

CAL-MAINE FOODS INC  
Form 10-Q  
September 30, 2015  
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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 August 29, 2015

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

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(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

Smaller reporting company

(Do not check if a 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 43,697,844 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 September 25, 2015.

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CAL-MAINE FOODS, INC. AND SUBSIDIARIES

FORM 10-Q

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CAL-MAINE FOODS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	August 29, 2015 (unaudited)	May 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 69,368	\$ 8,667
Investment securities available-for-sale	286,485	249,961
Trade and other receivables (less allowance for doubtful accounts of \$743 and \$513 at August 29, 2015 and May 30, 2015, respectively)	184,925	101,977
Inventories	148,591	146,260
Prepaid expenses and other current assets	4,347	2,099
Total current assets	693,716	508,964
Property, plant and equipment, net	363,705	358,790
Goodwill	29,196	29,196
Other investments	37,477	18,843
Other intangible assets	6,837	7,560
Other assets	5,235	5,300
<b>TOTAL ASSETS</b>	<b>\$ 1,136,166</b>	<b>\$ 928,653</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 86,874	\$ 70,821
Accrued dividends payable	47,674	15,372
Current maturities of long-term debt	7,959	10,065
Income taxes payable	76,735	5,288
Deferred income taxes	30,376	30,391
Total current liabilities	249,618	131,937
Long-term debt, less current maturities	34,591	40,795
Other noncurrent liabilities	5,629	5,745
Deferred income taxes	44,796	45,614
Total liabilities	334,634	224,091

Commitments and Contingencies - see Note 4

Stockholders' equity:

Common stock, \$0.01 par value, 120,000 shares authorized, 70,261 shares issued, and 43,698 shares outstanding, at August 29, 2015 and May 30, 2015	703	703
Class A common stock, \$0.01 par value, 4,800 shares authorized, issued and outstanding at August 29, 2015 and May 30, 2015	48	48
Paid-in capital	44,056	43,304
Retained earnings	775,310	679,969
Accumulated other comprehensive income (loss), net of tax	(158)	22
Common stock in treasury at cost – 26,563 shares at August 29, 2015 and May 30, 2015	(20,482)	(20,482)
Total Cal-Maine Foods, Inc. stockholders' equity	799,477	703,564
Noncontrolling interests in consolidated entities	2,055	998
Total stockholders' equity	801,532	704,562
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,136,166</b>	<b>\$ 928,653</b>

See Notes to Condensed Consolidated Financial Statements.

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## CAL-MAINE FOODS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

	13 Weeks Ended	
	August 29, 2015	August 30, 2014
Net sales	\$ 609,895	\$ 356,944
Cost of sales	346,824	275,843
Gross profit	263,071	81,101
Selling, general, and administrative expense	42,963	39,938
Operating income	220,108	41,163
Other income (expense):		
Interest income (expense)	27	(534)
Royalty income	606	572
Patronage dividends	0	237
Equity in income of affiliates	730	310
Other, net	(814)	1,038
	549	1,623
Income before income taxes and noncontrolling interest	220,657	42,786
Income tax expense	76,567	14,601
Net income before noncontrolling interest	144,090	28,185
Less: Net income attributable to noncontrolling interest	1,067	530
Net income attributable to Cal-Maine Foods, Inc.	\$ 143,023	\$ 27,655
Net income per common share attributable to Cal-Maine Foods, Inc.:		
Basic	\$ 2.97	\$ 0.57
Diluted	\$ 2.95	\$ 0.57
Dividends per common share	\$ 0.983	\$ 0.191
Weighted average shares outstanding:		
Basic	48,163	48,130
Diluted	48,498	48,399



See Notes to Condensed Consolidated Financial Statements.

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## CAL-MAINE FOODS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	13 Weeks Ended	
	August 29, 2015	August 30, 2014
Net income, including noncontrolling interests	\$ 144,090	\$ 28,185
Other comprehensive loss, before tax:		
Unrealized holding loss on available-for-sale securities, net of reclassification adjustments	(300)	(16)
Other comprehensive loss, before tax	(300)	(16)
Income tax benefit related to items of other comprehensive income	120	6
Other comprehensive loss, net of tax	(180)	(10)
Comprehensive income	143,910	28,175
Less: comprehensive income attributable to the noncontrolling interest	1,067	530
Comprehensive income attributable to Cal-Maine Foods, Inc.	\$ 142,843	\$ 27,645

See Notes to Condensed Consolidated Financial Statements.

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## CAL-MAINE FOODS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	13 Weeks Ended	
	August 29, 2015	August 30, 2014
Operating activities:		
Net income including noncontrolling interest	\$ 144,090	\$ 28,185
Depreciation and amortization	11,061	9,123
Other adjustments, net	(1,036)	649
Net cash provided by operations	154,115	37,957
Investing activities:		
Purchase of investments	(80,668)	(43,709)
Sales of investments	43,942	41,926
Investment in joint ventures	(18,000)	(3,010)
Purchases of property, plant and equipment	(15,266)	(20,524)
Payments received on notes receivable and from affiliates	107	745
Net proceeds from disposal of property, plant and equipment	171	86
Net cash used in investing activities	(69,714)	(24,486)
Financing activities:		
Proceeds from issuance of common stock from treasury, net (including tax benefit on nonqualifying disposition of incentive stock options)	-	60
Distributions to noncontrolling interests	(10)	(429)
Principal payments on long-term debt	(8,310)	(2,625)
Payments of dividends	(15,380)	(10,446)
Net cash used in financing activities	(23,700)	(13,440)
Net change in cash and cash equivalents	60,701	31
Cash and cash equivalents at beginning of period	8,667	14,521
Cash and cash equivalents at end of period	\$ 69,368	\$ 14,552

See Notes to Condensed Consolidated Financial Statements.



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CAL-MAINE FOODS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

August 29, 2015

(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 weeks ended August 29, 2015 are not necessarily indicative of the results that may be expected for the year ending May 28, 2016.

The condensed consolidated balance sheet at May 30, 2015 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

On October 31, 2014, the Company effected a 2-for-1 stock split to shareholders of record as of October 17, 2014. All share and per share information has been retroactively adjusted to reflect the stock split.

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 30, 2015. References to “we,” “us,” “our,” or the “Company” refer to Cal-Maine Foods, Inc.

2. Stock Based Compensation

Total stock based compensation expense for the thirteen weeks ended August 29, 2015 and August 30, 2014 was \$700,000 and \$635,000, respectively.

Liabilities associated with Stock Appreciation Rights as of August 29, 2015 and May 30, 2015 were zero and \$1.4 million, respectively. The liabilities for our 2005 Stock Appreciation Rights are included in the line item "Accounts payable and accrued expenses" in our Condensed Consolidated Balance Sheets.

Unrecognized compensation expense as a result of non-vested shares of the 2012 Omnibus Long-Term Incentive Plan at August 29, 2015 was \$4.4 million and will be recorded over a weighted average period of 1.9 years. Refer to Note 11 of our May 30, 2015 audited financial statements for further information on our stock compensation plans.

At August 29, 2015, there were 335,140 restricted shares outstanding. The restricted shares have a weighted average grant date fair value of \$27.24 per share. There was no restricted share activity for the thirteen weeks ended August 29, 2015.

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## 3. Inventories

Inventories consisted of the following (in thousands):

	August 29, 2015	May 30, 2015
Flocks	\$ 89,206	\$ 87,280
Eggs	16,638	15,507
Feed and supplies	42,747	43,473
	\$ 148,591	\$ 146,260

## 4. Contingencies

## Financial Instruments

The Company maintained cash collateralized standby letters of credit (“LOC”) for the benefit of certain insurance companies totaling \$3.7 million at August 29, 2015. The cash collateralizing the LOCs is included in the line item “Other assets” in the Condensed Consolidated Balance Sheets. None of the LOCs are 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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## 5. 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. 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	
	August 29, 2015	August 30, 2014
Net income attributable to Cal-Maine Foods, Inc.	\$ 143,023	\$ 27,655
Basic weighted-average common shares	48,163	48,130
Effect of dilutive securities:		
Restricted shares	335	245
Common stock options	-	24
Dilutive potential common shares	48,498	48,399
Net income per common share attributable to Cal-Maine Foods, Inc.:		
Basic	\$ 2.97	\$ 0.57
Diluted	\$ 2.95	\$ 0.57

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## 6. 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. According to the policy, 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 will pay 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. The amount of the accrual appears on the Condensed Consolidated Balance Sheets as "Accrued dividends payable."

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	
	August 29, 2015	August 30, 2014
Net income attributable to Cal-Maine Foods, Inc. available for dividend	\$ 143,023	\$ 27,655
1/3 of net income attributable to Cal-Maine Foods, Inc.	47,674	9,218
Common stock outstanding (shares)	43,698	43,582
Class A common stock outstanding (shares)	4,800	4,800
Total common stock outstanding (shares)	48,498	48,382
Dividends per common share*	\$ 0.983	\$ 0.191

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



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## 7. Derivative Financial Instruments

The Company holds commodity futures contracts in the form of call options, the cost of which is paid for by certain customers, to protect against increases in the price of corn and soybean meal purchases required to support that portion of its shell egg production sold on a cost of production formula. The contracts are generally for durations of less than six months. The Company marks the unrealized changes in the derivative instrument's fair value to market; however, the net realized cost of these contracts is paid by certain customers, so there is no net impact to the Company's Consolidated Statements of Income. The fair value of all derivative instruments outstanding is included as a component of "Prepaid Expenses and Other Current Assets" on the Condensed Consolidated Balance Sheets as follows:

Contracts outstanding at period end		
Commodity	Units	Fair Value
Corn	985,000 bushels	- \$
Soybean meal	10,300 tons	5 \$
Total fair value of commodity contracts		5

## 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 estimates, 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 credit facilities and long-term debt were as follows (in thousands):

	August 29, 2015		May 30, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
2.0% – 6.84% Notes payable	\$ 42,550	\$ 43,063	\$ 44,549	\$ 45,158
Series A Senior Secured Notes at 5.45%	-	-	6,311	6,312
	\$ 42,550	\$ 43,063	\$ 50,860	\$ 51,470

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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 August 29, 2015 and May 30, 2015 (in thousands):

August 29, 2015	Level 1	Level 2	Level 3	Total Balance
<b>Assets</b>				
US government and agency obligations	\$ -	\$ 9,618	\$ -	\$ 9,618
Municipal bonds	-	74,992	-	74,992
Commercial paper	-	11,986	-	11,986
Corporate bonds	-	169,657	-	169,657
Foreign government obligations	-	1,035	-	1,035
Asset backed securities	-	16,432	-	16,432
Mutual Funds	4,422	-	-	4,422
Commodity contracts	-	5	-	5
Total assets measured at fair value	\$ 4,422	\$ 283,725	\$ -	\$ 288,147
<b>Liabilities</b>				
Contingent consideration	\$ -	\$ -	\$ 1,024	\$ 1,024
Total liabilities measured at fair value	\$ -	\$ -	\$ 1,024	\$ 1,024

May 30, 2015	Level 1	Level 2	Level 3	Total Balance
<b>Assets</b>				
US government and agency obligations	\$ -	\$ 9,630	\$ -	\$ 9,630
Municipal bonds	-	76,311	-	76,311
Certificates of deposit	-	2,002	-	2,002
Commercial paper	-	7,496	-	7,496
Corporate bonds	-	136,364	-	136,364
Foreign government obligations	-	1,045	-	1,045
Asset backed securities	-	14,352	-	14,352
Mutual Funds	4,508	-	-	4,508
Commodity contracts	-	82	-	82
Total assets measured at fair value	\$ 4,508	\$ 247,282	\$ -	\$ 251,790
<b>Liabilities</b>				

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Contingent consideration	\$ -	\$ -	\$ 1,024	\$ 1,024
Total liabilities measured at fair value	\$ -	\$ -	\$ 1,024	\$ 1,024

Our investment securities – available-for-sale classified as level 2 consist of certificates of deposit, time deposits, U.S. government and agency obligations, taxable and tax exempt municipal bonds, zero coupon municipal bonds, 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.

The Company applies fair value accounting guidance to measure non-financial assets and liabilities associated with business acquisitions. These assets and liabilities are measured at fair value for the initial purchase price allocation and are subject to recurring revaluations. The fair value of non-financial assets acquired is determined internally. Our internal valuation methodology for non-financial assets takes into account the remaining estimated life of the assets acquired and what management believes is the market value for those assets based on their highest and best use. Liabilities for contingent consideration (earn-outs) take into account commodity prices based on published forward commodity price curves, projected future egg prices as of the date of the estimate, and projected future cash flows expected to be received as a result of a business acquisition (Refer to Note 2 in the Annual Report on Form 10-K). Given the unobservable nature of these

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inputs, they are deemed to be Level 3 fair value measurements. During the thirteen weeks ended August 29, 2015, there were no payments made or gains/losses recognized in earnings related to contingent consideration.

## 9. Investment Securities

The following represents the Company's investment securities as of August 29, 2015 and May 30, 2015 (in thousands):

August 29, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
US government and agency obligations	\$ 9,605	\$ 13	\$ -	\$ 9,618
Municipal bonds	74,795	197	-	74,992
Commercial paper	11,989	-	3	11,986
Corporate bonds	169,981	-	324	169,657
Foreign government obligations	1,037	-	2	1,035
Asset backed securities	16,454	-	22	16,432
Mutual funds	2,761	4	-	2,765
Total current investment securities	\$ 286,622	\$ 214	\$ 351	\$ 286,485
Mutual funds	1,207	450	-	1,657
Total noncurrent investment securities	\$ 1,207	\$ 450	\$ -	\$ 1,657

  

May 30, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
US government and agency obligations	\$ 9,609	\$ 21	\$ -	\$ 9,630
Municipal bonds	76,225	83	-	76,308
Certificates of deposit	2,001	1	-	2,002
Commercial paper	7,491	5	-	7,496
Corporate bonds	136,411	-	47	136,364
Foreign government obligations	1,042	3	-	1,045
Asset backed securities	14,356	-	4	14,352
Mutual funds	2,761	3	-	2,764
Total current investment securities	\$ 249,896	\$ 116	\$ 51	\$ 249,961
Mutual funds	1,199	548	-	1,747
Total noncurrent investment securities	\$ 1,199	\$ 548	\$ -	\$ 1,747



Proceeds from sales of available-for-sale securities were \$43.9 million and \$41.9 million during the thirteen weeks ended August 29, 2015 and August 30, 2014, respectively. Gross realized gains on those sales during the thirteen weeks ended August 29, 2015 and August 30, 2014 were \$4,000 and \$34,000, respectively. Gross realized losses on those sales during the thirteen weeks ended August 29, 2015 and August 30, 2014 were \$28,000 and \$4,000, respectively. For purposes of determining gross realized gains and losses, the cost of securities sold is based on the specific identification method.

Unrealized holding gains (losses), net of tax, on available-for-sale securities classified as current in the amount of \$(125,000) and \$(57,000) were recorded in other comprehensive income (loss) for the thirteen weeks ended August 29, 2015 and August 30, 2014, respectively. Unrealized holding gains (losses), net of tax, on long-term available-for-sale securities of \$(55,000) and \$47,000 were recorded in other comprehensive income (loss) for the thirteen weeks ended August 29, 2015 and August 30, 2014, respectively.

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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 August 29, 2015, are as follows (in thousands):

	Estimated Fair Value
Within one year	\$ 159,001
After 1-5 years	127,484
After 5-10 years	-
Total	\$ 286,485

## 10. Equity

The following reflects the equity activity, including our noncontrolling interest, for the thirteen weeks ended August 29, 2015:

	Cal-Maine Foods, Inc. Stockholders Common Stock							Total
	Amount	Class A Amount	Treasury Amount	Paid In Capital	Accum. Other Comp. Loss	Retained Earnings	Noncontrolling Interests	
Balance at May 30, 2015	\$ 703	\$ 48	\$ (20,482)	\$ 43,304	\$ 22	\$ 679,969	\$ 998	\$ 704,562
Dividends	-	-	-	-	-	(47,682)	-	(47,682)
Other comprehensive loss, net of tax	-	-	-	-	(180)	-	-	(180)
Distribution to noncontrolling interest partners	-	-	-	-	-	-	(10)	(10)

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Restricted stock compensation	-	-	-	752	-	-	-	752
Net income	-	-	-	-	-	143,023	1,067	144,090
Balance at August 29, 2015	\$ 703	\$ 48	\$ (20,482)	\$ 44,056	\$ (158)	\$ 775,310	\$ 2,055	\$ 801,532

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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, expected capital 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 30, 2015, 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) risks, changes, or obligations that could result from our future acquisition of new flocks or businesses, and (v) 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 manufacturers.

Our operating results are directly tied to market egg prices, which are highly volatile, subject to wide fluctuations, and outside of our control. For example, the annual average Urner-Barry Southeastern Regional Large Egg Market Price per dozen eggs, for our fiscal 2005-2015 ranged from a low of \$0.72 in 2005 to a high of \$1.53 in 2015. 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 quarter to quarter and year to year vary significantly. Shorter term, retail sales of shell eggs historically have been greatest during the fall and winter months and lowest in the summer months. Our need for working capital generally is highest in the last and first fiscal quarters ending in May/June and August/September, respectively, when egg prices are normally at seasonal lows. 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 Thanksgiving, Christmas, and Easter. Consequently, we generally experience lower sales and net income in our first and fourth fiscal quarters ending in August/September and May/June, 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.

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Beginning in April 2015, our industry experienced a significant avian influenza outbreak, primarily in the upper Midwestern U.S. At the time of this filing, based on several published industry estimates, we believe approximately 13% of the national flock of laying hens has been affected. The affected laying hens have either been destroyed by the disease or euthanized. As a result, egg prices have increased significantly. The average Thursday prices for the large market (i.e. generic shell eggs) in the southeastern region for the months of June, July and August 2015 were \$2.46, \$2.14, and \$2.85, respectively. While the warmer summer months seem to have reduced further transmission of avian influenza, we expect egg prices to remain high until the national laying hen flock can be replenished. Also, the United States Department of Agriculture has expressed concern for additional outbreaks this fall and winter with the return of migratory waterfowl which are assumed to be carriers of the virus. There have been no positive tests for avian influenza at any of our locations, and we are significantly increasing the biosecurity measures at all of our facilities, however we cannot be certain that our flocks will not be affected.

Additionally, there continues to be uncertainty in the industry surrounding the implementation of California's Proposition 2 and Assembly Bill 1437, which relate to egg production standards, including minimum cage space, for eggs sold in that state. This legislation was effective January 1, 2015. During January 2015, egg prices increased sharply and subsequently moderated. Currently, egg prices in California reflect a premium to other regions that is higher than historical levels. It is anticipated that future California prices will be higher than other regions of the country to reflect the higher cost of production related to the California standards. These new rules could impact future sales in California and national egg production and supply, thereby increasing or decreasing prices throughout the country. For fiscal 2015, less than 3% of our total egg sales were California sales. We continue to monitor the effects of this legislation and how it could impact our business.

For the quarter ended August 29, 2015, we produced approximately 78% of the total number of shell eggs we sold. Approximately 4% of such production was provided by contract producers. Contract producers utilize their facilities in the production of shell eggs by layers owned by us. We own the shell eggs produced under these arrangements.

Our cost of production is materially affected by feed costs. Feed costs averaged about 61% and 65% of our total farm egg production cost for the periods ended August 29, 2015 and August 30, 2014, respectively. 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. Favorable weather conditions and improved yields for the 2014 crop increased supplies of both corn and soybean meal for fiscal year 2015. The 2015 crops, which are currently being harvested, should provide adequate supplies of both corn and soybean meal for the 2016 fiscal year; however, we expect the outlook for feed prices to remain volatile.

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## 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	
	August 29, 2015	August 30, 2014
Net sales	100.0 %	100.0 %
Cost of sales	56.9	77.3
Gross profit	43.1	22.7
Selling, general, and administrative expense	7.0	11.2
Operating income	36.1	11.5
Other income (expense):		
Interest expense, net	0.0	(0.2)
Royalty income	0.1	0.2
Patronage dividends	0.0	0.1
Equity in income of affiliates	0.1	0.1
Other	(0.1)	0.3
	0.1	0.5
Income before income taxes and noncontrolling interest	36.2	12.0
Income tax expense	12.6	4.1
Net income before noncontrolling interest	23.6	7.9
Less: Net income attributable to noncontrolling interest	0.1	0.2
Net income attributable to Cal-Maine Foods, Inc.	23.5 %	7.7 %

## NET SALES

Approximately 96% of our net sales were shell eggs and approximately 4% were egg products. Net sales for the thirteen weeks ended August 29, 2015 were \$609.9 million, an increase of \$253.0 million, or 70.9%, compared to net sales of \$356.9 million for the thirteen weeks ended August 30, 2014. Total dozens of eggs sold and egg selling prices increased for the current thirteen-week period compared to the same period in fiscal 2015. Dozens sold for the first quarter of fiscal year 2016 were 258.8 million, an increase of 7.1 million, or 2.8%, compared to 251.7 million for the first quarter of fiscal 2015. Our net average selling price per dozen of shell eggs for the thirteen weeks ended August 29, 2015 was \$2.243, compared to \$1.354 for the thirteen weeks ended August 30, 2014, an increase of 65.7%. 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. The large increase in average selling price per dozen is primarily attributable to the previously discussed avian influenza outbreak and its effect on supply levels.

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.

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	13 Weeks Ended	
	August 29, 2015	August 30, 2014
Total net sales	\$ 609,895	\$ 356,944
Non-specialty shell egg sales	\$ 422,921 72.5%	\$ 238,500 69.4%
Specialty shell egg sales	143,953 24.7%	92,130 26.8%
Co-pack specialty shell egg sales	13,999 2.4%	10,137 3.0%
Other	1,785 0.3%	2,707 0.8%
Net shell egg sales	\$ 582,658 100.0%	\$ 343,474 100.0%
Net shell egg sales as a percent of total net sales	96%	96%

Dozens sold: