and are highest prior to holiday periods, particularly Thanksgiving, Christmas, and Easter. Consequently, we generally experience lower sales and net income in our first and fourth fiscal quarters ending in August and May, respectively. Because of the seasonal and quarterly fluctuations, comparisons of our sales and operating results between different quarters within a single fiscal year are not necessarily meaningful comparisons.

From April through June 2015, our industry experienced a significant avian influenza (“AI”) outbreak, primarily in the upper Midwestern U.S. Based on several published industry estimates, we believe approximately 12% of the national flock of laying hens was affected. The affected laying hens were either destroyed by the disease or euthanized. During April through June 2015, the supply of laying hens decreased substantially, and then began to recover gradually. As of November 1, 2016, the national laying hen flock according to the U.S. Department of Agriculture was approximately 8.0% higher than the AI reduced flock on November 1, 2015, but remained 1.7% below the number of layers on November 1, 2014. Egg prices increased significantly during the summer and fall of 2015. The average Urner-Barry Thursday prices for the large market (i.e. generic shell eggs) in the southeastern region for the months of June through November 2015 was \$2.32 per dozen, with a peak of \$2.97 in August. Subsequent to November 2015, shell egg prices declined. The Urner Barry price index hit a decade-low level during our fiscal 2016 fourth quarter. During our first quarter of fiscal 2017 it increased slightly, but remained at significantly lower levels than the corresponding period of last year. During our fiscal 2017 second quarter, it returned to and dropped below the low levels seen during the fiscal 2016 fourth quarter. Accordingly, our net average selling prices for eggs for the second quarter and year to date periods of fiscal 2017 were \$0.971 and \$0.962 compared with \$1.970 and \$2.105 for the corresponding periods of fiscal 2016, respectively. Retail demand has remained favorable; however, lower institutional demand for egg products and reduced egg exports have pushed inventory levels higher and created additional pricing pressure. Subsequent to the end of our second quarter, egg prices have risen sharply; however, egg prices will likely remain volatile and future prices will depend on levels of supply and the recovery of institutional demand for eggs which was adversely impacted as a result of the 2015 shortages caused by AI.

We are one of the largest producers and marketers of value-added specialty shell eggs in the U.S. They have been a significant and growing segment of the market in recent years. During our fiscal 2016 an increasing number of large restaurant chains, food service companies and grocery chains, including our largest customers, announced goals to transition to a cage-free egg supply chain by specified future dates. We are working with our customers to achieve smooth progress in meeting their goals, and our focus for future expansion at our farms will be with environments that are cage-free or with equipment that can easily be converted to cage-free, based on a timeline that meets our customer’s needs.

For the thirteen weeks ended November 26, 2016, we produced approximately 84% of the total number of shell eggs we sold. This compares to 77% in the comparable prior year period. For the thirteen weeks ended November 26, 2016, approximately 7% of such production was provided by contract producers who utilize their facilities in the production of shell eggs by layers owned by us compared to 4% for the same period of last year. We own the shell eggs produced under these arrangements.



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Our cost of production is materially affected by feed costs. Feed costs averaged approximately 57% and 58%, respectively, of our total farm egg production cost for the thirteen and twenty-six weeks ended November 26, 2016. Changes in market prices for corn and soybean meal, the primary ingredients in the feed we use, result in changes in our cost of goods sold. The cost of our feed ingredients, which are commodities, are subject to factors over which we have little or no control such as volatile price changes caused by weather, size of harvest, transportation and storage costs, demand and the agricultural and energy policies of the U.S. and foreign governments. Increased U.S. acreage and large per acre yields for both corn and soybeans in 2016 should provide adequate domestic supplies for both of our primary feed ingredients. Domestic corn supplies could be particularly robust, although domestic soybean stocks could be negatively impacted by increased exports due to reduced supplies from South America.

During the second quarter of fiscal 2017, the Company acquired substantially all of the egg production assets of Foodonics International, Inc. and its related entities doing business as Dixie Egg Company for \$68.6 million of cash and \$3.0 million of deferred purchase price. The acquired assets include commercial egg production and processing facilities with capacity for 1.6 million laying hens, contract grower arrangements for an additional 1.5 million laying hens, and related feed production, milling and distribution facilities in Georgia, Alabama, and Florida. The Company also acquired Foodonics' interest in American Egg Products, LLC ("AEP") and the Egg-Land's Best franchise with licensing rights for portions of certain markets in Alabama, Florida, and Georgia as well as Puerto Rico, Bahamas and Cuba. The Company now owns 100% of AEP. The operations of the acquisition are included in the accompanying financial statements as of October 16, 2016, the effective date of the transaction.

## RESULTS OF OPERATIONS

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

	13 Weeks Ended		26 Weeks Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	98.4 %	61.2 %	101.1 %	58.9 %
Gross profit (loss)	1.6 %	38.8 %	(1.1 )%	41.1 %
Selling, general, and administrative expense	16.6 %	8.3 %	16.7 %	7.6 %
Operating income (loss)	(15.0 )%	30.5 %	(17.8 )%	33.5 %
Other income (expense), net	0.5 %	0.3 %	0.5 %	0.2 %
Income (loss) before income taxes and noncontrolling interest	(15.5 )%	30.2 %	(18.3 )%	33.3 %
Income tax expense (benefit)	(5.4 )%	10.6 %	(6.4 )%	11.7 %
Net income (loss) before noncontrolling interest	(10.1 )%	19.6 %	(11.9 )%	21.6 %
Less: Net income (loss) attributable to noncontrolling interest	— %	0.1 %	— %	0.2 %
Net income (loss) attributable to Cal-Maine Foods, Inc.	(10.1 )%	19.5 %	(11.9 )%	21.4 %

## NET SALES

Approximately 98% of our net sales for the quarter ended November 26, 2016 were shell eggs and approximately 2% were egg products. Net sales for the thirteen weeks ended November 26, 2016 were \$253.5 million, a decrease of \$292.5 million, or 53.6%, compared to net sales of \$546.0 million for the thirteen weeks ended November 28, 2015, primarily due to the decrease in egg selling prices. Total dozens of shell eggs sold and egg selling prices decreased for the current thirteen-week period compared to the same period in fiscal 2016. Dozens sold for the second quarter of fiscal year 2017 were 252.2 million, a decrease of 12.0 million, or 4.5%, compared to 264.2 million for the second quarter of fiscal 2016 resulting in a decrease in net sales of \$11.6 million.



Our net average selling price per dozen of shell eggs for the thirteen weeks ended November 26, 2016 was \$0.971, compared to \$1.970 for the thirteen weeks ended November 28, 2015, a decrease of 50.7%, resulting in a corresponding

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decrease in net shell egg sales of \$263.9 million. Net average selling price is the blended price for all sizes and grades of shell eggs, including non-graded shell egg sales, breaking stock, and undergrades.

Egg products and other revenues resulted in decreased net sales of \$16.3 million for the thirteen weeks ended November 26, 2016 compared to the same period of last year.

For the twenty-six weeks ended November 26, 2016, approximately 98% of our net sales were shell eggs and approximately 2% were egg products. Net sales for the twenty-six weeks ended November 26, 2016 were \$493.4 million a decrease of \$662.5 million, or 57.3%, compared to \$1,155.9 million for the twenty-six weeks ended November 28, 2015. Total dozens of shell eggs sold and egg selling prices decreased for the current twenty-six week period compared to the same period in fiscal 2016. Dozens sold for the twenty-six weeks ended November 26, 2016 were 494.5 million, a decrease of 28.4 million, or 5.4%, compared to 522.9 million for the same period of fiscal 2016 resulting in a decrease in net sales of \$27.4 million.

For the twenty-six weeks ended November 26, 2016, our net average selling price per dozen of shell eggs was \$0.962 compared to \$2.105 for the same period of fiscal 2016, a decrease of 54.3%, resulting in a corresponding decrease in net shell egg sales of \$597.7 million.

Egg products and other revenues resulted in decreased net sales of \$37.9 million for the twenty-six weeks ended November 26, 2016 compared to the same period of fiscal 2016.

The table below represents an analysis of our non-specialty and specialty shell egg sales (in thousands, except percentage data). Following the table is a discussion of the information presented in the table.

	13 Weeks Ended		26 Weeks Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
Total net sales	\$253,544	\$545,975	\$493,389	\$1,155,870
Non-specialty shell egg sales	\$123,008 49.8%	\$369,878 70.7%	\$236,512 49.1%	\$792,769 71.7%
Specialty shell egg sales	113,224 45.8%	136,791 26.1%	222,536 46.2%	280,744 25.4%
Co-pack specialty shell egg sales	8,514 3.4 %	14,246 2.7 %	16,969 3.5 %	28,245 2.5 %
Other	2,485 1.0 %	2,515 0.5 %		