

CAL-MAINE FOODS INC  
Form 10-K  
July 20, 2015  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For The Fiscal Year Ended MAY 30, 2015

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

Commission file number: 000-04892

CAL-MAINE FOODS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other Jurisdiction of Incorporation or Organization)

64-0500378  
(I.R.S. Employer Identification No.)

3320 Woodrow Wilson Avenue, Jackson, Mississippi 39209

(Address of principal executive offices)(Zip Code)

(601) 948-6813

(Registrant's telephone number, including area code)

Edgar Filing: CAL-MAINE FOODS INC - Form 10-K

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

| Title of each Class:                     | Name of exchange on which registered: |
|--|---------------------------------------|
| Common Stock, \$0.01 par value per share | The NASDAQ Global Select Market       |

Securities registered pursuant to Section 12 (g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Yes No

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

Yes No

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

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

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

Large accelerated filer  
Non-accelerated filer

Accelerated filer  
Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

The aggregate market value, as reported by The NASDAQ Global Select Market, of the registrant’s Common Stock, \$0.01 par value, held by non-affiliates at November 29, 2014, which was the date of the last business day of the registrant’s most recently completed second fiscal quarter, was \$1,267,795,422

As of July 17, 2015, 43,697,844 shares of the registrant’s Common Stock, \$0.01 par value, and 4,800,000 shares of the registrant’s Class A Common Stock, \$0.01 par value, were outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

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

1

---

Table of Contents

## TABLE OF CONTENTS

| Item    |   | Page<br>Number |
|---------|---|----------------|
| Part I  |   |                |
|         | <u>FORWARD-LOOKING<br/>STATEMENTS</u>   | 3              |
| 1.      | <u>Business</u>   | 3              |
| 1A.     | <u>Risk Factors</u>   | 8              |
| 1B.     | <u>Unresolved<br/>Staff<br/>Comments</u>  | 13             |
| 2.      | <u>Properties</u>   | 13             |
| 3.      | <u>Legal<br/>Proceedings</u>  | 13             |
| 4.      | <u>Mine Safety<br/>Disclosures</u>  | 15             |
| Part II |   |                |
| 5.      | <u>Market for the<br/>Registrant's<br/>Common<br/>Equity, Related<br/>Stockholder<br/>Matters and<br/>Issuer<br/>Purchases of<br/>Equity<br/>Securities</u> | 16             |
| 6.      | <u>Selected<br/>Financial Data</u>  | 18             |
| 7.      | <u>Management's<br/>Discussion and<br/>Analysis of<br/>Financial<br/>Condition and<br/>Results of<br/>Operations</u>  | 19             |
| 7A.     | <u>Quantitative<br/>and Qualitative<br/>Disclosures<br/>About Market</u>  | 34             |

|     |                       |    |
|-----|-----------------------|----|
|     | <u>Risk</u>           |    |
| 8.  | <u>Financial</u>      | 35 |
|     | <u>Statements and</u> |    |
|     | <u>Supplementary</u>  |    |
|     | <u>Data</u>           |    |
| 9.  | <u>Changes in and</u> | 65 |
|     | <u>Disagreements</u>  |    |
|     | <u>with</u>           |    |
|     | <u>Accountants on</u> |    |
|     | <u>Accounting and</u> |    |
|     | <u>Financial</u>      |    |
|     | <u>Disclosure</u>     |    |
| 9A. | <u>Controls and</u>   | 65 |
|     | <u>Procedures</u>     |    |
| 9B. | <u>Other</u>          | 67 |
|     | <u>Information</u>    |    |

Part III

|     |                      |    |
|-----|----------------------|----|
| 10. | <u>Directors,</u>    | 67 |
|     | <u>Executive</u>     |    |
|     | <u>Officers and</u>  |    |
|     | <u>Corporate</u>     |    |
|     | <u>Governance</u>    |    |
| 11. | <u>Executive</u>     | 67 |
|     | <u>Compensation</u>  |    |
| 12. | <u>Security</u>      | 67 |
|     | <u>Ownership of</u>  |    |
|     | <u>Certain</u>       |    |
|     | <u>Beneficial</u>    |    |
|     | <u>Owners and</u>    |    |
|     | <u>Management</u>    |    |
|     | <u>and Related</u>   |    |
|     | <u>Stockholder</u>   |    |
|     | <u>Matters.</u>      |    |
| 13. | <u>Certain</u>       | 67 |
|     | <u>Relationships</u> |    |
|     | <u>and Related</u>   |    |
|     | <u>Transactions,</u> |    |
|     | <u>and Director</u>  |    |
|     | <u>Independence</u>  |    |
| 14. | <u>Principal</u>     | 68 |
|     | <u>Accounting</u>    |    |
|     | <u>Fees and</u>      |    |
|     | <u>Services</u>      |    |

Part IV

|     |                  |    |
|-----|------------------|----|
| 15. | <u>Exhibits,</u> | 69 |
|     | <u>Financial</u> |    |

Statement  
Schedules

Signatures 72

Table of Contents

PART I

FORWARD-LOOKING STATEMENTS

This report contains numerous forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”) relating to our shell egg business, including estimated production data, expected operating schedules, expected capital costs and other operating data, including anticipated results of operations and financial condition. Such forward-looking statements are identified by the use of words such as “believes,” “intends,” “expects,” “hopes,” “may,” “should,” “plans,” “projected,” “contemplates,” “anticipates” or similar words. Actual production, operating schedules, results of operations and other projections and estimates could differ materially from those projected in the forward-looking statements. The forward-looking statements are based on management’s current intent, belief, expectations, estimates and projections regarding our company and our industry. These statements are not guarantees of future performance and involve risks, uncertainties, assumptions and other factors that are difficult to predict and might 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 and elsewhere in this report as well as those included in other reports we file from time to time with the Securities and Exchange Commission (the “SEC”) (including our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K), (ii) the risks and hazards inherent in the shell egg business (including disease, such as avian influenza, pests, weather conditions and potential for recall), (iii) changes in the demand for and market prices of shell eggs and feed costs, (iv) risks, changes or obligations that could result from our future acquisition of new flocks or businesses, and (v) adverse results in pending litigation matters. Readers are cautioned not to place undue reliance on forward-looking statements because, while we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance these forward-looking statements will prove to be accurate. Further, the 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 as a result of new information, future events or otherwise.

ITEM 1. BUSINESS

Our Business

Cal-Maine Foods, Inc. (“we,” “us,” “our,” or the “Company”) is the largest producer and marketer of shell eggs in the United States. In fiscal 2015, we sold approximately 1,063.1 million dozen shell eggs, which we believe represented approximately 23% of domestic shell egg consumption. Our total flock of approximately 33.7 million layers and 8.4 million pullets and breeders is the largest in the U.S. Layers are mature female chickens, pullets are young female chickens usually under 18 weeks of age, and breeders are male and female chickens used to produce fertile eggs to be hatched for egg production flocks.

We operate in a single segment. Our primary business is the production, grading, packaging, marketing and distribution of shell eggs. We sell most of our shell eggs in the southwestern, southeastern, mid-western and mid-Atlantic regions of the U.S. We market our shell eggs through our extensive distribution network to a diverse group of customers, including national and regional grocery store chains, club stores, foodservice distributors and egg product consumers. Some of our sales are completed through co-pack agreements – a common practice in the industry whereby production and processing of certain products is outsourced to another producer. The strength of our position is evidenced by the fact that we have the largest market share in the grocery segment for shell eggs, and we sell shell eggs to a majority of the largest food retailers in the U.S.

We are one of the largest producers and marketers of value-added specialty shell eggs in the U.S. Specialty shell eggs include nutritionally enhanced, cage free, organic and brown eggs. They have been a significant segment of the market in recent years. In fiscal 2015, specialty shell eggs and co-pack specialty shell eggs represented 27.2% and 2.8% of our shell egg dollar sales, respectively, and accounted for approximately 19.8% and 2.0%, respectively, of our total shell egg dozen volumes. In fiscal 2014, specialty shell eggs and co-pack specialty shell eggs represented 24.3% and 3.8% of our shell egg dollar sales, respectively, and accounted for approximately 17.2% and 2.7%, respectively, of our total shell egg dozen volumes. Retail prices for specialty eggs are less cyclical than non-specialty shell egg prices and are generally higher due to consumer willingness to pay for the perceived increased benefits from those products. We market our specialty shell eggs under the following brands: Egg-Land's Best®, Land O' Lakes®, Farmhouse®, and 4-Grain®. We are a member of the Egg-Land's Best, Inc. ("EB") cooperative and produce, market and distribute Egg-Land's Best® and Land O' Lakes® branded eggs, along with our associated joint ventures, under exclusive license agreements for a number of states in the southeast, south central, and southwest U.S. as well as the New York City area. We market cage free eggs under our trademarked Farmhouse® brand and distribute them across the southeast and southwest regions of the U.S. We market organic, all natural, cage-free, vegetarian, and omega-3 eggs under our 4-Grain® brand. We also produce,



## Table of Contents

market, and distribute private label specialty shell eggs to several customers.

We are a leader in industry consolidation. Since 1989, we have completed eighteen acquisitions ranging in size from 600,000 layers to 7.5 million layers. Despite a market that has been characterized by increasing consolidation, the shell egg production industry remains highly fragmented. At December 31, 2014, 59 producers, owning at least one million layers, owned approximately 93% of total industry layers and the ten largest producers owned approximately 47% of total industry layers. We believe industry consolidation will continue and we plan to capitalize on opportunities as they arise.

## Industry Background

Based on historical consumption trends, demand for shell eggs increases in line with overall population growth, averaging growth of about 1% per year. However, in each of the most recent three years, demand for shell eggs has grown approximately 2% per year. According to U.S. Department of Agriculture (“USDA”), annual per capita U.S. consumption has varied between 248 and 263 eggs, since 2000. In calendar year 2014, per capita U.S. consumption was estimated to be 263 eggs, or approximately five eggs per person per week. Per capita consumption is determined by dividing the total supply of eggs for the shell egg industry by the entire population in the U.S. (i.e. all eggs supplied domestically by the shell egg industry are consumed).

## Prices for Shell Eggs

Shell egg prices are a critical component of profitability in the industry. We believe the majority of shell eggs sold in the U.S. in the retail and foodservice channels are sold at prices related to the Urner Barry wholesale quotation for shell eggs. We sell the majority of our non-specialty shell eggs at prices related to Urner Barry Spot Egg Market Quotations or formulas related to our costs of production which include the cost of corn and soybean meal. For fiscal 2015, wholesale large shell egg prices in the southeast region, as quoted by Urner Barry, averaged \$1.53 per dozen compared to an average of \$1.28 per dozen for fiscal years 2011 to 2014. According to a USDA report as of June 1, 2015, the number of layers in the U.S. flock was down 10.6% compared to June 1, 2014. This decrease is due to the outbreak of avian influenza in the upper Midwestern U.S. beginning in April of 2015 and is not expected to be indicative of future flock size. The number of chicks hatched from January through June of 2015 was up 0.4% compared to the same period in 2014. As a result of the reduced flock size, egg prices have moved significantly higher in recent months and are expected to remain high until the national laying hen flock can be replenished.

## Feed Costs for Shell Egg Production

Feed is a primary cost component in the production of shell eggs and represents over half of industry farm level production costs. Most shell egg producers, including us, are vertically integrated; manufacturing the majority of the feed they require for their operations. Although feed ingredients, primarily corn and soybean meal, are available from a number of sources, prices for ingredients can fluctuate and can be affected by weather and by various supply and demand factors. Our feed prices for fiscal 2015 were 11% lower than fiscal 2014. Favorable weather conditions and improved yields for the 2014 crop increased available supplies for both corn and soybean meal which decreased prices and favorably impacted our results for fiscal year 2015. Wet conditions in the Midwestern U.S. could have an adverse effect on the 2015 crop and we expect the outlook for feed prices to remain volatile. However, we expect supplies of both corn and soybean meal to be adequate.

#### Growth Strategy and Acquisitions

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

As a result of our strategy, our total flock, including pullets, layers and breeders, increased from approximately 33.0 million at May 29, 2010 to approximately 42.1 million as of May 30, 2015. The dozens of shell eggs sold increased from approximately 805.4 million in fiscal 2010 to approximately 1,063.1 million for fiscal 2015. Net sales amounted to \$910.1 million in fiscal 2010 compared to net sales of \$1,576.1 million in fiscal 2015.

## Table of Contents

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

Federal antitrust laws require regulatory approval of acquisitions that exceed certain threshold levels of significance, and we are subject to federal and state laws prohibiting anti-competitive conduct. We believe our sales of shell eggs during the last fiscal year represented approximately 23% of domestic shell egg sales, making us the largest producer and distributor of shell eggs in the U.S. However, because the shell egg production and distribution industry is so fragmented, we believe that there are many acquisition opportunities available to us that would not be restricted pursuant to antitrust laws.

Through exclusive license agreements with EB in several key territories and our trademarked Farmhouse® and 4Grain® brands, we are one of the leading producers and marketers of value-added specialty shell eggs. We also produce, market, and distribute private label specialty shell eggs to several customers. Since selling prices of specialty shell eggs are generally less volatile than non-specialty shell egg prices, we believe growing our specialty eggs business will enhance the stability of our margins. We expect the price of specialty eggs to remain at a premium to regular shell eggs, and intend to grow our specialty shell egg business.

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

## Shell Eggs

**Production.** Our operations are fully integrated. We hatch chicks, grow and maintain flocks of pullets, layers, and breeders, manufacture feed, and produce, process, package, and distribute shell eggs. We produce approximately 75% of our total shell eggs sold, with 94% of such production coming from company-owned facilities, and the other 6% coming from contract producers. Under a typical arrangement with a contract producer, we own the flock, furnish all feed and critical supplies, own the shell eggs produced and assume market risks. The contract producers own and operate their facilities and are paid a fee based on production with incentives for performance. We purchase approximately 25% of the total shell eggs we sell from outside producers.

The commercial production of shell eggs requires a source of baby chicks for laying flock replacement. We produce the majority of our chicks in our own hatcheries and obtain the balance from commercial sources. We own breeder and hatchery facilities producing 18.5 million pullet chicks per year in a computer-controlled environment. These pullets are distributed to 43 state-of-the-art laying operations around the southwestern, southeastern, mid-western and mid-Atlantic regions of the U.S. The facilities produce an average of 2.2 million dozen shell eggs per day. The shell eggs are processed, graded and packaged predominantly without handling by human hands. We have spent a cumulative total of \$215.3 million over the past five years to expand and upgrade our facilities with the most advanced equipment and technology available in our industry. We believe our constant attention to production efficiencies and focus on automation throughout the supply chain enables us to be a low cost supplier in all the markets in which we compete.

Feed cost represents the largest element of our farm egg production cost, ranging from 62% to 69% of total farm production cost in the last five fiscal years. Although feed ingredients are available from a number of sources, we have little, if any, control over the prices of the ingredients we purchase, which are affected by weather and by various supply and demand factors. For example, the severe drought in the summer of 2012 and resulting damage to the national corn and soybean crop resulted in high and volatile feed costs. Increases in feed costs unaccompanied by increases in the selling price of eggs can have a material adverse effect on our operations. However, higher feed costs can encourage shell egg producers to reduce production, resulting in higher egg prices. Alternatively, low feed costs can encourage industry overproduction, possibly resulting in lower egg prices.

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

Table of Contents

Egg production activities are subject to risks inherent in the agriculture industry, such as weather conditions and disease. These risks are outside our control and could have a material adverse effect on our operations. The marketability of shell eggs is subject to risks such as possible changes in food consumption preferences and practices reflecting perceived health concerns.

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

Marketing. Of the 1,063.1 million dozen shell eggs sold by us in fiscal 2015, our flocks produced 798.8 million.

We sell our shell eggs to a diverse group of customers, including national and local grocery store chains, club stores, foodservice distributors, and egg product consumers. We utilize electronic ordering and invoicing systems that enable us to manage inventory for certain of our customers. Our top ten customers accounted for an aggregate of 67.9%, 68.5%, and 65.8% of net sales dollars for fiscal 2015, 2014, and 2013, respectively. Two customers, Wal-Mart Stores and Sam's Club, on a combined basis, accounted for 25.7%, 28.2%, and 30.0% of net sales dollars during fiscal 2015, 2014, and 2013, respectively.

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

The shell eggs we sell are either delivered to our customers' warehouse or retail stores by our own fleet or contracted refrigerated delivery trucks, or are picked up by our customers at our processing facilities.

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

According to USDA reports, for the past five years, U.S. annual per capita consumption has grown from 249 eggs in 2009 to 263 eggs in 2014. Each of the most recent three years has seen an increase of approximately 2% over the previous year. We believe fast food restaurant consumption, high protein diet trends, reduced egg cholesterol levels, and industry advertising campaigns may result in the sustainability of current per capita egg consumption levels, however no assurance can be given that per capita consumption will not decline in the future.

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

Seasonality. Retail sales of shell eggs are greatest during the fall and winter months and lowest during the summer months. Prices for shell eggs fluctuate in response to seasonal demand factors and a natural increase in egg production during the spring and early summer. We generally experience lower sales and net income in our fourth and first fiscal quarters ending in May and August, respectively. During the past ten fiscal years, three of our first quarters resulted in net operating losses, and during this same period, two of our fourth quarters resulted in net operating losses.

Table of Contents

Specialty Eggs. We produce specialty eggs such as Egg-Land's Best®, Land O' Lakes®, 4Grain®, and Farmhouse® branded eggs. Specialty eggs are intended to meet the demands of consumers who are sensitive to environmental, health and/or animal welfare issues. Specialty shell eggs are becoming a more significant segment of the shell egg market. For fiscal 2015, specialty eggs accounted for 27.2% of our shell egg dollar sales and 19.8% of our shell egg dozens sold, as compared to 24.3% of shell egg dollar sales and 17.2% of shell egg dozens sold in fiscal 2014. Additionally, specialty eggs sold through our co-pack arrangements accounted for an additional 2.8% of shell egg dollar sales and 2.0% of shell egg dozens sold in fiscal 2015, compared with 3.8% of shell egg dollar sales and 2.7% of shell egg dozens sold in fiscal 2014. We produce and process Egg-Land's Best® branded eggs under license from EB at our facilities under EB guidelines. The product is marketed to our established base of customers at premium prices compared to non-specialty shell eggs. Egg-Land's Best® branded eggs accounted for approximately 15.5% of our shell egg dollar sales in fiscal 2015, compared to 14.4% in fiscal 2014. Based on dozens sold, Egg-Land's Best® branded eggs accounted for