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CAL-MAINE FOODS INC

Form 10-Q

April 01, 2019

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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 March 2, 2019

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 ☐

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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 ☐

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 43,894,478 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 28, 2019.

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**CAL-MAINE FOODS, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
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**FOR THE QUARTER ENDED MARCH 2, 2019**

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

|                                                                                                                                                                                                                        | March 2,<br>2019   | June 2,<br>2018    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                                                                                                                                                        | (unaudited)        |                    |
| <b>ASSETS</b>                                                                                                                                                                                                          |                    |                    |
| Current assets:                                                                                                                                                                                                        |                    |                    |
| Cash and cash equivalents                                                                                                                                                                                              | \$97,370           | \$48,431           |
| Investment securities available-for-sale                                                                                                                                                                               | 244,482            | 282,586            |
| Trade and other receivables (less allowance for doubtful accounts of \$318 and \$268 at March 2, 2019 and June 2, 2018, respectively)                                                                                  | 93,222             | 85,839             |
| Inventories                                                                                                                                                                                                            | 178,418            | 168,644            |
| Prepaid expenses and other current assets                                                                                                                                                                              | 3,912              | 2,020              |
| Total current assets                                                                                                                                                                                                   | 617,404            | 587,520            |
| Property, plant and equipment, net                                                                                                                                                                                     | 439,300            | 425,384            |
| Investments in unconsolidated entities                                                                                                                                                                                 | 68,728             | 66,806             |
| Goodwill                                                                                                                                                                                                               | 35,525             | 35,525             |
| Other intangible assets, net                                                                                                                                                                                           | 24,466             | 26,307             |
| Other long-lived assets                                                                                                                                                                                                | 9,032              | 8,905              |
| <b>TOTAL ASSETS</b>                                                                                                                                                                                                    | <b>\$1,194,455</b> | <b>\$1,150,447</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                                            |                    |                    |
| Current liabilities:                                                                                                                                                                                                   |                    |                    |
| Accounts payable and accrued expenses                                                                                                                                                                                  | \$84,116           | \$87,209           |
| Accrued dividends payable                                                                                                                                                                                              | 13,245             | 17,093             |
| Current maturities of long-term debt and capital lease obligations                                                                                                                                                     | 2,444              | 3,536              |
| Total current liabilities                                                                                                                                                                                              | 99,805             | 107,838            |
| Long-term debt and capital lease obligations, less current maturities                                                                                                                                                  | 677                | 2,554              |
| Other noncurrent liabilities                                                                                                                                                                                           | 8,595              | 8,318              |
| Deferred income taxes                                                                                                                                                                                                  | 77,335             | 76,055             |
| Total liabilities                                                                                                                                                                                                      | 186,412            | 194,765            |
| Contingencies - see Note 5                                                                                                                                                                                             |                    |                    |
| Stockholders' equity:                                                                                                                                                                                                  |                    |                    |
| Common stock, \$0.01 par value, 120,000 authorized and 70,261 shares issued at March 2, 2019, and June 2, 2018, respectively, and 43,895 and 43,831 shares outstanding at March 2, 2019 and June 2, 2018, respectively | 703                | 703                |
| Class A convertible common stock, \$.01 par value, 4,800 shares authorized, issued and outstanding at March 2, 2019 and June 2, 2018                                                                                   | 48                 | 48                 |
| Paid-in capital                                                                                                                                                                                                        | 55,857             | 53,323             |
| Retained earnings                                                                                                                                                                                                      | 974,287            | 924,918            |
| Accumulated other comprehensive income (loss), net of tax                                                                                                                                                              | 39                 | (693 )             |
| Common stock in treasury at cost – 26,366 and 26,430 shares at March 2, 2019 and June 2, 2018                                                                                                                          | (25,865 )          | (24,966 )          |
| <b>Total Cal-Maine Foods, Inc. stockholders' equity</b>                                                                                                                                                                | <b>1,005,069</b>   | <b>953,333</b>     |

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|                                                           |                    |                    |
|-----------------------------------------------------------|--------------------|--------------------|
| Noncontrolling interest in consolidated entities          | 2,974              | 2,349              |
| Total stockholders' equity                                | 1,008,043          | 955,682            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>         | <b>\$1,194,455</b> | <b>\$1,150,447</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   |                  | 39 Weeks Ended   |                  |
|--------------------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                                    | March 2,<br>2019 | March 3,<br>2018 | March 2,<br>2019 | March 3,<br>2018 |
| Net sales                                                          | \$383,992        | \$435,820        | \$1,080,616      | \$1,059,837      |
| Cost of sales                                                      | 301,551          | 315,722          | 870,511          | 840,007          |
| Gross profit                                                       | 82,441           | 120,098          | 210,105          | 219,830          |
| Selling, general, and administrative expense                       | 45,009           | 44,175           | 132,500          | 128,045          |
| Legal settlement expense                                           | —                | —                | 2,250            | 80,750           |
| Gain on disposal of fixed assets                                   | (758)            | (279)            | (847)            | (325)            |
| Operating income                                                   | 38,190           | 76,202           | 76,202           | 11,360           |
| Other income (expense):                                            |                  |                  |                  |                  |
| Interest income, net                                               | 1,986            | 992              | 5,459            | 2,043            |
| Royalty income                                                     | 565              | 169              | 1,784            | 760              |
| Patronage dividends                                                | 10,482           | 8,286            | 10,482           | 8,286            |
| Equity in income of affiliates                                     | 2,111            | 2,379            | 4,449            | 2,302            |
| Other, net                                                         | 147              | 29               | 372              | (1,304)          |
| Total other income                                                 | 15,291           | 11,855           | 22,546           | 12,087           |
| Income before income taxes and noncontrolling interest             | 53,481           | 88,057           | 98,748           | 23,447           |
| Income tax (benefit) expense                                       | 13,616           | (8,301)          | 24,134           | (30,653)         |
| Net income before noncontrolling interest                          | 39,865           | 96,358           | 74,614           | 54,100           |
| Less: Net income (loss) attributable to noncontrolling interest    | 88               | 64               | 625              | (65)             |
| Net income attributable to Cal-Maine Foods, Inc.                   | \$39,777         | \$96,294         | \$73,989         | \$54,165         |
| Net income per common share attributable to Cal-Maine Foods, Inc.: |                  |                  |                  |                  |
| Basic                                                              | \$0.82           | \$1.99           | \$1.53           | \$1.12           |
| Diluted                                                            | \$0.82           | \$1.99           | \$1.52           | \$1.12           |
| Weighted average shares outstanding:                               |                  |                  |                  |                  |
| Basic                                                              | 48,417           | 48,361           | 48,416           | 48,340           |
| Diluted                                                            | 48,533           | 48,476           | 48,545           | 48,460           |

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   |                  | 39 Weeks Ended   |                  |
|------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                                                                      | March 2,<br>2019 | March 3,<br>2018 | March 2,<br>2019 | March 3,<br>2018 |
| Net income, including noncontrolling interests                                                       | \$39,865         | \$96,358         | \$74,614         | \$54,100         |
| Other comprehensive income (loss), before tax:                                                       |                  |                  |                  |                  |
| Unrealized holding gain (loss) on available-for-sale securities, net of reclassification adjustments | 1,217            | (547 )           | 967              | (1,004 )         |
| Income tax benefit (expense) related to items of other comprehensive loss                            | (296 )           | 155              | (235 )           | 340              |
| Other comprehensive income (loss), net of tax                                                        | 921              | (392 )           | 732              | (664 )           |
| Comprehensive income                                                                                 | 40,786           | 95,966           | 75,346           | 53,436           |
| Less: comprehensive income (loss) attributable to the noncontrolling interest                        | 88               | 64               | 625              | (65 )            |
| Comprehensive income attributable to Cal-Maine Foods, Inc.                                           | \$40,698         | \$95,902         | \$74,721         | \$53,501         |

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)**

|                                                                    | 39 Weeks Ended |            |
|--------------------------------------------------------------------|----------------|------------|
|                                                                    | March 2,       | March 3,   |
|                                                                    | 2019           | 2018       |
| Operating activities:                                              |                |            |
| Net income including noncontrolling interest                       | \$74,614       | \$54,100   |
| Depreciation and amortization                                      | 40,857         | 40,331     |
| Other adjustments, net                                             | (20,863 )      | 51,655     |
| Net cash provided by operations                                    | 94,608         | 146,086    |
| Investing activities:                                              |                |            |
| Purchases of investment securities                                 | (122,191)      | (136,921 ) |
| Sales and maturities of investment securities                      | 160,190        | 95,289     |
| Investment in unconsolidated entities                              | (4,272 )       | (4,100 )   |
| Distributions from unconsolidated entities                         | 6,545          | 5,831      |
| Acquisition of business                                            | (17,889 )      | —          |
| Purchases of property, plant and equipment                         | (36,841 )      | (13,639 )  |
| Net proceeds from disposal of property, plant and equipment        | 1,212          | 579        |
| Net cash used by investing activities                              | (13,246 )      | (52,961 )  |
| Financing activities:                                              |                |            |
| Purchase of common stock by treasury                               | (985 )         | (1,128 )   |
| Contributions from noncontrolling interests                        | —              | 279        |
| Principal payments on long-term debt and capital lease obligations | (2,969 )       | (3,662 )   |
| Payment of dividends                                               | (28,469 )      | —          |
| Net cash used in financing activities                              | (32,423 )      | (4,511 )   |
| Net change in cash and cash equivalents                            | 48,939         | 88,614     |
| Cash and cash equivalents at beginning of period                   | 48,431         | 17,564     |
| Cash and cash equivalents at end of period                         | \$97,370       | \$106,178  |

See Notes to Condensed Consolidated Financial Statements.

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**CAL-MAINE FOODS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

March 2, 2019

(unaudited)

**1. Presentation of Interim Information**

The condensed consolidated balance sheet at June 2, 2018 was derived from the audited consolidated financial statements at that date. It does not include all of the information and footnotes required by generally accepted accounting principles (“GAAP”) for complete financial statements.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with 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 2, 2019 are not necessarily indicative of the results that may be expected for the year ending June 1, 2019.

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 2, 2018. References to “we,” “us,” “our,” or the “Company” refer to Cal-Maine Foods, Inc.

**2. Acquisition**

On October 14, 2018, the Company acquired substantially all of the commercial egg production and processing assets of Featherland Egg Farms, Inc. (“Featherland”) for \$17.9 million in cash. The acquired assets include facilities with current capacity for approximately 600,000 laying hens, a feed mill, and related production and distribution facilities located near Marion, Texas. The acquired operations of Featherland are included in the accompanying financial statements as of October 14, 2018. Acquisition related costs incurred during the period were immaterial to the financial statements.

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

|                               |          |
|-------------------------------|----------|
| Inventory                     | \$1,433  |
| Property, plant and equipment | 16,206   |
| Intangible assets             | 250      |
| Purchase price                | \$17,889 |

Pro-forma information was not material to the Company’s Condensed Consolidated Financial Statements.

**3. Stock Based Compensation**

Total stock based compensation expense for the thirty-nine weeks ended March 2, 2019 and March 3, 2018 was \$2.6 million in both periods.

Unrecognized compensation expense as a result of non-vested shares of the 2012 Omnibus Long-Term Incentive Plan at March 2, 2019 was \$7.0 million, and will be recorded over a weighted average period of 2.3 years. Refer to Note 10 of our June 2, 2018 audited financial statements for further information on our stock compensation plans.

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At March 2, 2019, there were 252,388 restricted shares outstanding, with a weighted average grant date fair value of \$43.20 per share. The Company's restricted share activity for the thirty-nine weeks ended March 2, 2019 follows:

|                            | Number<br>of Shares | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|----------------------------|---------------------|----------------------------------------------------|
| Outstanding, June 2, 2018  | 241,290             | \$ 45.30                                           |
| Granted                    | 94,189              | 42.68                                              |
| Vested                     | (75,942 )           | 49.14                                              |
| Forfeited                  | (7,149 )            | 44.00                                              |
| Outstanding, March 2, 2019 | 252,388             | \$ 43.20                                           |

**4. Inventories**

Inventories consisted of the following (in thousands):

|                       | March 2,<br>2019 | June 2,<br>2018 |
|-----------------------|------------------|-----------------|
| Flocks                | \$103,311        | \$96,594        |
| Eggs and egg products | 18,245           | 17,313          |
| Feed and supplies     | 56,862           | 54,737          |
|                       | \$178,418        | \$168,644       |

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 2, 2019 consisted of approximately 9.4 million pullets and breeders and 37.7 million layers.

**5. Contingencies***Financial Instruments*

The Company maintained standby letters of credit ("LOC") totaling \$4.2 million at March 2, 2019. 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.

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



Index**6. Net Income per Common Share**

Basic net income per share was calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share was calculated by dividing net income by the weighted-average number of common shares outstanding during the period plus the dilutive effects of options and restricted stock. 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    |          | 39 Weeks Ended    |          |
|--------------------------------------------------------------------|-------------------|----------|-------------------|----------|
|                                                                    | March 2, March 3, |          | March 2, March 3, |          |
|                                                                    | 2019              | 2018     | 2019              | 2018     |
| Net income attributable to Cal-Maine Foods, Inc.                   | \$39,777          | \$96,294 | \$73,989          | \$54,165 |
| Basic weighted-average common shares                               | 48,417            | 48,361   | 48,416            | 48,340   |
| Effect of dilutive securities:                                     |                   |          |                   |          |
| Restricted shares                                                  | 116               | 115      | 129               | 120      |
| Dilutive potential common shares                                   | 48,533            | 48,476   | 48,545            | 48,460   |
| Net income per common share attributable to Cal-Maine Foods, Inc.: |                   |          |                   |          |
| Basic                                                              | \$0.82            | \$1.99   | \$1.53            | \$1.12   |
| Diluted                                                            | \$0.82            | \$1.99   | \$1.52            | \$1.12   |

**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

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 2, 2019 |         | June 2, 2018 |         |
|--------------|---------------|---------|--------------|---------|
|              | Carrying      | Fair    | Carrying     | Fair    |
|              | Value         | Value   | Value        | Value   |
| Note payable | \$2,019       | \$2,047 | \$4,750      | \$4,732 |



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|                  |         |         |         |         |
|------------------|---------|---------|---------|---------|
| Long-term leases | 1,102   | 967     | 1,340   | 1,171   |
|                  | \$3,121 | \$3,014 | \$6,090 | \$5,903 |

IndexAssets 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 2, 2019 and June 2, 2018 (in thousands):

|                                      |            |           |            | Total     |
|--------------------------------------|------------|-----------|------------|-----------|
| March 2, 2019                        | Level<br>1 | Level 2   | Level<br>3 | Balance   |
| Assets                               |            |           |            |           |
| US government and agency obligations | —          | \$30,770  | —          | \$30,770  |
| Municipal bonds                      | —          | 47,907    | —          | 47,907    |
| Commercial paper                     | —          | 3,223     | —          | 3,223     |
| Corporate bonds                      | —          | 155,571   | —          | 155,571   |
| Certificates of deposits             | —          | 3,020     | —          | 3,020     |
| Asset backed securities              | —          | 3,991     | —          | 3,991     |
| Mutual funds                         | 3,403      | —         | —          | 3,403     |
| Total assets measured at fair value  | \$3,403    | \$244,482 | —          | \$247,885 |

|                                      |            |           |            | Total      |
|--------------------------------------|------------|-----------|------------|------------|
| June 2, 2018                         | Level<br>1 | Level 2   | Level<br>3 | Balance    |
| Assets                               |            |           |            |            |
| US government and agency obligations | \$—        | \$23,817  | \$—        | —\$23,817  |
| Municipal bonds                      | —          | 20,666    | —          | 20,666     |
| Certificates of deposits             | —          | 2,507     | —          | 2,507      |
| Commercial paper                     | —          | 17,920    | —          | 17,920     |
| Corporate bonds                      | —          | 214,083   | —          | 214,083    |
| Variable rate demand notes           | —          | 600       | —          | 600        |
| Asset backed securities              | —          | 2,993     | —          | 2,993      |
| Mutual funds                         | 3,071      | —         | —          | 3,071      |
| Total assets measured at fair value  | \$3,071    | \$282,586 | \$—        | —\$285,657 |

Investment securities – available-for-sale have maturities of three months or longer when purchased, and are classified as current, because they 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 2, 2019 and June 2, 2018 (in thousands):

| March 2, 2019                          | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|----------------------------------------|-------------------|---------------------|----------------------|----------------------------|
| US government and agency obligations   | \$ 30,834         | \$ —                | \$ 64                | \$30,770                   |
| Municipal bonds                        | 47,866            | 41                  | —                    | 47,907                     |
| Commercial paper                       | 3,238             | —                   | 15                   | 3,223                      |
| Corporate bonds                        | 156,040           | —                   | 469                  | 155,571                    |
| Certificates of deposits               | 3,025             | —                   | 5                    | 3,020                      |
| Asset backed securities                | 3,990             | 1                   | —                    | 3,991                      |
| Total current investment securities    | \$ 244,993        | \$ 42               | \$ 553               | \$244,482                  |
| Mutual funds                           | \$ 2,312          | \$ 1,091            | \$ —                 | \$3,403                    |
| Total noncurrent investment securities | \$ 2,312          | \$ 1,091            | \$ —                 | \$3,403                    |
| June 2, 2018                           | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| US government and agency obligations   | \$ 23,991         | \$ —                | \$ 174               | \$23,817                   |
| Municipal bonds                        | 20,697            | —                   | 31                   | 20,666                     |
| Certificates of deposits               | 2,510             | —                   | 3                    | 2,507                      |
| Commercial paper                       | 17,926            | —                   | 6                    | 17,920                     |
| Corporate bonds                        | 215,273           | —                   | 1,190                | 214,083                    |
| Variable rate demand notes             | 600               | —                   | —                    | 600                        |
| Asset backed securities                | 3,010             | —                   | 17                   | 2,993                      |
| Total current investment securities    | \$ 284,007        | \$ —                | \$ 1,421             | \$282,586                  |
| Mutual funds                           | \$ 2,037          | \$ 1,034            | \$ —                 | \$3,071                    |
| Total noncurrent investment securities | \$ 2,037          | \$ 1,034            | \$ —                 | \$3,071                    |

The mutual funds are classified as "Other long-lived assets" in the Company's Condensed Consolidated Balance Sheets. Proceeds from sales and maturities of investment securities were \$160.2 million and \$95.3 million during the thirty-nine weeks ended March 2, 2019 and March 3, 2018, respectively. Gross realized gains for the thirty-nine weeks ended March 2, 2019 and March 3, 2018 were approximately \$55,000 and \$25,000, respectively. Gross realized losses for the thirty-nine weeks ended March 2, 2019 and March 3, 2018 were approximately \$35,000 and \$5,000, 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 taxes, for the thirty-nine weeks ended March 2, 2019 and March 3, 2018 were as follows (in thousands):

|                     |                                          |                                       |
|---------------------|------------------------------------------|---------------------------------------|
|                     | 39 Weeks<br>Ended<br>March<br>2,<br>2019 | 39 Weeks<br>Ended<br>March<br>3, 2018 |
| Current investments | \$689                                    | \$(975)                               |

|                                         |        |          |
|-----------------------------------------|--------|----------|
| Noncurrent investments                  | 43     | 311      |
| Total unrealized holding gains (losses) | \$ 732 | \$ (664) |

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Actual maturities may differ from contractual maturities as some borrowers have the right to call or prepay obligations with or without penalties. Contractual maturities of current investments at March 2, 2019, are as follows (in thousands):

|                 |                            |
|-----------------|----------------------------|
|                 | Estimated<br>Fair<br>Value |
| Within one year | \$ 140,391                 |
| 1-5 years       | 104,091                    |
| Total           | \$ 244,482                 |

**9. Accrued Dividends Payable and Dividends per Common Share**

We accrue dividends 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. For the third quarter of fiscal 2019, the dividend is payable on May 16, 2019, to holders of record on May 1, 2019. 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". At the end of the third quarter of fiscal 2018 on March 3, 2018, the amount of cumulative losses to be recovered before payment of a dividend was \$20.5 million.

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<br>March 2, March 3,<br>2019 2018 |          | 39 Weeks Ended<br>March 2, March 3,<br>2019 2018 |          |
|--------------------------------------------------------------------------------|--------------------------------------------------|----------|--------------------------------------------------|----------|
| Net income attributable to Cal-Maine Foods, Inc.                               | \$39,777                                         | \$96,294 | \$73,989                                         | \$54,165 |
| Net income attributable to Cal-Maine Foods, Inc. available for dividend        | \$39,777                                         | \$—      | \$73,989                                         | \$—      |
| 1/3 of net income attributable to Cal-Maine Foods, Inc. available for dividend | \$13,245                                         | \$—      | \$24,626                                         | \$—      |
| Common stock outstanding (shares)                                              | 43,894                                           | 43,773   |                                                  |          |
| Class A common stock outstanding (shares)                                      | 4,800                                            | 4,800    |                                                  |          |
| Total common stock outstanding (shares)                                        | 48,694                                           | 48,573   |                                                  |          |
| Dividends per common share*                                                    | \$0.272                                          | \$—      | \$0.506                                          | \$—      |

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



Index**10. Equity**

The following reflects the equity activity, including our noncontrolling interest, for the thirteen and thirty-nine weeks ended March 2, 2019 and March 3, 2018 (in thousands):

## Thirteen Weeks Ended March 2, 2019

## Cal-Maine Foods, Inc. Stockholders

## Common Stock

|                                                                                                                                   | Class A Treasury |        |             | Paid In   | Accum.<br>Other<br>Comp. | Retained   | Noncontrolling |              |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------|--------|-------------|-----------|--------------------------|------------|----------------|--------------|
|                                                                                                                                   | Amount           | Amount | Amount      | Capital   | Income<br>(Loss)         | Earnings   | Interest       | Total        |
| Balance at December 1, 2018                                                                                                       | \$ 703           | \$ 48  | \$(24,974 ) | \$ 55,079 | \$(882 )                 | \$ 947,768 | \$ 2,886       | \$ 980,628   |
| Other comprehensive income, net of tax                                                                                            | —                | —      | —           | —         | 921                      | —          | —              | 921          |
| Grant of restricted stock, net of forfeitures                                                                                     | —                | —      | 88          | (88 )     | —                        | —          | —              | —            |
| Purchase of company stock - shares withheld to satisfy withholding obligations in connection with the vesting of restricted stock | —                | —      | (979 )      | —         | —                        | —          | —              | (979 )       |
| Restricted stock compensation                                                                                                     | —                | —      | —           | 866       | —                        | —          | —              | 866          |
| Dividends                                                                                                                         | —                | —      | —           | —         | —                        | (13,258 )  | —              | (13,258 )    |
| Net income                                                                                                                        | —                | —      | —           | —         | —                        | 39,777     | 88             | 39,865       |
| Balance at March 2, 2019                                                                                                          | \$ 703           | \$ 48  | \$(25,865 ) | \$ 55,857 | \$ 39                    | \$ 974,287 | \$ 2,974       | \$ 1,008,043 |

## Thirty-nine Weeks Ended March 2, 2019

## Cal-Maine Foods, Inc. Stockholders

## Common Stock

|                                                                                                                                   | Class A Treasury |        |             | Paid In   | Accum.<br>Other<br>Comp. | Retained   | Noncontrolling |              |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------|--------|-------------|-----------|--------------------------|------------|----------------|--------------|
|                                                                                                                                   | Amount           | Amount | Amount      | Capital   | Income<br>(Loss)         | Earnings   | Interest       | Total        |
| Balance at June 2, 2018                                                                                                           | \$ 703           | \$ 48  | \$(24,966 ) | \$ 53,323 | \$(693 )                 | \$ 924,918 | \$ 2,349       | \$ 955,682   |
| Other comprehensive income, net of tax                                                                                            | —                | —      | —           | —         | 732                      | —          | —              | 732          |
| Grant of restricted stock, net of forfeitures                                                                                     | —                | —      | 86          | (86 )     | —                        | —          | —              | —            |
| Purchase of company stock - shares withheld to satisfy withholding obligations in connection with the vesting of restricted stock | —                | —      | (985 )      | —         | —                        | —          | —              | (985 )       |
| Restricted stock compensation                                                                                                     | —                | —      | —           | 2,620     | —                        | —          | —              | 2,620        |
| Dividends                                                                                                                         | —                | —      | —           | —         | —                        | (24,620 )  | —              | (24,620 )    |
| Net income                                                                                                                        | —                | —      | —           | —         | —                        | 73,989     | 625            | 74,614       |
| Balance at March 2, 2019                                                                                                          | \$ 703           | \$ 48  | \$(25,865 ) | \$ 55,857 | \$ 39                    | \$ 974,287 | \$ 2,974       | \$ 1,008,043 |

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## Thirteen Weeks Ended March 3, 2018

## Cal-Maine Foods, Inc. Stockholders

## Common Stock

|                                                                                                                                   | Class A Treasury |        | Paid In     | Accum.           | Retained | Noncontrolling |          |            |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------|--------|-------------|------------------|----------|----------------|----------|------------|
|                                                                                                                                   | Amount           | Amount | Capital     | Other Comp. Loss | Earnings | Interest       | Total    |            |
| Balance at December 2, 2017                                                                                                       | \$ 703           | \$ 48  | \$(23,940 ) | \$51,670         | \$(400 ) | \$ 773,917     | \$ 1,956 | \$ 803,954 |
| Other comprehensive loss, net of tax                                                                                              | —                | —      | —           | —                | (392 )   | —              | —        | (392 )     |
| Grant of restricted stock, net of forfeitures                                                                                     | —                | —      | 75          | (75 )            | —        | —              | —        | —          |
| Purchase of company stock - shares withheld to satisfy withholding obligations in connection with the vesting of restricted stock | —                | —      | (1,102 )    | —                | —        | —              | —        | (1,102 )   |
| Restricted stock compensation                                                                                                     | —                | —      | —           | 841              | —        | —              | —        | 841        |
| Net income                                                                                                                        | —                | —      | —           | —                | 96,294   | 64             | —        | 96,358     |
| Balance at March 3, 2018                                                                                                          | \$ 703           | \$ 48  | \$(24,967 ) | \$52,436         | \$(792 ) | \$ 870,211     | \$ 2,020 | \$ 899,659 |

## Thirty-nine Weeks Ended March 3, 2018

## Cal-Maine Foods, Inc. Stockholders

## Common Stock

|                                                                                                                                   | Class A |        | Treasury    | Paid In  | Accum.     | Retained  | Noncontrolling |            |
|-----------------------------------------------------------------------------------------------------------------------------------|---------|--------|-------------|----------|------------|-----------|----------------|------------|
|                                                                                                                                   | Amount  | Amount | Amount      | Capital  | Comp. Loss | Earnings  | Interest       | Total      |
| 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, net of forfeitures                                                                                     | —       | —      | 75          | (75 )    | —          | —         | —              | —          |
| Purchase of company stock - shares withheld to satisfy withholding obligations 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 (loss)                                                                                                                 | —       | —      | —           | —        | —          | 54,165    | (65 )          | 54,100     |
| Balance at March 3, 2018                                                                                                          | \$ 703  | \$ 48  | \$(24,967 ) | \$52,436 | \$(792 )   | \$870,211 | \$ 2,020       | \$ 899,659 |

**11. Revenue Recognition***Satisfaction of Performance Obligation*

The vast majority of the Company's revenue is derived from contracts with customers based on the customer placing an order for products. Pricing for the most part is determined when the Company and the customer agree upon the specific order, which establishes the contract for that order.

Revenues are recognized in an amount that reflects the net consideration we expect to receive in exchange for the goods. Our shell eggs are sold at prices related to Urner Barry Spot Egg Market Quotations, negotiated prices or formulas related to our costs of production. The Company's sales predominantly contain a single performance obligation. We recognize revenue upon satisfaction of the performance obligation with the customer which typically occurs within days of the Company and the customer agreeing upon the order.

*Returns and Refunds*

Some of our contracts include a guaranteed sale clause, pursuant to which we credit the customer's account for product that the customer is unable to sell before expiration. The Company records an estimate of returns and refunds by using historical return data and comparing to current period sales and accounts receivable. The allowance is recorded as a reduction in sales with a corresponding reduction in trade accounts receivable.





Index*Disaggregation of Revenue*

The following table provides revenue disaggregated by product category (in thousands):

|                                   | 13 Weeks Ended   |                  | 39 Weeks Ended   |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|
|                                   | March 2,<br>2019 | March 3,<br>2018 | March 2,<br>2019 | March 3,<br>2018 |
| Non-specialty shell egg sales     | 234,960          | 287,259          | \$659,446        | \$662,017        |
| Specialty shell egg sales         | 131,120          | 128,079          | 364,222          | 343,069          |
| Co-pack specialty shell egg sales | 7,052            | 6,956            | 20,055           | 18,875           |
| Egg products                      | 9,520            | 12,095           | 32,656           | 29,085           |
| Other                             | 1,340            | 1,431            | 4,237            | 6,791            |
|                                   | \$383,992        | \$435,820        | \$1,080,616      | \$1,059,837      |

*Contract Costs*

The Company can incur costs to obtain or fulfill a contract with a customer. The amortization period of these costs is less than one year; therefore, they are expensed as incurred.

*Contract Balances*

The Company receives payment from customers based on specified terms that are generally less than 30 days from delivery. There are rarely contract assets or liabilities related to performance under the contract.

*Impact of Adoption*

The Company adopted the revenue recognition standard ("ASU 2014-09") on June 3, 2018 utilizing the full retrospective method. The Company's assessment efforts included an evaluation of certain revenue contracts with customers and related sales incentives. Adoption of ASU 2014-09 did not have an impact on the Company's results of operations or financial position; therefore, there was no adjustment to previously reported results.

## **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 future production data, expected construction schedules, projected construction costs, potential future supply of and demand for our products, potential future corn and soybean price trends, potential future impact on our business of new legislation, rules or policies, potential outcomes of legal proceedings, and other projected 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 outcomes or results 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 2, 2018, 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)



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risks, changes, or obligations that could result from our future acquisition of new flocks or businesses and risks or changes that may cause conditions to completing a pending acquisition not to be met, and (vi) adverse results in pending litigation matters. Readers are cautioned not to place undue reliance on forward-looking statements because, while we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate. Further, forward-looking statements included herein are only made as of the respective dates thereof, or if no date is stated, as of the date hereof. Except as otherwise required by law, we disclaim any intent or obligation to update publicly these forward-looking statements, whether because of new information, future events, or otherwise.

## OVERVIEW

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

Our operations are fully integrated. At our facilities we hatch chicks, grow and maintain flocks of pullets (young female chickens, under 18 weeks of age), layers (mature female chickens) and breeders (male and female birds used to produce fertile eggs to 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 Urner-Barry Southeastern Regional Large Egg Market Price per dozen eggs (“UB southeastern large index”) for our fiscal years 2014-2018 ranged from a low of \$0.58 in fiscal year 2016 to a high of \$3.00 in fiscal year 2018. 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. Historically, shell egg prices have increased 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. 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.

For the third quarter, the average UB southeastern large index price was down 19.5% compared with the prior-year period. At the same time, due to the strength of our specialty business, our net average selling price for shell eggs for

the thirteen weeks ended March 2, 2019 was down 11.1% to \$1.373 compared with \$1.545 for the corresponding period of fiscal 2018. While demand trends have been strong in 2019, particularly for our specialty egg business, we believe supply concerns have affected market prices. Actual hen numbers from the March 2019 USDA report are 336.1 million, up 1.7% over last year. These numbers continue to trend upwards, which could negatively affect average market prices for our fourth fiscal quarter and throughout calendar 2019.

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We are one of the largest producers and marketers of value-added specialty shell eggs in the U.S. Specialty shell eggs have been a significant and growing portion of the market. In recent years, a significant 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 convertible to cage-free, based on a timeline to meet our customer's needs.

Additionally, in November 2018 California passed Proposition 12, which provides for minimum space requirements per hen beginning in 2020 and mandates that all eggs or egg products sold in California must be cage-free by 2022. While our direct sales into California have not been material, we expect that Proposition 12 will affect sourcing and production of eggs in California, as well as future supply and pricing in other areas of the country. In response to these developments, on March 29, 2019, our Board of Directors approved a major expansion of the cage-free capacity at the Company's Delta, Utah facility. This expansion includes new facilities for 2.0 million cage-free hens, pullets and a processing plant, as well as renovation of existing capacity to cage-free for another 1.4 million hens, with initial capacity expected to come on line in late 2019 and completion by early 2022. With these additions, the Delta facility will have approximately 3.4 million cage-free hens to help meet the demands of the California market. Other approved expansion projects include adding pullets and cage-free capacity for 1.0 million hens in Pittsburg, Texas, and building new cage-free pullet housing in Zephyrhills, Florida. The total approved capital expenditures for these expansion projects is \$148 million. See the table under "Capital Resources and Liquidity" later in this section for further information on capital expenditure projects.

For the thirteen weeks ended March 2, 2019 and March 3, 2018, we produced approximately 82% and 81% of the total number of shell eggs we sold, respectively. For the thirteen weeks ended March 2, 2019 and March 3, 2018, approximately 10% 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% of our total farm egg production cost for the thirteen weeks ended March 2, 2019 and March 3, 2018. 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, storage costs, demand, and the agricultural and energy policies of the U.S. and foreign governments. The USDA reported a record harvest for 2018's corn and soybean crops, resulting in a large carryout, or supply, into 2019 that should provide an ample supply of feed ingredients for the rest of our fiscal 2019. However, grain prices have been volatile due to the geopolitical issues and uncertainties surrounding the latest international tariff policies.

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## 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          | March   | March          | March   |
|                                                                 | 2, 2019        | 3, 2018 | 2, 2019        | 3, 2018 |
| Net sales                                                       | 100.0 %        | 100.0 % | 100.0 %        | 100.0 % |
| Cost of sales                                                   | 78.5 %         | 72.4 %  | 80.6 %         | 79.3 %  |
| Gross profit                                                    | 21.5 %         | 27.6 %  | 19.4 %         | 20.7 %  |
| Selling, general, and administrative expense                    | 11.7 %         | 10.1 %  | 12.2 %         | 12.1 %  |
| Legal settlement expense                                        | — %            | — %     | 0.2 %          | 7.7 %   |
| Gain on disposal of fixed assets                                | (0.2 )%        | (0.1 )% | (0.1 )%        | — %     |
| Operating income                                                | 10.0 %         | 17.6 %  | 7.1 %          | 0.9 %   |
| Other income, net                                               | 4.0 %          | 2.7 %   | 2.1 %          | 1.1 %   |
| Income before income taxes and noncontrolling interest          | 14.0 %         | 20.3 %  | 9.2 %          | 2.0 %   |
| Income tax (benefit) expense                                    | 3.5 %          | (1.9 )% | 2.2 %          | (2.9 )% |
| Net income before noncontrolling interest                       | 10.5 %         | 22.2 %  | 7.0 %          | 4.9 %   |
| Less: Net income (loss) attributable to noncontrolling interest | — %            | — %     | 0.1 %          | — %     |
| Net income attributable to Cal-Maine Foods, Inc.                | 10.5 %         | 22.2 %  | 6.9 %          | 4.9 %   |

## NET SALES

Net sales for the thirteen weeks ended March 2, 2019 were \$384.0 million, a decrease of \$51.8 million, or 11.9%, compared to net sales of \$435.8 million for the thirteen weeks ended March 3, 2018. The decrease was primarily due to a decrease in egg selling prices as well as a small reduction in dozens sold for the current year period. The decline in net sales compared to the prior-year period was affected by the timing of the Easter holiday, which occurred three weeks earlier in fourth quarter 2018 and was preceded by a strong pre-holiday sales bump in our third quarter last year.

Shell egg sales made up approximately 97.5% of net sales for the thirteen weeks ended March 2, 2019. Dozens sold for the thirteen weeks ended March 2, 2019 were 271.8 million, a 0.5% decrease from 273.2 million dozen for the same period of fiscal 2018. The volume decrease accounted for a \$2.2 million decrease in net sales.

Net average selling price per dozen of shell eggs was \$1.373 for the thirteen weeks ended March 2, 2019, compared to \$1.545 for the thirteen weeks ended March 3, 2018. The 11.1% decrease in average selling price accounted for a \$47.0 million decrease in net sales.

Egg products accounted for 2.5% of net sales for the thirteen weeks ended March 2, 2019. These revenues were \$9.5 million for the thirteen weeks ended March 2, 2019, compared to \$12.1 million for the thirteen weeks March 3, 2018.

Net sales for the thirty-nine weeks ended March 2, 2019 were \$1,080.6 million, an increase of \$20.8 million, or 2.0%, compared to net sales of \$1,059.8 million for the thirty-nine weeks ended March 3, 2018. The increase was primarily due to an increase in year-to-date egg selling prices.

Shell egg sales made up approximately 97.0% of net sales for the thirty-nine weeks ended March 2, 2019. Dozens sold for the thirty-nine weeks ended March 2, 2019 were 784.1 million, a slight decrease from 785.8 million dozen sold for the same period of fiscal 2018. The volume decrease accounted for a \$2.1 million decrease in net sales.





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Net average selling price per dozen of shell eggs was \$1.331 for the thirty-nine weeks ended March 2, 2019, compared to \$1.303 for the thirty-nine weeks ended March 3, 2018. The 2.1% increase in average selling price accounted for a \$22.0 million increase in net sales.

Egg products accounted for 3.0% of net sales for the thirty-nine weeks ended March 2, 2019. These revenues were \$32.7 million for the thirty-nine weeks ended March 2, 2019, compared to \$29.1 million for the thirty-nine weeks ended March 3, 2018.

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 2, 2019  |         | March 3, 2018 |         | March 2, 2019  |         | March 3, 2018 |         |
| Total net sales                                     | \$383,992      |         | \$435,820     |         | \$1,080,616    |         | \$1,059,837   |         |
| Non-specialty shell eggs                            | \$234,960      | 62.7 %  | \$287,259     | 67.8 %  | \$659,446      | 62.9 %  | \$662,017     | 64.2 %  |
| Specialty shell eggs                                | 131,120        | 35.0 %  | 128,079       | 30.2 %  | 364,222        | 34.8 %  | 343,069       | 33.3 %  |
| Co-pack specialty shell eggs                        | 7,052          | 1.9 %   | 6,956         | 1.7 %   | 20,055         | 1.9 %   | 18,875        | 1.8 %   |
| Other                                               | 1,340          | 0.4 %   | 1,431         | 0.3 %   | 4,237          | 0.4 %   | 6,791         | 0.7 %   |
| Net shell egg sales                                 | \$374,472      | 100.0 % | \$423,725     | 100.0 % | \$1,047,960    | 100.0 % | \$1,030,752   | 100.0 % |
| Net shell egg sales as a percent of total net sales | 97.5 %         |         | 97.2 %        |         | 97.0 %         |         | 97.3 %        |         |
| Dozens sold:                                        |                |         |               |         |                |         |               |         |
| Non-specialty shell eggs                            | 201,179        | 74.0 %  | 203,444       | 74.4 %  | 585,741        | 74.7 %  | 596,061       | 75.9 %  |
| Specialty shell eggs                                | 67,093         | 24.7 %  | 66,260        | 24.3 %  | 188,224        | 24.0 %  | 179,941       | 22.9 %  |
| Co-pack specialty shell eggs                        | 3,533          | 1.3 %   | 3,505         | 1.3 %   | 10,163         | 1.3 %   | 9,756         | 1.2 %   |
| Total dozens sold                                   | 271,805        | 100.0 % | 273,209       | 100.0 % | 784,128        | 100.0 % | 785,758       | 100.0 % |
| Net average selling price per dozen:                |                |         |               |         |                |         |               |         |
| Non-specialty shell eggs                            | \$1.168        |         | \$1.413       |         | \$1.126        |         | \$1.111       |         |
| Specialty shell eggs                                | \$1.954        |         | \$1.933       |         | \$1.935        |         | \$1.907       |         |
| All shell eggs                                      | \$1.373        |         | \$1.545       |         | \$1.331        |         | \$1.303       |         |

Non-specialty shell eggs include all shell egg sales not specifically identified as specialty or co-pack specialty shell egg sales. This market is characterized generally by an inelasticity of demand. Small increases or decreases in

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production or demand can have a large positive or adverse effect on selling prices. For the thirteen weeks ended March 2, 2019, non-specialty egg dozens sold decreased 1.1%. The average selling price decreased 17.3% to \$1.168 from \$1.413 for the same period of fiscal 2018. For the thirty-nine weeks ended March 2, 2019, non-specialty shell egg dozens sold decreased 1.7%. The average selling price increased 1.4% to \$1.126 from \$1.111 for the same period of fiscal 2018.

Specialty shell eggs, which include nutritionally enhanced, cage-free, organic, and brown eggs continue to make up a large portion of our total shell egg revenue and dozens sold. Specialty egg retail prices are less cyclical than non-specialty shell egg prices and are generally higher due to consumer willingness to pay for the perceived benefits from these products. For the thirteen weeks ended March 2, 2019, specialty shell egg dozens sold increased 1.3%, and the average selling price increased 1.1% to \$1.954 from \$1.933 for the same period of fiscal 2018. For the thirty-nine weeks ended March 2, 2019, specialty shell egg dozens sold increased 4.6%, and the average selling price increased 1.5% to \$1.935 from \$1.907 for the same period of fiscal 2018.

Co-pack specialty shell eggs are sold primarily through co-pack arrangements, a common practice in the industry whereby production and processing of certain products is outsourced to another producer. Co-pack specialty shell eggs sold during the thirty-nine weeks ended March 2, 2019 and March 3, 2018 were 10.2 million and 9.8 million dozen, respectively, which represented 1.3% and 1.2% of total dozens sold for those periods.

The shell egg sales classified as “Other” represent sales of hard cooked eggs, hatching eggs, and other miscellaneous products, which are included with our shell egg operations.

Egg products are shell eggs that are broken and sold in liquid, frozen, or dried form. Our egg products are sold through our wholly-owned subsidiary American Egg Products, LLC (“AEP”) and our majority owned subsidiary Texas Egg Products, LLC (“TEP”).

For the third quarter of fiscal 2019, egg product sales were \$9.5 million, a decrease of \$2.6 million, or 21.5%, compared to \$12.1 million for the same period of fiscal 2018. Pounds sold for the third quarter of fiscal 2019 were 14.7 million, a decrease of 0.8 million, or 5.5%, compared to the same period of fiscal 2018. The selling price per pound for the third quarter of fiscal 2019 was \$0.650 compared to \$0.782 for the same period of fiscal 2018, a 16.9% decrease.

thirty-nine weeks ended March 2, 2019, egg product sales were \$32.7 million, an increase of \$3.6 million compared to \$29.1 million for the same period of fiscal 2018. Pounds sold for the thirty-nine weeks ended March 2, 2019 were 45.2 million, a decrease of 0.2 million, or 0.4%, compared to the same period of fiscal 2018. The selling price per pound for the thirty-nine weeks ended March 2, 2019 was \$0.725 compared to \$0.644 for the same period of fiscal 2018, a 12.6% increase.

## COST OF SALES

Cost of sales consists of costs directly related to production, processing and packing of shell eggs, purchases of shell eggs from outside producers, processing and packing of liquid and frozen egg products, and other non-egg costs. Farm production costs are those costs incurred at the egg production facility, including feed, facility, hen amortization, and other related farm production costs.

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The following table presents the key variables affecting cost of sales (in thousands, except cost per dozen data).

|                                                         | 13 Weeks Ended   |                  |                   | 39 Weeks Ended   |                  |                   |
|---------------------------------------------------------|------------------|------------------|-------------------|------------------|------------------|-------------------|
|                                                         | March 2,<br>2019 | March 3,<br>2018 | Percent<br>Change | March 2,<br>2019 | March 3,<br>2018 | Percent<br>Change |
| <u>Cost of Sales:</u>                                   |                  |                  |                   |                  |                  |                   |
| Farm production                                         | \$162,595        | \$152,224        | 6.8 %             | \$473,655        | \$448,416        | 5.6 %             |
| Processing, packaging, and warehouse                    | 57,126           | 55,525           | 2.9 %             | 167,181          | 160,344          | 4.3 %             |
| Egg purchases and other (including change in inventory) | 74,295           | 97,796           | (24.0)%           | 205,096          | 205,849          | (0.4 )%           |
| Total shell eggs                                        | 294,016          | 305,545          | (3.8 )%           | 845,932          | 814,609          | 3.8 %             |
| Egg products                                            | 7,443            | 10,041           | (25.9)%           | 23,881           | 24,808           | (3.7 )%           |
| Other                                                   | 92               | 136              | (32.4)%           | 698              | 590              | 18.3 %            |
| Total                                                   | \$301,551        | \$315,722        | (4.5 )%           | \$870,511        | \$840,007        | 3.6 %             |
| <u>Farm production cost (per dozen produced)</u>        |                  |                  |                   |                  |                  |                   |
| Feed                                                    | \$0.421          | \$0.396          | 6.3 %             | \$0.416          | \$0.387          | 7.5 %             |
| Other                                                   | \$0.320          | \$0.297          | 7.7 %             | \$0.316          | \$0.300          | 5.3 %             |
| Total                                                   | \$0.741          | \$0.693          | 6.9 %             | \$0.732          | \$0.687          | 6.6 %             |
| Outside egg purchases (average cost per dozen)          | \$1.30           | \$1.59           | (18.2)%           | \$1.31           | \$1.35           | (3.0 )%           |
| Dozen produced                                          | 222,213          | 221,119          | 0.5 %             | 654,380          | 657,578          | (0.5 )%           |
| Dozen sold                                              | 271,805          | 273,209          | (0.5 )%           | 784,128          | 785,758          | (0.2 )%           |

Cost of sales for the third quarter of fiscal 2019 was \$301.6 million, a decrease of \$14.2 million, or 4.5%, from \$315.7 million for the third quarter of fiscal 2018. This decrease was primarily driven by a decrease in the cost of outside egg purchases. Feed cost per dozen for the third quarter of fiscal 2019 was \$0.421, compared to \$0.396 per dozen for the third quarter of fiscal 2018, an increase of 6.3%, due to increased ingredient costs. This resulted in an increase in cost of sales of approximately \$5.5 million. The increase in ingredient costs was primarily related to less favorable crop conditions in the south central U. S., which adversely affected ingredient prices at some of our larger feed mill operations. Also, our organic and other specialty egg production continues to grow, which requires a higher priced feed formulation. Other farm production cost increased 7.7% to \$0.320 per dozen for the third quarter of fiscal 2019 compared to \$0.297 for the same period of last year. Processing, packaging, and warehouse cost increased 2.9% for the current year period over the same period of a year ago primarily due to increases in processing costs.

Cost of sales for the thirty-nine weeks ended March 2, 2019 was \$870.5 million, an increase of \$30.5 million, or 3.6%, from \$840.0 million for the same period of fiscal 2018. The increase was primarily driven by increased farm production costs. Dozens produced decreased 0.5% compared to the same period of fiscal 2018 as we adjusted flock rotations early in fiscal 2019 in order to maximize production for the holiday season. Feed cost per dozen for the thirty-nine weeks ended March 2, 2019, was \$0.416, compared to \$0.387 per dozen for the comparable period of fiscal 2018, an increase of 7.5%, due to increased ingredient costs. This resulted in an increase in cost of sales of approximately \$19.1 million compared to the prior year period. Other farm production cost per dozen produced increased 5.3% to \$0.316 for the thirty-nine weeks ended March 2, 2019, compared to \$0.300 for the same period of last year primarily due to increased fixed costs for year-over-year periods and reduced dozens produced. Processing, packaging, and warehouse cost increased 4.3% for the current year period over the same period of a year ago primarily due to processing more outside egg purchases and increases in processing, packaging and container costs.



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Gross profit for the third quarter of fiscal 2019 was \$82.4 million compared to \$120.1 million for the third quarter of fiscal 2018, primarily as a result of the decrease in the average selling price of non-specialty eggs along with the other factors discussed above. For the thirty-nine weeks ended March 2, 2019, gross profit decreased to \$210.1 million from \$219.8 million for the same period of fiscal 2018 primarily due to increases in feed and other costs, partially offset by the increase in average customer selling prices.

## SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses include costs of marketing, distribution, accounting, and corporate overhead. The following table presents an analysis of our selling, general, and administrative expenses (in thousands).

|                            | 13 Weeks Ended |               |           |          |
|----------------------------|----------------|---------------|-----------|----------|
|                            | March 2, 2019  | March 3, 2018 | \$ Change | % Change |
| Specialty egg expense      | \$14,218       | \$13,848      | \$ 370    | 2.7 %    |
| Delivery expense           | 13,442         | 13,443        | (1 )      | — %      |
| Payroll and overhead       | 9,663          | 9,425         | 238       | 2.5 %    |
| Stock compensation expense | 866            | 841           | 25        | 3.0 %    |
| Other expenses             | 6,820          | 6,618         | 202       | 3.1 %    |
| Total                      | \$45,009       | \$44,175      | \$ 834    | 1.9 %    |

March 2, 2019, selling, general, and administrative expense was \$45.0 million compared to \$44.2 million for the thirteen weeks ended March 3, 2018. Specialty egg expense increased \$370,000, or 2.7%, compared to the same period of the prior year. Specialty egg expense typically fluctuates with specialty egg dozens sold, which increased 1.3% for the thirteen weeks ended March 2, 2019. Advertising expense, which is a component of specialty egg expense, also contributed to the increase in specialty egg expense in the current period.

|                            | 39 Weeks Ended |               |           |          |
|----------------------------|----------------|---------------|-----------|----------|
|                            | March 2, 2019  | March 3, 2018 | \$ Change | % Change |
| Specialty egg expense      | \$40,973       | \$37,422      | \$3,551   | 9.5 %    |
| Delivery expense           | 40,145         | 39,680        | 465       | 1.2 %    |
| Payroll and overhead       | 28,845         | 27,168        | 1,677     | 6.2 %    |
| Stock compensation expense | 2,620          | 2,579         | 41        | 1.6 %    |
| Other expenses             | 19,917         | 21,196        | (1,279 )  | (6.0 )%  |
| Total                      | \$132,500      | \$128,045     | \$4,455   | 3.5 %    |

For the thirty-nine weeks ended March 2, 2019, selling, general, and administrative expense was \$132.5 million, an increase of \$4.5 million, or 3.5%, compared to \$128.0 million for the thirty-nine weeks ended March 3, 2018. Specialty egg expense increased \$3.6 million, or 9.5%, compared to the same period of last year. Specialty egg expense typically fluctuates with specialty egg dozens sold, which increased 4.6% for the thirty-nine weeks ended March 2, 2019. Advertising expense, which is a component of specialty egg expense, also contributed to the increase in specialty egg expense due to an increase in refunded promotional allowances in the prior year period. Payroll and overhead increased \$1.7 million, or 6.2%, compared to the same period of fiscal 2018 primarily due to a change in the timing of accruals related to sick leave benefits. Other expenses for the thirty-nine weeks ended March 2, 2019 compared to the same period of prior year, were down \$1.3 million, or 6.0%, primarily due to reduced legal and audit expense.

LEGAL SETTLEMENT EXPENSE

thirty-nine weeks ended March 2, 2019 was \$2.3 million compared to \$80.8 million for the same period of last fiscal year, primarily reflecting settlements of several direct action purchasers' antitrust claims against the Company.

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OPERATING INCOME

As a result of the above, operating income was \$38.2 million for the third quarter of fiscal 2019, compared to \$76.2 million for the same period of fiscal 2018.

For the thirty-nine weeks ended March 2, 2019, we recorded an operating income of \$76.2 million compared to \$11.4 million for the same period of fiscal 2018.

OTHER INCOME (EXPENSE)

Total other income (expense) consists of items not directly charged to, or related to, operations such as interest income and expense, royalty income, equity in income or loss of affiliates, and patronage income, among other items.

third quarter of fiscal 2019, we earned \$2.1 million of interest income compared to \$1.1 million for the same period of last year. This resulted from higher interest rates earned during the period and higher average invested balances. The Company recorded interest expense of \$115,000 and \$104,000, of which \$0 and \$8,000 was capitalized, in the third quarters of fiscal 2019 and 2018, respectively.

For the thirty-nine weeks ended March 2, 2019, we earned \$5.8 million of interest income compared to \$2.2 million for the same period of fiscal 2018. The increase resulted from higher interest rates during the period and higher average invested balances. The Company recorded interest expense of \$358,000 and \$387,000, of which zero and \$214,000 was capitalized, for the thirty-nine weeks ended March 2, 2019 and March 3, 2018, respectively.

Patronage dividends, which represent distributions from our membership in Eggland's Best, Inc., increased \$2.2 million from \$8.3 million for the thirteen and thirty-nine weeks ended March 3, 2018 to \$10.5 million for the thirteen and thirty-nine weeks ended March 2, 2019.

Equity in income of affiliates for the thirty-nine weeks ended March 2, 2019 was income of \$4.4 million compared to \$2.3 million for the same period of fiscal 2018. The increase of \$2.1 million is primarily due to improved results at our Red River Valley Egg Farm joint venture.

Other, net for the thirty-nine weeks ended March 2, 2019, was income of \$372,000 compared to a loss of \$1.3 million for the same period of fiscal 2018, primarily driven by uninsured losses in the prior year period.

INCOME TAXES

For the thirteen weeks ended March 2, 2019, pre-tax income was \$53.5 million compared to \$88.1 million for the same period of fiscal 2018. For thirteen weeks ended March 2, 2019, income tax expense of \$13.6 million was recorded, with an effective tax rate of 25.5%, compared to income tax benefit of \$8.3 million for the comparable period of 2018, which reflects an effective tax rate of 31.8% excluding the impact of discrete items related to a \$35 million tax benefit recorded in the third quarter of 2018 in connection with the Tax Cuts and Jobs Act of 2017 ("the Act").

For the thirty-nine weeks ended March 2, 2019, pre-tax income was \$98.7 million compared to \$23.4 million for the same period of fiscal 2018. For the thirty-nine weeks ended March 2, 2019 income tax expense of \$24.1 million was recorded, with an effective tax rate of 24.6%, compared to an income tax benefit of \$30.7 million for the comparable period of 2018, which reflects an effective tax rate of 24.0% excluding the impact of discrete items related to the \$35 million tax benefit recorded during the thirty-nine weeks ended March 3, 2018 in connection with the Act.

The effective rate decrease for the thirty-nine weeks ended March 2, 2019 was primarily related to the change in the federal statutory rate from 35% to 21%, resulting from the Act, which was enacted on December 22, 2017.

At March 2, 2019, accounts payable and accrued expense included income taxes payable of \$13.2 million compared to \$17.1 million at June 2, 2018.



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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 and net income or loss attributable to noncontrolling interest.

### NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST

For the thirteen weeks ended March 2, 2019, net income attributable to noncontrolling interest was \$88,000 compared to \$64,000 for the same period of fiscal 2018.

For the thirty-nine weeks ended March 2, 2019, net income attributable to noncontrolling interest was \$625,000 compared to net loss attributable to noncontrolling interest of \$65,000 for the same period of fiscal 2018. This is attributable to income and losses from the Company's majority owned subsidiary.

### NET INCOME ATTRIBUTABLE TO CAL-MAINE FOODS, INC.

Net income for the thirteen weeks ended March 2, 2019 was \$39.8 million, or \$0.82 per basic and diluted share, compared to \$96.3 million, or \$1.99 per basic and diluted share for the same period of last year.

Net income for the thirty-nine weeks ended March 2, 2019 was \$74.0 million, or \$1.53 per basic share and \$1.52 per diluted share, compared to \$54.2 million, or \$1.12 per basic and diluted share, for the same period of fiscal 2018.

### CAPITAL RESOURCES AND LIQUIDITY

Our working capital at March 2, 2019 was \$517.6 million, compared to \$479.7 million at June 2, 2018. The calculation of working capital is defined as current assets less current liabilities. Our current ratio was 6.19 at March 2, 2019, compared with 5.45 at June 2, 2018.

Our long-term debt at March 2, 2019, including current maturities, was \$3.1 million, compared to \$6.1 million at June 2, 2018. On July 10, 2018, we entered into a \$100.0 million Senior Secured Revolving Credit Facility ("the Revolving Credit Facility"). As of March 2, 2019, no amounts were borrowed under the Revolving Credit Facility. We have \$4.2 million in outstanding standby letters of credit, which are collateralized by cash for the benefit of certain insurance companies. Refer to Notes 8 and 16 of our June 2, 2018 audited financial statements for further information regarding our long-term debt.

For the thirty-nine weeks ended March 2, 2019, \$94.6 million in net cash was provided by operating activities, a decrease of \$51.5 million, compared to \$146.1 million for the comparable period in fiscal 2018. Decreased accounts payable and an increase in receivables in the current year contributed to our decrease in cash flow from operations.

For the thirty-nine weeks ended March 2, 2019, approximately \$160.2 million was provided from the sale and maturity of short-term investment securities compared to \$95.3 million for the thirty-nine weeks ended March 3, 2018. We used \$122.2 million and \$136.9 million for purchases of short-term investment securities for the thirty-nine weeks ended March 2, 2019 and March 3, 2018, respectively.

We invested \$4.3 million in unconsolidated entities in the first three quarters fiscal 2019 compared to \$4.1 million for the same period fiscal 2018. Approximately \$36.8 million was used to purchase property, plant and equipment compared to \$13.6 million in the thirty-nine weeks ended March 3, 2018. In the first three quarters fiscal 2019, we used \$17.9 million for the acquisition of Featherland Egg Farms, Inc. We received \$6.5 million in distributions from unconsolidated entities during the thirty-nine weeks ended March 2, 2019 compared to \$5.8 million in the first three

quarters of fiscal 2018. We used \$3.0 million for principal payments on long-term debt and capital leases, including the final payment on a 5.4% note payable that matured in the first quarter, compared to \$3.7 million for the same period of fiscal 2018. We paid out \$28.5 million in dividends during first three quarters of fiscal 2019 compared to zero for the same period of last year.

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As of March 2, 2019, cash increased approximately \$48.9 million since June 2, 2018 compared to an increase of \$88.6 million during the same period of fiscal 2018.

Certain property, plant, and equipment is pledged as collateral on our note payable. Unless otherwise approved by our lenders, we are required by provisions of our loan agreement governing the note to (1) maintain minimum levels of working capital (current ratio of not less than 1.25 to 1) and net worth (minimum of \$90.0 million tangible net worth, plus 45% of cumulative net income since the fiscal year ended May 28, 2005); (2) limit dividends paid in any given quarter to not exceed an amount equal to one-third of the previous quarter's consolidated net income (allowed if no events of default); (3) maintain minimum total funded debt to total capitalization (debt to total tangible capitalization ratio not to exceed 55%); and (4) maintain various cash-flow coverage ratios (1.25 to 1), among other restrictions. At March 2, 2019, we were in compliance with the financial covenant requirements of all loan agreements. Under the loan agreement, the lenders have the option to require the prepayment of any outstanding borrowings in the event we undergo a change in control, as defined in the loan agreement. Our debt agreement requires Fred R. Adams, Jr., our Founder and Chairman Emeritus, or his family, to maintain ownership of Company shares representing not less than 50% of the outstanding voting power of the Company.

The Revolving Credit Facility is guaranteed by all the current and future wholly-owned direct and indirect domestic subsidiaries of the Company, and is secured by a first-priority perfected security interest in substantially all of the Company's and the guarantors' accounts, payment intangibles, instruments (including promissory notes), chattel paper, inventory (including farm products) and deposit accounts maintained with the administrative agent. The credit agreement governing our Revolving Credit Facility contains customary covenants including restrictions on the incurrence of liens, incurrence of additional debt, sales of assets and other fundamental corporate changes and investments. The credit agreement requires maintenance of two financial covenants (i) a minimum working capital ratio of 2.0 to 1.0 and (ii) an annual limit on capital expenditures of \$100.0 million. Additionally, the credit agreement requires that Fred R. Adams Jr., his spouse, natural children, sons-in-law or grandchildren, or any trust, guardianship, conservatorship or custodianship for the primary benefit of any of the foregoing, or any family limited partnership, similar limited liability company or other entity that 100% of the voting control of such entity is held by any of the foregoing, shall maintain at least 50% of the outstanding voting power of the Company. Failure to satisfy any of these covenants will constitute a default under the terms of the credit agreement. In addition, under the terms of the credit agreement, dividends are restricted to the Company's current dividend policy of one-third of the Company's net income computed in accordance with generally accepted accounting principles. The Company is allowed to repurchase up to \$75.0 million of its capital stock in any year provided there is no default under the credit agreement and the borrower has availability of at least \$20.0 million under the Revolving Credit Facility.

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In recent years we have made significant investments in new and remodeled facilities to meet the increasing demand for cage-free, organic and other specialty eggs, including our Red River joint venture. On March 29, 2019, we announced plans for a major expansion of the cage-free capacity at our Delta, Utah facility as well as expansions in Pittsburg, Texas and Zephyrhills, Florida, which we expect to finance with cash on hand, investments and operating cash flow. The following table represents material construction projects approved as of March 29, 2019 (in thousands):

| <b>Project</b>                                      | <b>Location</b> | <b>Projected Completion</b> | <b>Projected Cost</b> | <b>Spent as of March 2, 2019</b> | <b>Remaining Projected Cost</b> |
|-----------------------------------------------------|-----------------|-----------------------------|-----------------------|----------------------------------|---------------------------------|
| Convertible/Cage-Free Layer Houses                  | Pittsburg, TX   | June 2019                   | \$ 11,069             | \$ 8,415                         | \$ 2,654                        |
| Convertible/Cage-Free Layer Houses                  | Lake City, FL   | September 2019              | 11,782                | 4,032                            | 7,750                           |
| Convertible/Cage-Free Layer Houses                  | Harwood, TX     | November 2019               | 12,505                | 1,012                            | 11,493                          |
| Convertible/Cage-Free Layer Houses                  | Bushnell, FL    | January 2020                | 11,543                | 2,599                            | 8,944                           |
| Convertible/Cage-Free Layer Houses                  | Bushnell, FL    | February 2020               | 6,151                 | 5                                | 6,146                           |
| Cage-Free Pullet Houses                             | Zephyrhills, FL | February 2020               | 6,332                 | —                                | 6,332                           |
| Convertible/Cage-Free Layer & Pullet Houses         | Pittsburg, TX   | October 2020                | 25,550                | —                                | 25,550                          |
| Convertible/Cage-Free Layer Houses                  | Delta, UT       | February 2021               | 17,964                | —                                | 17,964                          |
| Cage-Free Layer & Pullet Houses/Processing Facility | Delta, UT       | February 2022               | 98,216                | —                                | 98,216                          |
|                                                     |                 |                             | \$ 201,112            | \$ 16,063                        | \$ 185,049                      |

We believe our current cash balances, investments, cash flows from operations, and Revolving Credit Facility will be sufficient to fund our current and projected capital needs for at least the next twelve months.

**IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer in an amount that reflects the consideration that is expected to be received for those goods or services. In August 2015, FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 until annual reporting periods beginning after December 15, 2017. Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment.

The Company adopted the new standard on June 3, 2018 utilizing the full retrospective method. The Company’s assessment efforts included an evaluation of certain revenue contracts with customers and related sales incentives. The Company’s adoption of ASU 2014-09 did not have an impact on the results of operations or financial position; therefore, there was no adjustment to previously reported results.

In February 2016, the FASB issued ASU 2016-02, Leases. The purpose of the standard is to improve transparency and comparability related to the accounting and reporting of leasing arrangements. The guidance will require balance sheet recognition for assets and liabilities associated with rights and obligations created by leases with terms greater than twelve months. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. Based on the findings to date, the Company does not expect ASU 2016-02 to have a material impact on the results of operations or financial position; however,

the Company's assessment is not complete.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which removes step 2 from the goodwill impairment test. As a result, an entity should perform its annual, or interim, goodwill impairment

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test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units' fair value. The guidance is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, our fiscal 2021. Early adoption is permitted for annual or interim goodwill impairment tests performed on testing dates after January 1, 2017, and the prospective transition method should be applied. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES

We suggest our Summary of Significant Accounting Policies, as described in Note 1 of the Notes to Consolidated Financial Statements included our Annual Report on Form 10-K for the fiscal year ended June 2, 2018, be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations. Except for the adoption of ASU 2014-09, there have been no changes to critical accounting policies identified in our Annual Report on Form 10-K for the year ended June 2, 2018.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the market risk reported in the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2018.

## ITEM 4. CONTROLS AND PROCEDURES

### *Disclosure Controls and Procedures*

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on an evaluation of our disclosure controls and procedures conducted by our Chief Executive Officer and Chief Financial Officer, together with other financial officers, such officers concluded that our disclosure controls and procedures were effective as of March 2, 2019 at the reasonable assurance level.

### *Changes in Internal Control Over Financial Reporting*

There was no change in our internal control over financial reporting that occurred during the quarter ended March 2, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Refer to the discussion of certain legal proceedings involving the Company and/or its subsidiaries in our Quarterly Reports on Form 10-Q for the period ended September 1, 2018 and December 1, 2018, under Part II, Item 1: Legal Proceedings, and our Annual Report on Form 10-K for the year ended June 2, 2018, Part I Item 3: Legal Proceedings, and Part II Item 8, Notes to Consolidated Financial Statements, Note 12: Contingencies, which discussions are incorporated herein by reference, as well as the following:

**Egg Antitrust Litigation**

On September 25, 2008, the Company was named as one of several defendants in numerous antitrust cases involving the United States shell egg industry. The cases were consolidated into In re: Processed Egg Products Antitrust Litigation, No. 2:08-md-02002-GP, in the United States District Court for the Eastern District of Pennsylvania (the “District Court”), in three groups of cases - the “Direct Purchaser Putative Class Action”, the “Indirect Purchaser Putative Class

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Action” and the “Non-Class Cases.” As previously reported, the Company settled all of the Direct Purchaser Putative Class Action cases and the Indirect Purchaser Putative Class Action cases.

The Company settled all Non-Class cases except for the claims of certain plaintiffs who sought substantial damages allegedly arising from the purchase of egg products (as opposed to shell eggs). On November 7, 2018, the Company agreed to settle all claims brought by one of these plaintiffs, Conopco, Inc. on a confidential basis and for an amount that does not have a material impact on the Company’s financial condition or results. The settlement is, however, reflected in our results of operations along with certain other legal settlements and expenses. The Court entered a final judgment dismissing Conopco’s claims against the Company on November 21, 2018. The remaining plaintiffs are Kraft Food Global, Inc., General Mills, Inc., Nestle USA, Inc., and The Kellogg Company. These egg products plaintiffs seek treble damages and injunctive relief under the Sherman Act and are attacking certain features of the United Egg Producers animal-welfare guidelines and program used by the Company and many other egg producers. On September 6, 2016, the District Court granted defendants’ motion for summary judgment and dismissed with prejudice all claims based on the purchase of egg products. That ruling was appealed to the United States Court of Appeals for the Third Circuit, and on January 22, 2018, the Third Circuit reversed the District Court’s grant of summary judgment and remanded the case to the District Court. Even though the appealing egg-products plaintiffs had asked the Third Circuit to remand the case for trial, the Third Circuit declined, instead remanding the case for further proceedings, including the suggestion that the District Court determine whether the egg-products plaintiffs had sufficient evidence of causation and damages to submit the case to a jury. On March 5, 2018, defendants filed a motion in the District Court seeking leave to file a motion for summary judgment in light of the remand statements in the Third Circuit’s opinion. Plaintiffs opposed that motion, and on March 26, 2018, the defendants filed a reply in support of the motion. On July 16, 2018, the court granted the defendants’ motion for leave and on August 17, 2018, defendants filed their motions for summary judgment and requested oral argument. The plaintiffs filed their responses on September 21, 2018, and sur-replies on October 19, 2018, and the defendants filed their replies on October 12, 2018. On December 19, 2018, the District Court heard oral arguments on the renewed motions for summary judgment but has not issued a ruling.

The Company intends to continue to defend the remaining case as vigorously as possible based on defenses which the Company believes are meritorious and provable. While management believes that the likelihood of a material adverse outcome in the overall egg antitrust litigation has been significantly reduced as a result of the settlements and rulings described above, there is still a reasonable possibility of a material adverse outcome in the remaining egg antitrust litigation. At the present time, however, it is not possible to estimate the amount of monetary exposure, if any, to the Company because of this remaining case. Adjustments, if any, which might result from the resolution of these remaining legal matters, have not been reflected in the financial statements.

## Other Matters

In addition to the above, the Company is involved in various other claims and litigation incidental to its business. Although the outcome of these matters cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome should not have a material effect on the Company’s consolidated results of operations or financial position.

## **ITEM 1A. RISK FACTORS**

There have been no material changes in the risk factors previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended June 2, 2018.



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The following table is a summary of our third quarter 2019 share repurchases:

| Period               | Total<br>Number<br>of Shares<br>Purchased<br>(1) | Average<br>Price<br>Paid<br>per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Or<br>Programs | Maximum<br>Number<br>of Shares<br>that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|----------------------|--------------------------------------------------|------------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| 12/02/18 to 12/29/18 | —                                                | \$ —                                     | —                                                                                                  | —                                                                                                         |
| 12/30/18 to 01/26/19 | 22,812                                           | 42.66                                    | —                                                                                                  | —                                                                                                         |
| 01/27/19 to 03/02/19 | 142                                              | 41.18                                    | —                                                                                                  | —                                                                                                         |
|                      | 22,954                                           | \$ 42.65                                 | —                                                                                                  | —                                                                                                         |

(1) As permitted under our 2012 Omnibus Long-term Incentive Plan, these shares were withheld by us to satisfy tax withholding obligations for employees in connection with the vesting of restricted common stock.

**ITEM 6. EXHIBITS**

## Exhibits

| No.       | Description                                                                                                                                                                            |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1       | <u>Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 in the Registrant's Form 8-K, filed July 20, 2018)</u>         |
| 3.2       | <u>Composite Bylaws of the Company (incorporated by reference to Exhibit 3.2 in the Registrant's Form 10-Q for the quarter ended March 2, 2013, filed April 5, 2013)</u>               |
| 31.1*     | <u>Rule 13a-14(a) Certification of the Chief Executive Officer</u>                                                                                                                     |
| 31.2*     | <u>Rule 13a-14(a) Certification of the Chief Financial Officer</u>                                                                                                                     |
| 32**      | <u>Section 1350 Certification of the Chief Executive Officer and the Chief Financial Officer</u>                                                                                       |
| 99.1      | <u>Press release dated April 1, 2019 announcing interim period financial information (incorporated by reference to Exhibit 99.1 in the Company's Form 8-K, filed on April 1, 2019)</u> |
| 101.SCH*+ | Inline XBRL Taxonomy Extension Schema Document                                                                                                                                         |
| 101.CAL*+ | Inline XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                           |
| 101.DEF*+ | Inline XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                            |
| 101.LAB*+ | Inline XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                 |
| 101.PRE*+ | Inline XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                          |

\* Filed herewith as an Exhibit.

\*\* Furnished herewith as an Exhibit.

+ Submitted electronically with this Quarterly Report.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAL-MAINE FOODS, INC.  
(Registrant)

Date: April 1, 2019 /s/ Max P. Bowman  
Max P. Bowman  
Vice President, Chief Financial Officer  
(Principal Financial Officer)

Date: April 1, 2019 /s/ Michael D. Castleberry  
Michael D. Castleberry  
Vice President, Controller  
(Principal Accounting Officer)