

CAL-MAINE FOODS INC
Form 10-Q
April 02, 2018
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 March 3, 2018

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth 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)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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 43,832,291 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 March 29, 2018.

Index

CAL-MAINE FOODS, INC. AND SUBSIDIARIES
 FORM 10-Q
 INDEX
 FOR THE QUARTER ENDED MARCH 3, 2018

| | Page Number |
|----------|--|
| Part I. | |
| | <u>Financial Information</u> |
| Item 1. | <u>Condensed Consolidated Financial Statements (Unaudited)</u> |
| | <u>Condensed Consolidated Balance Sheets - March 3, 2018 and June 3, 2017</u> |
| | 2 |
| | <u>Condensed Consolidated Statements of Operations - Thirteen and Thirty-Nine Weeks Ended March 3, 2018 and February 25, 2017</u> |
| | 3 |
| | <u>Condensed Consolidated Statements of Comprehensive Income (Loss) - Thirteen and Thirty-Nine Weeks Ended March 3, 2018 and February 25, 2017</u> |
| | 4 |
| | <u>Condensed Consolidated Statements of Cash Flow - Thirty-Nine Weeks Ended March 3, 2018 and February 25, 2017</u> |
| | 5 |
| | <u>Notes to Condensed Consolidated Financial Statements</u> |
| | 6 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> |
| | 12 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> |
| | 23 |
| Item 4. | <u>Controls and Procedures</u> |
| | 24 |
| Part II. | |
| | <u>Other Information</u> |
| Item 1. | <u>Legal Proceedings</u> |
| | 24 |
| Item 1A. | <u>Risk Factors</u> |
| | 26 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> |
| | 26 |
| Item 6. | <u>Exhibits</u> |
| | 27 |
| | <u>Signatures</u> |
| | 28 |

Index

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

| | March 3, 2018 | June 3, 2017 |
|---|--------------------|--------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$106,178 | \$17,564 |
| Investment securities available-for-sale | 177,270 | 138,462 |
| Trade and other receivables (less allowance for doubtful accounts of \$521 and \$386 at March 3, 2018 and June 3, 2017, respectively) | 121,642 | 64,509 |
| Income tax receivable | — | 52,691 |
| Inventories | 165,363 | 160,692 |
| Prepaid expenses and other current assets | 2,074 | 2,288 |
| Total current assets | 572,527 | 436,206 |
| Property, plant and equipment, net | 433,482 | 458,184 |
| Other investments | 70,417 | 69,296 |
| Goodwill | 35,525 | 35,525 |
| Other intangible assets, net | 27,018 | 29,149 |
| Other assets | 4,714 | 4,734 |
| TOTAL ASSETS | \$1,143,683 | \$1,033,094 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$96,071 | \$59,853 |
| Accrued legal settlement expense - see Note 4 | 80,750 | — |
| Current maturities of long-term debt and capital lease obligations | 3,926 | 4,826 |
| Total current liabilities | 180,747 | 64,679 |
| Long-term debt and capital lease obligations, less current maturities | 3,351 | 6,113 |
| Other noncurrent liabilities | 8,038 | 7,527 |
| Deferred income taxes | 51,888 | 110,282 |
| Total liabilities | 244,024 | 188,601 |
| Commitments and Contingencies - see Note 4 | | |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value, 120,000 and 70,261 shares authorized and issued at March 3, 2018 and June 3, 2017, respectively, and 43,832 and 43,777 shares outstanding at March 3, 2018 and June 3, 2017, respectively | 703 | 703 |
| Class A convertible common stock, \$.01 par value, 4,800 shares authorized, issued and outstanding at March 3, 2018 and June 3, 2017, respectively | 48 | 48 |
| Paid-in capital | 52,436 | 49,932 |
| Retained earnings | 870,211 | 816,046 |
| Accumulated other comprehensive loss, net of tax | (792) | (128) |
| Common stock in treasury at cost – 26,431 and 26,484 shares at March 3, 2018 and June 3, 2017, respectively | (24,967) | (23,914) |
| Total Cal-Maine Foods, Inc. stockholders' equity | 897,639 | 842,687 |
| Noncontrolling interest in consolidated entities | 2,020 | 1,806 |

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| | | |
|--|-------------|-------------|
| Total stockholders' equity | 899,659 | 844,493 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$1,143,683 | \$1,033,094 |

See Notes to Condensed Consolidated Financial Statements.

2

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

(in thousands, except per share amounts)

(unaudited)

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|------------------|----------------------|------------------|----------------------|
| | March 3, 2018 | February 25, 2017 | March 3, 2018 | February 25, 2017 |
| Net sales | \$435,820 | \$ 306,540 | \$ 1,059,837 | \$ 799,929 |
| Cost of sales | 315,722 | 267,375 | 840,007 | 766,385 |
| Gross profit | 120,098 | 39,165 | 219,830 | 33,544 |
| Selling, general, and administrative expense | 44,175 | 43,738 | 128,045 | 125,985 |
| Legal settlement expense - see Note 4 | — | — | 80,750 | — |
| (Gain) loss on disposal of fixed assets | (279) |) 622 | (325) |) 1,361 |
| Operating income (loss) | 76,202 | (5,195) |) 11,360 | (93,802) |
| Other income (expense): | | | | |
| Interest income, net | 992 | 411 | 2,044 | 2,283 |
| Royalty income | 169 | 381 | 759 | 1,111 |
| Patronage dividends | 8,286 | 7,608 | 8,286 | 7,608 |
| Equity in income of affiliates | 2,379 | 1,018 | 2,302 | 1,854 |
| Other, net | 29 | (58) |) (1,304) |) (197) |
| Total other income | 11,855 | 9,360 | 12,087 | 12,659 |
| Income (loss) before income taxes and noncontrolling interest | 88,057 | 4,165 | 23,447 | (81,143) |
| Income tax (benefit) expense | (8,301) |) 34 | (30,653) |) (31,327) |
| Net income (loss) before noncontrolling interest | 96,358 | 4,131 | 54,100 | (49,816) |
| Less: Net income (loss) attributable to noncontrolling interest | 64 | (8) |) (65) |) (9) |
| Net income (loss) attributable to Cal-Maine Foods, Inc. | \$96,294 | \$ 4,139 | \$54,165 | \$ (49,807) |
| Net income (loss) per common share attributable to Cal-Maine Foods, Inc.: | | | | |
| Basic | \$1.99 | \$ 0.09 | \$ 1.12 | \$ (1.03) |
| Diluted | \$1.99 | \$ 0.09 | \$ 1.12 | \$ (1.03) |
| Weighted average shares outstanding: | | | | |
| Basic | 48,361 | 48,286 | 48,340 | 48,285 |
| Diluted | 48,476 | 48,417 | 48,460 | 48,285 |

See Notes to Condensed Consolidated Financial Statements.

Index

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

| | 13 Weeks Ended | | 39 Weeks Ended | |
|--|------------------|----------------------|------------------|----------------------|
| | March 3, 2018 | February 25, 2017 | March 3, 2018 | February 25, 2017 |
| Net income (loss), including noncontrolling interests | \$96,358 | \$ 4,131 | \$54,100 | \$ (49,816) |
| Other comprehensive income (loss), before tax: | | | | |
| Unrealized holding gain (loss) on available-for-sale securities, net of reclassification adjustments | (547) | 233 | (1,004) | 199 |
| Income tax benefit (expense) related to items of other comprehensive loss | 155 | (89) | 340 | (75) |
| Other comprehensive income (loss), net of tax | (392) | 144 | (664) | 124 |
| Comprehensive income (loss) | 95,966 | 4,275 | 53,436 | (49,692) |
| Less: comprehensive income (loss) attributable to the noncontrolling interest | 64 | (8) | (65) | (9) |
| Comprehensive income (loss) attributable to Cal-Maine Foods, Inc. | \$95,902 | \$ 4,283 | \$53,501 | \$ (49,683) |

See Notes to Condensed Consolidated Financial Statements.

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

(in thousands)

(unaudited)

| | 39 Weeks Ended | |
|--|------------------|----------------------|
| | March 3, 2018 | February 25, 2017 |
| Operating activities: | | |
| Net income (loss) including noncontrolling interest | \$54,100 | \$ (49,816) |
| Depreciation and amortization | 40,331 | 35,724 |
| Other adjustments, net | 51,655 | (43,125) |
| Net cash provided by (used in) operations | 146,086 | (57,217) |
| Investing activities: | | |
| Purchase of investments | (136,921) | (25,872) |
| Sales of investments | 95,289 | 228,327 |
| Acquisition of business | — | (68,643) |
| Investment in joint venture | (4,100) | (17,700) |
| Purchases of property, plant and equipment | (13,639) | (54,862) |
| Payments received from affiliates | 5,831 | 5,236 |
| Net proceeds from disposal of property, plant and equipment | 579 | 76 |
| Net cash provided by (used in) investing activities | (52,961) | 66,562 |
| Financing activities: | | |
| Purchase of common stock by treasury | (1,128) | (1,715) |
| Contributions from (distributions to) noncontrolling interests | 279 | (73) |
| Principal payments on long-term debt and capital lease obligations | (3,662) | (4,698) |
| Net cash used in financing activities | (4,511) | (6,486) |
| Net change in cash and cash equivalents | 88,614 | 2,859 |
| Cash and cash equivalents at beginning of period | 17,564 | 29,046 |
| Cash and cash equivalents at end of period | \$106,178 | \$ 31,905 |

See Notes to Condensed Consolidated Financial Statements.

Index

CAL-MAINE FOODS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 3, 2018

(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 thirty-nine weeks ended March 3, 2018 are not necessarily indicative of the results that may be expected for the year ending June 2, 2018.

The condensed consolidated balance sheet at June 3, 2017 was 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 June 3, 2017. 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 thirty-nine weeks ended March 3, 2018 and February 25, 2017 was \$2.6 million and \$2.5 million, respectively.

Unrecognized compensation expense as a result of non-vested shares of the 2012 Omnibus Long-Term Incentive Plan at March 3, 2018 was \$6.9 million and will be recorded over a weighted average period of 2.2 years. Refer to Note 10 of our June 3, 2017 audited financial statements for further information on our stock compensation plans.

At March 3, 2018, there were 243,060 restricted shares outstanding, with a weighted average grant date fair value of \$45.30 per share. The Company’s restricted share activity for the thirty-nine weeks ended March 3, 2018 follows:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|----------------------------|---------------------|--|
| Outstanding, June 3, 2017 | 247,735 | \$ 42.76 |
| Granted | 88,965 | 43.81 |
| Vested | (85,990) | 36.76 |
| Forfeited | (7,650) | 41.75 |
| Outstanding, March 3, 2018 | 243,060 | \$ 45.30 |

Index

3. Inventories

Inventories consisted of the following (in thousands):

| | March 3, 2018 | June 3, 2017 |
|-----------------------|------------------|-----------------|
| Flocks | \$92,763 | \$98,059 |
| Eggs and egg products | 18,153 | 14,911 |
| Feed and supplies | 54,447 | 47,722 |
| | \$165,363 | \$160,692 |

We grow and maintain flocks of layers (mature female chickens), pullets (female chickens, under 18 weeks of age), and breeders (male and female chickens used to produce fertile eggs to hatch for egg production flocks). Our total flock at March 3, 2018, consisted of approximately 9.2 million pullets and breeders and 37.8 million layers.

4. Contingencies

Financial Instruments

The Company maintained standby letters of credit (“LOC”) totaling \$4.2 million at March 3, 2018. The 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, and 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.

On December 29, 2017, the Company reached an agreement on material terms of the settlement of several large direct action purchasers' antitrust claims against the Company. The agreement was finalized and effective January 30, 2018. Pursuant to the agreement, the Company settled the claims with a single \$80.8 million payment, which is \$54.8 million net of tax, or \$1.13 per basic and diluted share. As a result, the Company recorded the legal settlement expense and offsetting liability to operating expense and current liabilities, respectively, in the second quarter of fiscal 2018. The Company paid the settlement on March 23, 2018, subsequent to the end of our fiscal 2018 third quarter.

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

Index

5. Net Income (Loss) per Common Share

Basic net income (loss) per share was calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share was calculated by dividing net income (loss) 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 thirty-nine weeks ended February 25, 2017, restricted shares were excluded from the calculation of diluted net loss per share because their inclusion would have been antidilutive. The computations of basic and diluted net income (loss) per share attributable to the Company are as follows (in thousands, except per share data):

| | 13 Weeks Ended March 3, February 25, 2018 2017 | | 39 Weeks Ended March 3, February 25, 2018 2017 | |
|---|--|----------|--|-------------|
| Net income (loss) attributable to Cal-Maine Foods, Inc. | \$96,294 | \$ 4,139 | \$54,165 | \$(49,807) |
| Basic weighted-average common shares | 48,361 | 48,286 | 48,340 | 48,285 |
| Dilutive potential common shares | 48,476 | 48,417 | 48,460 | 48,285 |
| Antidilutive securities excluded from computation of earnings per share | — | — | — | 145 |
| Net income (loss) per common share attributable to Cal-Maine Foods, Inc.: | | | | |
| Basic | \$1.99 | \$ 0.09 | \$1.12 | \$(1.03) |
| Diluted | \$1.99 | \$ 0.09 | \$1.12 | \$(1.03) |

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. 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. Therefore, the Company did not pay a dividend with respect to the fourth quarter of fiscal 2016, or any quarter of fiscal 2017, and will not pay a dividend for the first, second, or third quarters of fiscal 2018. At March 3, 2018, the cumulative losses that must be recovered prior to paying a dividend were \$20.5 million. When applicable, the amount of the accrual appears on the Condensed Consolidated Balance Sheets as "Accrued dividends payable."

7. 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

8

Index

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 disclosures 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. The fair value and carrying value of the Company's borrowings under its long-term debt were as follows (in thousands):

| | March 3, 2018 | | June 3, 2017 | |
|---------------------------|----------------|------------|----------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| 5.4% – 6.2% Notes payable | \$5,875 | \$5,855 | \$9,250 | \$9,295 |
| Long-term leases | 1,402 | 1,228 | 1,689 | 1,520 |
| | \$7,277 | \$7,083 | \$10,939 | \$10,815 |

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 March 3, 2018 and June 3, 2017 (in thousands):

| March 3, 2018 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|---------|-----------|---------|-----------|
| | | | | Balance |
| Assets | | | | |
| US government and agency obligations | — | \$18,888 | — | \$18,888 |
| Municipal bonds | — | 21,165 | — | 21,165 |
| Corporate bonds | — | 133,701 | — | 133,701 |
| Certificates of deposits | — | 1,504 | — | 1,504 |
| Asset backed securities | — | 2,012 | — | 2,012 |
| Mutual funds | 3,008 | — | — | 3,008 |
| Total assets measured at fair value | \$3,008 | \$177,270 | — | \$180,278 |

| June 3, 2017 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|---------|-----------|---------|------------|
| | | | | Balance |
| Assets | | | | |
| US government and agency obligations | \$— | \$20,216 | \$— | —\$20,216 |
| Municipal bonds | — | 36,873 | — | 36,873 |
| Corporate bonds | — | 75,790 | — | 75,790 |
| Asset backed securities | — | 5,583 | — | 5,583 |
| Mutual funds | 2,459 | — | — | 2,459 |
| Total assets measured at fair value | \$2,459 | \$138,462 | \$— | —\$140,921 |

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.

Index

8. Investment Securities

The following represents the Company's investment securities as of March 3, 2018 and June 3, 2017 (in thousands):

| March 3, 2018 | Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
|--|-------------------|---------------------|----------------------|----------------------------|
| US government and agency obligations | \$ 19,071 | \$ — | \$ 183 | \$ 18,888 |
| Municipal bonds | 21,188 | — | 23 | 21,165 |
| Corporate bonds | 134,704 | — | 1,003 | 133,701 |
| Certificates of deposits | 1,504 | — | — | 1,504 |
| Asset backed securities | 2,027 | — | 15 | 2,012 |
| Total current investment securities | \$ 178,494 | \$ — | \$ 1,224 | \$ 177,270 |
| Mutual funds | \$ 2,023 | \$ 985 | \$ — | \$ 3,008 |
| Total noncurrent investment securities | \$ 2,023 | \$ 985 | \$ — | \$ 3,008 |
| June 3, 2017 | Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
| US government and agency obligations | \$ 20,259 | \$ — | \$ 43 | \$ 20,216 |
| Municipal bonds | 36,839 | 34 | — | 36,873 |
| Corporate bonds | 75,769 | 21 | — | 75,790 |
| Asset backed securities | 5,583 | — | — | 5,583 |
| Total current investment securities | \$ 138,450 | \$ 55 | \$ 43 | \$ 138,462 |
| Mutual funds | \$ 1,706 | \$ 753 | \$ — | \$ 2,459 |
| Total noncurrent investment securities | \$ 1,706 | \$ 753 | \$ — | \$ 2,459 |

Proceeds from sales of available-for-sale securities were \$95.3 million and \$228.3 million during the thirty-nine weeks ended March 3, 2018 and February 25, 2017, respectively. Gross realized gains during the thirty-nine weeks ended March 3, 2018 and February 25, 2017 were \$25,000 and \$231,000, respectively. Gross realized losses during the thirty-nine weeks ended March 3, 2018 and February 25, 2017 were \$5,000 and \$6,000, 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 and (losses), net of taxes, for the thirty-nine weeks ended March 3, 2018 and February 25, 2017 were as follows (in thousands):

| | 39 Weeks Ended | |
|---|---------------------|----------------------|
| | March 3, 2018 | February 25, 2017 |
| Current investments | \$(975) | \$(30) |
| Noncurrent investments | 311 | 154 |
| Total unrealized holding gains (losses) | \$(664) | \$ 124 |

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 March 3, 2018, are as follows (in thousands):

Estimated
Fair

| | Value |
|-----------------|-----------|
| Within one year | \$95,140 |
| 1-5 years | 82,130 |
| Total | \$177,270 |

10

Index

9. Equity

The following reflects the equity activity, including our noncontrolling interest, for the thirty-nine weeks ended March 3, 2018 (in thousands, except share amounts):

| | Cal-Maine Foods, Inc. Stockholders | | | | | | | Total |
|---|------------------------------------|--------------------|------------------------------|----------------------------------|----------------------|----------------------------|----------|-----------|
| | Common Stock | | | | | | | |
| | Class A Amount | Treasury Amount | Paid In Capital Amount | Accum. Other Comp. Loss | Retained Earnings | Noncontrolling Interest | | |
| Balance at June 3, 2017 | \$703 | \$ 48 | \$(23,914) | \$49,932 | \$(128) | \$816,046 | \$ 1,806 | \$844,493 |
| Other comprehensive loss, net of tax | — | — | — | — | (664) | — | — | (664) |
| Grant of restricted stock | — | — | 81 | (81) | — | — | — | — |
| Forfeiture of restricted stock | — | — | (6) | 6 | — | — | — | — |
| Buyback of 25,575 shares to satisfy withholding obligation in connection with the vesting of restricted stock | — | — | (1,128) | — | — | — | — | (1,128) |
| Contribution from noncontrolling interest partners | — | — | — | — | — | — | 279 | 279 |
| Restricted stock compensation | — | — | — | 2,579 | — | — | — | 2,579 |
| Net income | — | — | — | — | — | 54,165 | (65) | 54,100 |
| Balance at March 3, 2018 | \$703 | \$ 48 | \$(24,967) | \$52,436 | \$(792) | \$870,211 | \$ 2,020 | \$899,659 |

10. Income Taxes

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act of 2017 (the “Act”). The new tax legislation reduces the United States corporate tax rate from 35% to 21% effective January 1, 2018.

Following the enactment of the Act, the United States Securities and Exchange Commission issued guidance in Staff Accounting Bulletin 118 which provides the Company up to a one-year measurement period, beginning on the Act’s enactment date, in which to complete the required analysis and accounting for the effects of the Act. The guidance allows the Company to record provisional adjustments related to the impacts of the Act when the accounting for the effects of the Act is incomplete, but when reasonable estimates can be made regarding the effects of the Act. Our accounting for the Act is not complete, because it required the Company to estimate the timing of settlement of the temporary differences from which our deferred taxes arose; however, we were able to make reasonable estimates, and we recorded those estimates as provisional adjustments as described in the paragraph below. The Company will complete the required analysis during its fourth quarter. If any adjustments to the provisional amounts are required, those adjustments will be recorded in the Company’s fourth quarter.

Pre-tax income, less net income attributable to noncontrolling interest, was \$88.0 million for the thirteen weeks ended March 3, 2018, compared to pre-tax income, less net income attributable to noncontrolling interest, of \$4.2 million for last year’s comparable period. For the current thirteen-week period, income tax benefit of \$8.3 million was recorded, with an effective tax rate of 31.8%, excluding the impact of any discrete items, compared to income tax expense of \$34,000, with an effective rate of 0.8%, for last year’s comparable period. Results for the current thirteen-week period were favorably impacted by a \$35 million discrete tax benefit related to the Act.

For the thirty-nine weeks ended March 3, 2018, pre-tax income, less net loss attributable to noncontrolling interest, was \$23.4 million, compared to pre-tax loss, less net loss attributable to noncontrolling interest, of \$81.1 million for

the same period of fiscal 2017. For the thirty-nine weeks ended March 3, 2018, income tax benefit of \$30.7 million was recorded, with an effective tax rate of 24.0%, excluding the impact of any discrete items, compared to an income tax benefit of \$31.3 million, with an effective rate of 38.6% for last year's comparable period. Discrete items for current thirty-nine week period primarily related to a \$35.0 million tax benefit in connection with the Act.

Index

The effective rate increase for the thirteen weeks ended March 3, 2018 was primarily related to the provision to return adjustments on the fiscal 2016 tax return recorded in the prior period. The effective rate decrease for the thirty-nine weeks ended March 3, 2018 was primarily related to the change in the federal statutory rate from 35% to 21%, resulting from legislation that was enacted on December 22, 2017. The rate change is administratively effective at the beginning of our fiscal year, using a blended rate for the annual period. As a result, the blended statutory tax rate for the year is 29.13%.

At March 3, 2018, accounts payable included an income tax payable of \$20.7 million compared to an income tax receivable of \$52.7 million at June 3, 2017. Not included in income taxes payable of \$20.7 million is the tax benefit from deduction of the \$80.8 million legal settlement expense, which was recorded in the second quarter of fiscal 2018, but is not deductible for income tax purposes until paid. As noted above, the legal settlement expense was paid by the Company on March 23, 2018, subsequent to the end of our third quarter. The Company will receive a tax deduction for the legal settlement expense in the fourth quarter. The remainder of the change is primarily due to the second quarter fiscal 2018 receipt of a \$45.0 million federal tax refund related to the carryback of fiscal 2017 losses.

Our effective rate differs from the federal statutory income tax rate due to state income taxes and certain items included in income for financial reporting purposes that are not included in taxable income for income tax purposes, including tax exempt interest income, the domestic manufacturers deduction, and net income or loss attributable to noncontrolling interest. The enacted rate change from 35% to 21% also caused the thirteen-week and thirty-nine week effective rate to be significantly different from the Company's historical annual effective rate. The Company's effective tax rate for future fiscal years under current legislation is expected to be 21% plus a state tax effected rate of approximately 3%.

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 June 3, 2017, 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. In addition, we continue to assess the impact of the recently enacted federal tax reform legislation on our business and consolidated financial statements. 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.

Index

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 hatch 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, 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.

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 per dozen eggs of the Urner-Barry Southeastern Regional Large Egg Market Price (“UB southeastern large index”), for our last ten fiscal years ranged from a low of \$0.85 in fiscal year 2017 to a high of \$1.79 in fiscal year 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 in 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.

In 2015, our industry experienced a significant avian influenza (“AI”) outbreak, primarily in the upper Midwestern U.S. There were no positive tests for AI at any of our locations. Based on several published industry estimates, we believe approximately 12% of the national flock of laying hens was affected. During April through June 2015, the affected laying hens were either destroyed by the disease or euthanized. The USDA data showed the supply of laying hens decreased substantially. Since that time, hen numbers have recovered and even exceeded pre-AI levels in late 2016.

Egg prices increased significantly during the summer and fall of 2015. The average of Thursday prices for the UB southeastern large index 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 UB southeastern large index hit a decade-low level in both our fiscal 2016 fourth quarter and fiscal 2017 second quarter. During our fiscal 2018, shell egg prices

have rebounded due to strong demand illustrating the volatility of our industry. During the thirty-nine weeks ended March 3, 2018, the UB southeastern large index averaged \$1.37 per dozen, a 59.5% increase over the comparable period of the prior year which averaged \$0.86 per dozen.

Index

According to Nielsen data, retail demand for calendar year 2017 and early 2018 has been strong and exceeded normal seasonal trends, supported by increased egg promotions in grocery stores. After a period of sluggish demand from institutional food customers, this sector has seen increasing egg usage in recent months. The USDA reports that shell egg exports expanded in calendar 2017 and have recovered from previous low levels following the 2015 avian influenza (AI) outbreak. Export demand has also increased as a result of the reported Fipronil contaminations across Europe and Southeast Asia. Together, these demand trends have resulted in a more favorable market environment compared with a year ago despite the laying hen flock size increasing slightly over prior-year levels. Accordingly, our net average selling price for shell eggs for the third quarter of fiscal 2018 was \$1.545 compared with \$1.130 for the corresponding period of fiscal 2017. However, recent USDA reports show an increase in chicks hatched which could indicate future increases in supply.

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 portion of the market in recent years. During our fiscal 2016 a 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. Our focus for future expansion at our farms will be environments that are cage-free or with equipment that can easily be converted to cage-free, based on a timeline to meet our customer's needs.

For the thirteen weeks ended March 3, 2018, we produced approximately 81% of the total number of shell eggs we sold compared to 84% in the comparable prior year period. We produced 0.6% less dozens during the thirteen weeks ended March 3, 2018 than in the corresponding period of last year. For the thirteen weeks ended March 3, 2018 and February 25, 2017, approximately 9% of such production was provided by contract producers who 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 57% and 58% of our total farm egg production cost for the thirteen weeks ended March 3, 2018 and February 25, 2017, 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 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. Large U.S. corn and soybean crops were harvested in 2017, which combined with the large 2016 crops should provide an adequate supply of our primary feed ingredients during the remainder of fiscal 2018.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act of 2017 (the "Act"). The new tax legislation reduces the United States corporate tax rate from 35% to 21% effective January 1, 2018. As a result, the Company recognized an income tax benefit for the period related to the remeasurement of the Company's net deferred tax liability. The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. The Company has not completed the accounting for the tax effects of enactment of the Act; however, the Company has made a reasonable estimate of the effects on existing deferred balances. The provisional amount recorded related to the remeasurement of our deferred tax balance was \$35 million, which is included as a component of income tax (benefit) expense from continuing operations.

On December 29, 2017, the Company reached an agreement on material terms of the settlement of several large direct action purchasers' antitrust claims against the Company. The agreement was finalized and effective January 30, 2018. Pursuant to the agreement, the Company settled the claims with a single \$80.8 million payment, which is \$54.8 million net of tax, or \$1.13 per basic and diluted share. As a result, the Company recorded the legal settlement expense and offsetting liability to operating expense and current liabilities, respectively, in the second quarter of fiscal 2018. The Company paid the settlement on March 23, 2018, subsequent to the end of our fiscal 2018 third quarter.

Index

RESULTS OF OPERATIONS

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

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|----------------|----------|----------------|----------|
| | March | February | March | February |
| | 3, 2018 | 25, 2017 | 3, 2018 | 25, 2017 |
| Net sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of sales | 72.4 % | 87.2 % | 79.3 % | 95.8 % |
| Gross profit | 27.6 % | 12.8 % | 20.7 % | 4.2 % |
| Selling, general, and administrative expense | 10.1 % | 14.3 % | 12.1 % | 15.7 % |
| Legal settlement expense | — % | — % | 7.6 % | — % |
| (Gain) Loss on disposal of fixed assets | (0.1)% | 0.2 % | — % | 0.2 % |
| Operating income (loss) | 17.6 % | (1.7)% | 1.0 % | (11.7)% |
| Other income, net | 2.7 % | 3.1 % | 1.1 % | 1.6 % |
| Income (loss) before income taxes and noncontrolling interest | 20.3 % | 1.4 % | 2.1 % | (10.1)% |
| Income tax (benefit) expense | (1.9)% | — % | (2.9)% | (3.9)% |
| Net income (loss) before noncontrolling interest | 22.2 % | 1.4 % | 5.0 % | (6.2)% |
| Less: Net income (loss) attributable to noncontrolling interest | — % | — % | — % | — % |
| Net income (loss) attributable to Cal-Maine Foods, Inc. | 22.2 % | 1.4 % | 5.0 % | (6.2)% |

NET SALES

Net sales for the thirteen weeks ended March 3, 2018 were \$435.8 million, an increase of \$129.3 million, or 42.2%, compared to net sales of \$306.5 million for the thirteen weeks ended February 25, 2017. The increase was primarily due to an increase in egg selling prices and, to a lesser extent, an increase in dozens sold.

Shell egg sales made up approximately 97.2% of net sales for the thirteen weeks ended March 3, 2018. Dozens sold for the third quarter of fiscal year 2018 were up 9.6 million to 273.2 million, a 3.6% increase from 263.6 million dozen for the third quarter of fiscal 2017. The volume increase accounted for a \$10.8 million increase in net sales.

Net average selling price per dozen of shell eggs was \$1.545 for the thirteen weeks ended March 3, 2018, compared to \$1.130 for the thirteen weeks ended February 25, 2017. The 36.7% increase in average selling price accounted for a \$113.4 million increase in net sales. 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 accounted for 2.8% of net sales for the thirteen weeks ended March 3, 2018. These revenues were \$12.1 million for the thirteen weeks ended March 3, 2018, compared to \$6.4 million for the thirteen weeks ended February 25, 2017.

Net sales for the thirty-nine weeks ended March 3, 2018 were \$1,059.8 million, an increase of \$259.9 million, or 32.5%, compared to net sales of \$799.9 million for the thirty-nine weeks ended February 25, 2017. The increase was primarily due to an increase in egg selling prices and, to a lesser extent, an increase in dozens sold.

Shell egg sales made up approximately 97.3% of net sales for the thirty-nine weeks ended March 3, 2018. Dozens sold for the thirty-nine weeks ended March 3, 2018 were 785.8 million, a 3.6% increase from 758.1 million dozen for the same period of fiscal 2017. The volume increase accounted for a \$28.2 million increase in net sales.

Net average selling price per dozen of shell eggs was \$1.303 for the thirty-nine weeks ended March 3, 2018, compared to \$1.020 for the thirty-nine weeks ended February 25, 2017. The 27.7% increase in average selling price accounted for a \$222.4 million increase in net sales.

Index

Egg products accounted for 2.7% of net sales for the thirty-nine weeks ended March 3, 2018. These revenues were \$29.1 million for the thirty-nine weeks ended March 3, 2018, compared to \$18.3 million for the thirty-nine weeks ended February 25, 2017.

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 | | 39 Weeks Ended | | |
|---|----------------|-------------------|--------------------|-------------------|--------|
| | March 3, 2018 | February 25, 2017 | March 3, 2018 | February 25, 2017 | |
| Total net sales | \$435,820 | \$306,540 | \$1,059,837 | \$799,929 | |
| Non-specialty shell egg | \$286,994 | 67.7 % \$166,893 | 55.6 % \$662,017 | 64.2 % \$403,404 | 51.6 % |
| Specialty shell egg | 128,079 | 30.2 % 122,337 | 40.8 % 343,069 | 33.3 % 344,873 | 44.1 % |
| Co-pack specialty shell egg | 6,956 | 1.7 % 8,522 | 2.8 % 18,875 | 1.8 % 25,492 | 3.3 % |
| Other | 1,697 | 0.4 % 2,346 | 0.8 % 6,792 | 0.7 % 7,828 | 1.0 % |
| Net shell egg sales | \$423,726 | 100.0% \$300,098 | 100.0% \$1,030,753 | 100.0% \$781,597 | 100.0% |
| Net shell egg sales as a percent of total net sales | 97.2 % | 97.9 % | 97.3 % | 97.7 % | |
| Dozens sold: | | | | | |
| Non-specialty shell egg | 203,444 | 74.4 % 196,998 | 74.7 % 596,061 | 75.9 % 571,111 | 75.3 % |
| Specialty shell egg | 66,260 | 24.3 % | | | |