

CAL MAINE FOODS INC  
Form 10-K  
August 05, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR FISCAL YEAR ENDED May 31, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

Commission file number: 000-04892

**CAL-MAINE FOODS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other Jurisdiction of  
Incorporation or Organization)

**64-0500378**

(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)

Securities registered pursuant to Section 12 (b) of the Act:

<p>Title of each Class: Common Stock, \$0.01 par value per share</p>	<p>Name of exchange on which registered: The NASDAQ Global Market</p>
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Securities registered pursuant to Section 12 (g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

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The aggregate market value, as reported by the NASDAQ Global Market, of the registrant's Common Stock, \$0.01 par value, held by non-affiliates at December 1, 2007, which was the date of the last business day of the registrant's most recently completed second fiscal quarter, was \$330,278,900

As of July 30, 2008, 21,317,091 shares of the registrant's Common Stock, \$0.01 par value, and 2,400,000 shares of the registrant's Class A Common Stock, \$0.01 par value, were outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III of the Form 10-K is incorporated herein by reference from the registrant's Definitive Proxy Statement which will be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

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## PART I

### ITEM 1.

### BUSINESS

#### **Our Business**

Cal-Maine Foods, Inc. (“we”, “us”, “our”, or the “Company”) is the largest producer and marketer of shell eggs in the United States. In fiscal 2008, we sold approximately 678 million dozen shell eggs, which represented about 15.8% of domestic shell egg consumption in the United States. Our total flock of approximately 22 million layers and 6 million pullets and breeders is the largest in the United States. Layers are mature female chickens, pullets are young female chickens usually under 20 weeks of age, and breeders are male or female chickens used to produce fertile eggs to be hatched for egg production flocks.

Our primary business is the production, grading, packaging, marketing and distribution of shell eggs. We sell most of our shell eggs in 29 states, primarily in the southwestern, southeastern, mid-western and mid-Atlantic regions of the United States. We market our shell eggs through our extensive distribution network to a diverse group of customers, including national and regional grocery store chains, club stores, foodservice distributors and egg product manufacturers. The strength of our position is evidenced by the fact that we have the largest market share in the grocery segment for shell eggs, and we sell shell eggs to a majority of the largest food retailers in the United States.

We are also one of the largest producers and marketers of value-added specialty shell eggs in the United States. Specialty shell eggs include reduced cholesterol, cage free and organic eggs and are a rapidly growing segment of the market. In fiscal 2008, specialty shell eggs represented approximately 14% of our shell egg dollar sales, as compared to 15% for fiscal 2007. Retail prices for specialty eggs are less cyclical than standard shell egg prices and are generally higher due to consumer willingness to pay for the increased benefits from those products. We market our specialty shell eggs under two distinct brands: *Egg-Land's Best*(TM) and *Farmhouse*(TM). We own a 25.9% non-voting equity interest in Egg-Land's Best, Inc., which markets the leading brand in the specialty shell egg segment. We have exclusive license agreements to market and distribute *Egg-Land's Best*(TM) specialty shell eggs in major metropolitan areas, including New York City, and a number of states in the southeast and southwest. We market cage free eggs under our trademarked *Farmhouse* brand and distribute those shell eggs across the southeast and southwest regions of the United States. We also produce market and distribute private label specialty shell eggs to several customers. Sales of specialty shell eggs accounted for approximately 12.0% of our total shell egg dozen volumes in fiscal 2008, as compared to 8.7% in fiscal 2007.

We are also a leader in industry consolidation. Since 1989, we have completed fourteen acquisitions ranging in size from 600,000 layers to 7.5 million layers. Despite a market that has been characterized by increasing consolidation, the shell egg production industry remains highly fragmented. There currently are 65 producers who each own more than one million layers and the ten largest producers own approximately 43% of total industry layers. We believe industry consolidation will continue and we plan to capitalize on opportunities as they arise.

#### **Hillandale Acquisition**

On July 28, 2005, we entered into an Agreement to Form a Limited Liability Company with Hillandale Farms, Inc. and Hillandale Farms of Florida, Inc. (together, “Hillandale”), and the Hillandale shareholders (the “Agreement”). Under the terms of the Agreement, we acquired 51% of the Units of Membership in Hillandale, LLC, formed under the Agreement, for cash of approximately \$27 million on October 12, 2005, with the remaining 49% of the Units of Membership to be acquired in essentially equal annual installments over a four-year period. The purchase price of the Units equals their book value at the time of purchase as calculated under the terms of the Agreement.



In August 2006, in accordance with the Agreement, we purchased, for \$6.1 million, an additional 13% of the Units of Hillandale, LLC based on their book value as of July 29, 2006. In August 2007, we purchased, for \$6.8 million, an additional 12% of the Units of Hillandale, LLC based on their book value as of July 28, 2007. Our ownership of Hillandale, LLC currently is 76%. Our obligation to acquire the remaining 24% of Hillandale, LLC is recorded at its present value of \$20.0 million as of May 31, 2008, of which \$10.4 million is included in current liabilities and \$9.6 million is included in other non-current liabilities in the accompanying consolidated balance sheet. During fiscal 2008, an early payment of \$5.7 million was paid on the purchase obligation. We will purchase an additional 12% of Hillandale LLC based on the book value of the Membership Units as of July 26, 2008. This estimated obligation was adjusted in fiscal 2008 due to the effect of the expected earnings increase on the book value of the membership units. The Company will adjust the original Hillandale purchase price allocation based on the ultimate amount paid for the acquisition in accordance with SFAS 141.

Prior to the acquisition of our Units of Membership in Hillandale, LLC, we had a 44% membership interest in American Egg Products, LLC ("AEP") and Hillandale, LLC had a 27.5% membership interest in AEP. Prior to the acquisition of Hillandale, LLC, our membership interest in AEP was accounted for by the equity method. Effective with our acquisition of Hillandale, LLC, we own a majority of the membership interests in AEP. Accordingly, the financial statements of AEP have been consolidated with our financial statements effective July 29, 2005.

We gained effective control of the Hillandale, LLC operations upon signing of the Agreement. Accordingly, the acquisition date for accounting purposes was July 28, 2005. The operations of Hillandale, LLC were consolidated with our operations beginning July 29, 2005.

#### **Certain Other Acquisitions**

During fiscal 2007, we completed two other acquisitions of egg production facilities located in Arkansas, which added approximately two million laying hens and expanded our pullet growing facilities for replacements. Eggs produced at these facilities are being marketed to retail food businesses and distributors in the south central states. See Note 2 of Notes to Consolidated Financial Statements in Part II of this Annual Report on Form 10-K.

On June 27, 2008, we completed the acquisition of the assets of Zephyr Egg Company, located in Zephyrhills, Florida. See Note 2 of Notes to Consolidated Financial Statements in Part II of this Annual Report on Form 10-K.

## Our Corporate Information

We were incorporated in Delaware in 1969. Our principal executive office is located at 3320 Woodrow Wilson Drive, Jackson, Mississippi 39209. The telephone number of our principal executive office is (601) 948-6813. We maintain a website at [www.calmainefoods.com](http://www.calmainefoods.com) where general information about our business is available. The information contained in our website is not a part of this document. Our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, Forms 3 and 4 ownership reports, and all amendments to those reports are available, free of charge, through our web site as soon as reasonably practicable after they are filed with the SEC. Information concerning corporate governance matters is also available on the website.

Our Common Stock is listed on the NASDAQ Global Market ("NASDAQ") under the symbol "CALM". On May 30, 2008, the last sale price of our Common Stock on NASDAQ was \$31.20 per share. Our fiscal year 2008 ended May 31, 2008, and the first three fiscal quarters of fiscal 2008 ended September 1, 2007, December 1, 2007 and March 1, 2008. All references herein to a fiscal year means our fiscal year and all references to a year mean a calendar year.

We have adopted a Code of Conduct and Ethics for Directors, Officers and Employees, including the chief executive and principal financial and accounting officers of the Company. We will provide a copy of the code free of charge to any person that requests a copy by writing to:

Cal-Maine Foods, Inc.  
P.O. Box 2960  
Jackson, Mississippi 39207  
Attn.: Investor Relations

Requests can be made by phone at (601) 948-6813

A copy is also available at our website [www.calmainefoods.com](http://www.calmainefoods.com). Information contained on our website is not a part of this report.

## IMPORTANT FACTORS RELATING TO FORWARD-LOOKING STATEMENTS

This report contains numerous forward-looking statements relating to the Company's shell egg business, including estimated production data, expected operating schedules, expected capital costs and other operating data. Such forward-looking statements are identified by the use of words such as "believes," "intends," "expects," "hopes," "may," "should," "plan," "projected," "contemplates," "anticipates" or similar words. Actual production, operating schedules, results of operations and other projections and estimates could differ materially from those projected in the forward-looking statements. The factors that could cause actual results to differ materially from those projected in the forward-looking statements include (i) the risk factors set forth below under the following Item 1A, (ii) the risks and hazards inherent in the shell egg business (including disease, pests, and weather conditions), (iii) changes in the market prices of shell eggs, and (iv) changes that could result from the Company's future acquisition of new flocks or businesses. Readers are cautioned not to put undue reliance on forward-looking statements. The Company disclaims any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise.



## **Industry Background**

Based on historical consumption trends, demand for shell eggs increases in line with overall population growth, averaging an increase of about 1% per year. According to U.S. Department of Agriculture ("USDA") reports, since 2000, annual per capita consumption in the United States has varied between 252 and 257 eggs. In 2007, per capita consumption in the United States was 254 eggs, or approximately five eggs per person per week.

## **Prices for Shell Eggs**

Shell egg prices are a critical component of profitability in the industry. Over 90% of all shell eggs sold in the United States in the retail and foodservice channels are sold at prices related to the Urner Barry wholesale quotation for shell eggs. For fiscal 2008, wholesale large shell egg prices in the southeast region averaged 137.7 cents per dozen compared to an average of 79.9 cents per dozen for fiscal years 2005 to 2007. According to USDA reports, for the first five months of calendar year 2008, egg production was lower in four of the five months compared with the same five months of the previous calendar year. It is expected that the number of layers in the table-egg laying flock will slowly begin to expand, as the number of egg-type chicks hatched has been higher in the first half of calendar year 2008, as compared to the same time the previous calendar year. Table-egg production is expected to be slightly higher than the previous year in the second half of calendar year 2008, but still below the amount produced in the second half of calendar year 2006. Due to the increased production, egg supply should be slightly higher for the second half of 2008, which could translate into a slight decrease in prices for this period, as compared to last year.

Factors currently influencing demand:

- industry advertising campaigns successfully promoting the health benefits of eggs;
- positive announcements from the medical community highlighting eggs as a good source of protein;
- increased consumption resulting from the factors noted above as well as the reduced level of cholesterol in eggs; and
- increased demand from the foodservice channel.

Factors currently influencing supply:

- the living space requirements for newly hatched layers will increase for 2008 according to guidelines put in place in 2002 by the United Egg Producers, in conjunction with the Food Marketing Institute, both industry trade associations;
- the process to bring new shell egg production capacity online has become more complex than in the past, increasing the time it takes to bring new capacity to market.

## **Feed Costs for Shell Egg Production**

Feed is a primary cost component in the production of shell eggs and represents over one-half of industry farm level production costs. Most shell egg producers are vertically integrated, manufacturing the majority of the feed they require themselves. Although feed ingredients, primarily corn and soybean meal, are available from a number of sources, prices for ingredients can fluctuate and can be affected by weather and by various supply and demand factors. Current feed prices are higher than the previous year. Forecasts vary widely for prices over the next year, due to irregular weather patterns in the Midwest and a much stronger demand for corn from ethanol plants.



## Growth Strategy and Acquisitions

For many years, we have pursued a growth strategy focused on the acquisition of existing shell egg production and processing facilities, as well as the construction of new and more efficient facilities. Since the beginning of fiscal 1989, we have completed fourteen acquisitions. In addition, we have built seven new “in-line” shell egg production and processing facilities and one pullet growing facility which added 8 million layers and 1.5 million growing pullets to our capacity. Each of the new shell egg production facilities generally provide for the processing of approximately 400 cases of shell eggs or 12,000 dozen eggs, per hour. These increases in capacity have been accompanied by the retirement of older and less efficient facilities and a reduction in eggs produced by contract producers. The “in-line” facilities result in the gathering, grading and packaging of shell eggs by less labor-intensive, more efficient, mechanical means.

As a result of our strategy, our total flock, including pullets, layers and breeders, has increased from approximately 6.8 million at May 28, 1988 to an average of approximately 26.4 million for the past five fiscal years. Also, the number of dozens of shell eggs sold has increased from approximately 117.0 million in the fiscal year ended May 28, 1988 to an average of approximately 645.5 million over the past five fiscal years. Net sales amounted to \$915.9 million in fiscal 2008 compared to net sales of \$69.9 million in fiscal 1988.

We plan to continue to pursue opportunities for the acquisition of other companies engaged in the production and sale of shell eggs. We will continue to evaluate and selectively pursue acquisitions that will expand our shell egg production capabilities in existing markets and broaden our geographic reach. We have extensive experience identifying, valuing, executing and integrating acquisitions and we intend to leverage that experience in the evaluation and execution of future acquisitions. We will seek to acquire regional shell egg businesses that have significant market share and long-standing customer relationships. We believe that enhancing our national presence will help us further strengthen our relationships with existing customers which have operations across the United States.

Through exclusive license agreements with Egg-Land's Best, Inc. in several key territories and our trademarked *Farmhouse* brand, we are one of the leading producers and marketers of value-added specialty shell eggs. We also produce, market and distribute private label specialty shell eggs to several customers. Since selling prices of specialty shell eggs are not as volatile as those of generic shell eggs, we believe that growing our specialty eggs business will enhance the stability of our margins. We expect that the price of specialty eggs will remain at a premium to regular shell eggs. We intend to pursue acquisitions that may expand our specialty shell egg production.

Federal anti-trust laws require regulatory approval of acquisitions that exceed certain threshold levels of significance. Also, we are subject to federal and state laws generally prohibiting anti-competitive conduct. Because the shell egg production and distribution industry is so fragmented, we believe that our sales of shell eggs during last fiscal year represented approximately 15.8% of domestic shell egg sales notwithstanding that we are the largest producer and distributor of shell eggs in the United States based on independently prepared industry statistics. We believe that regulatory approval of any future acquisitions either will not be required, or, if required, that such approvals will be obtained.

The construction of new, more efficient production and processing facilities is an integral part of our growth strategy. Any such construction will require compliance with applicable environmental laws and regulations, including the receipt of permits that could cause schedule delays, although we have not experienced any significant delays in the past.

## Shell Eggs

**Production.** Our operations are fully integrated. At our facilities, we hatch chicks, grow pullets, manufacture feed and produce and distribute shell eggs. Company-owned facilities accounted for approximately 93% of our total fiscal 2008

egg production, with the balance attributable to contract producers used by us. Under arrangements with our contract producers, we own the entire flock, furnish all feed and supplies, own the shell eggs produced and assume all market risks. The contract producers own their facilities and are paid a fee based on production with incentives for performance.

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The commercial production of shell eggs requires a source of baby chicks for laying flock replacement. We produce approximately 95% of our chicks in our own hatcheries and obtain the balance from commercial sources. We own breeder facilities producing 15.5 million pullet chicks per year in a computer-controlled environment. These pullets are distributed to 33 state-of-the-art laying operations around the southwestern, southeastern, mid-western and mid-Atlantic regions of the United States. The facilities produce an average of 1.5 million dozen shell eggs per day and process the shell eggs through grading and packaging without handling by human hands. We have spent a cumulative total of \$86.7 million over the past five years upgrading our facilities with the most advanced equipment and technology available in our industry. We believe our focus on automation throughout the supply chain enables us to be a low cost supplier in all the markets in which we compete.

Feed for the laying flocks is produced by Company-owned and operated mills located in the southwestern, southeastern, mid-western and mid-Atlantic regions of the United States. All ingredients necessary for feed production are readily available in the open market and most are purchased centrally from Jackson, Mississippi. Approximately 95% of the feed for our flocks is manufactured at feed mills owned and operated by us. Poultry feed is formulated using a computer model to determine the least-cost ration to meet the nutritional needs of the flocks. Although most feed ingredients are purchased on an as-needed basis, from time-to-time, when deemed advantageous, we purchase ingredients in advance with a delayed delivery of several weeks or a few months.

Feed cost represents the largest element of our farm egg production cost, ranging from 52% to 64% of total cost in the last five years. Although feed ingredients are available from a number of sources, we have little, if any, control over the prices of the ingredients we purchase, which are affected by weather and by various supply and demand factors. Increases in feed costs not accompanied by increases in the selling price of eggs can have a material adverse effect on the results of our operations. However, higher feed costs may encourage producers to reduce production, possibly resulting in higher egg prices. Alternatively, low feed costs can encourage industry overproduction, possibly resulting in lower egg prices. Historically, we have tended to have higher profit margins when feed costs are higher. However, this may not be the case in the future.

After the eggs are produced, they are graded and packaged. Substantially all of our farms have modern “in-line” facilities that mechanically gather, grade and package the eggs produced. The increased use of in-line facilities has generated significant cost savings as compared to the cost of eggs produced from non-in-line facilities. In addition to greater efficiency, the in-line facilities produce a higher percentage of grade A eggs, which sell at higher prices. Eggs produced on farms owned by contractors are brought to our processing plants where they are graded and packaged. Since shell eggs are perishable, we maintain very low shell egg inventories, usually consisting of approximately four days of production.

Our egg production activities are subject to risks inherent in the agriculture industry, such as weather conditions and disease factors. These risks are not within our control and could have a material adverse effect on our operations. Also, the marketability of our shell eggs is subject to risks such as possible changes in food consumption opinions and practices reflecting perceived health concerns.

We operate in a cyclical industry with total demand that is generally level and a product that is price-inelastic. Thus, small increases in production or decreases in demand can have a large adverse effect on prices and vice-versa. However, economic conditions in the egg industry are expected to exhibit less cyclicity in the future. The industry is concentrating into fewer but stronger hands, which should help lessen the extreme cyclicity of the past.

**Marketing.** Of the 678 million dozen shell eggs sold by us in the fiscal year ended May 31, 2008, 535 million were produced by our flocks.

We sell our shell eggs to a diverse group of customers, including national and local grocery store chains, club stores, foodservice distributors and egg product manufacturers. We utilize electronic ordering and invoicing systems that

enable us to manage inventory for certain of our customers. Our top 10 customers accounted for an aggregate of 66.5% of net sales in fiscal 2008 and 67.4% of net sales for fiscal 2007. Two affiliated customers, Wal-Mart Stores and Sam's Club, on a combined basis, accounted for 36.5% of net sales during fiscal 2008 and 36.9% of net sales for fiscal 2007.

The majority of eggs sold are merchandised on a daily or short-term basis. Most sales to established accounts are on open account with terms ranging from seven to 30 days. Although we have established long-term relationships with many of our customers, they are free to acquire shell eggs from other sources.

The shell eggs we sell are either delivered by us to our customers' warehouses and facilities with our own fleet of owned or contracted refrigerated delivery trucks or are picked up by our customers at our processing facilities.

We sell our shell eggs at prices generally related to independently quoted wholesale market prices. Wholesale prices are subject to wide fluctuations. The prices of our shell eggs reflect fluctuations in the quoted market, and the results of our shell egg operations are materially affected by changes in market quotations. Egg prices reflect a number of economic conditions, such as the supply of eggs and the level of demand, which, in turn, are influenced by a number of factors that we cannot control. No representation can be made as to the future level of prices.

According to U.S. Department of Agriculture reports, since 2000, annual per capita consumption in the United States has varied between 252 and 257 eggs. While we believe that fast food restaurant consumption, high protein diet trends, reduced egg cholesterol levels and industry advertising campaigns may result in a continuance of the recent increases in current per capita egg consumption levels, no assurance can be given that per capita consumption will not decline in the future.

We sell the majority of our shell eggs in approximately 29 states across the southwestern, southeastern, mid-western and mid-Atlantic regions of the United States. We are a major factor in egg marketing in a majority of these states. Many states in our market area are egg deficit regions; that is, production of fresh shell eggs is less than total consumption. Competition from other producers in specific market areas is generally based on price, service, and quality of product. Strong competition exists in each of our markets.

**Seasonality.** Shell eggs are perishable. Consequently, we maintain very low shell egg inventories, usually consisting of approximately four days of production. 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 demand factors and a natural increase in egg production during the spring and early summer. We generally experience lower sales and net income in our fourth and first fiscal quarters ending in May and August, respectively. During the past ten years, eight of our first quarters and four of our fourth quarters have resulted in net operating losses.

**Specialty Eggs.** We also produce specialty eggs such as *Egg-Land's Best(TM)* and *Farmhouse* eggs. For fiscal 2008, specialty eggs accounted for 14.2% of shell egg dollar sales and 12.0% of shell egg dozens sold. *Egg-Land's Best(TM)* eggs are patented eggs that are believed by its developers, based on scientific studies, to cause no increase in serum cholesterol when eaten as part of a low fat diet. We produce and process *Egg-Land's Best(TM)* eggs, under license from Egg-Land's Best, Inc. ("EB"), at our existing facilities, under EB guidelines. The product is marketed to our established base of customers at prices that reflect a premium over ordinary shell eggs. *Egg-Land's Best(TM)* eggs accounted for approximately 9.7% of our shell egg dollar sales in fiscal 2008, as compared to 11.2% in fiscal 2007. *Farmhouse* brand eggs are produced at our facilities by hens that are not caged, and are provided with a diet of natural grains. As in our other flocks, these hens are provided with drinking water that is free of hormones or other chemical additives. *Farmhouse* and other non EB specialty eggs accounted for 4.5% of our shell egg dollar sales in fiscal 2008, as compared to 4.0% in fiscal 2007. They are intended to meet the demands of consumers who are sensitive to environmental and animal welfare issues. Based on dozens sold *Egg-Land's Best(TM)* eggs accounted for 8.0% of dozens sold for fiscal 2008, as compared to 6.3% in fiscal 2007. *Farmhouse* and other non EB specialty eggs accounted for 4.0% of dozens sold for fiscal 2008, as compared to 2.4% for fiscal 2007. The statistical data concerning specialty egg sales reflects the upward trend of specialty eggs.

**Competition.** The production, processing, and distribution of shell eggs is an intensely competitive business, which, traditionally, has attracted large numbers of producers. Shell egg competition is generally based on price, service, and

quality of production. Although we are the largest combined producer, processor, and distributor of shell eggs in the United States, we do not occupy a controlling market position in any area where our eggs are sold.



The shell egg industry remains highly fragmented but is characterized by a growing concentration of producers. In 2007, 65 producers with one million or more layers owned 89% of the 284 million total U.S. layers, compared to 56 producers with one million or more layers owning 64% of the 232 million total U.S. layers in 1990, and 61 producers with one million or more layers owning 56% of the 248.0 million total U.S. layers in 1985. We believe that a continuation of that concentration trend may result in the reduced cyclicity of shell egg prices, but no assurance can be given in that regard. A continuation of this trend could also create greater competition among fewer producers.

**Patents and Trade names.** We own the trade names *Farmhouse*, *Rio Grande* and *Sunups*. We do not own any patents or proprietary technologies. We produce and market *Egg-Land's Best(TM)* eggs under license agreements with EB. We own a 25.9% non-voting equity interest in EB.

**Government Regulation.** Our facilities and operations are subject to regulation by various federal, state and local agencies, including, but not limited to, the United States Food and Drug Administration ("FDA"), the USDA, Environmental Protection Agency, Occupational Safety and Health Administration and corresponding state agencies. The applicable regulations relate to grading, quality control, labeling, sanitary control and waste disposal. Our shell egg facilities are subject to periodic USDA inspections. Our feed production facilities are subject to FDA regulation and inspections. In addition, we maintain our own inspection program to assure compliance with our own standards and customer specifications. We do not know of any major capital expenditures necessary to comply with such statutes and regulations; however, there can be no assurance that we will not be required to incur significant costs for compliance with such statutes and regulations in the future.

**Environmental Regulation.** Our operations and facilities are subject to various federal, state and local environmental laws and regulations governing, among other things, the generation, storage, handling, use, transportation, disposal and remediation of hazardous materials. Under these laws and regulations, we are also required to obtain permits from governmental authorities, including, but not limited to, wastewater discharge permits. We have made and will continue to make capital and other expenditures relating to compliance with existing environmental, health and safety laws and regulations and permits. We do not currently know of any major capital expenditures necessary to comply with such laws and regulations; however, because environmental, health and safety laws and regulations are becoming increasingly more stringent, including those relating to animal wastes and wastewater discharges, there can be no assurance that we will not be required to incur significant costs for compliance with such laws and regulations in the future. In addition, under certain circumstances, we may incur costs associated with our contract producers' failure to comply with laws and regulations, including environmental laws and regulations.

**Employees.** As of May 31, 2008, we had a total of approximately 1,800 employees of whom 1,600 worked in egg production, processing and marketing, 100 were engaged in feed mill operations and 100 were administrative employees, including officers, at our executive offices. Approximately 5% of our personnel are part-time. None of our employees are covered by a collective bargaining agreement. We consider our relations with employees to be good.

**ITEM 1A.**

**RISK FACTORS**

We are subject to numerous risks and uncertainties, including the following:

**Market prices of wholesale shell eggs are volatile and changes in these prices and costs can adversely impact our results of operations.**

Our operating results are significantly affected by wholesale shell egg market prices, which fluctuate widely and are outside of our control. Small increases in production or small decreases in demand can have a large adverse effect on shell egg prices. Shell egg prices have experienced an upward trend since 2002 and rose to historical highs in late 2003 and early 2004. In the early fall of 2004, the demand trend related to the popular diets faded dramatically. During the time of increased demand, the egg industry had geared up to produce more eggs, resulting in an oversupply of eggs. In March 2005, the egg industry took action to better align the size of laying flocks with current demand needs. Current U.S. Department of Agriculture statistics indicate a reduced flock size that is now more in line with current demand. There can be no assurance that shell egg prices will remain at or near current levels and that the supply of shell eggs will remain level in the future.