

CAL MAINE FOODS INC
Form 10-Q
March 31, 2014

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 1, 2014

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

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

(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

3320 Woodrow Wilson Avenue, Jackson, Mississippi 39209

(Address of principal executive offices) (Zip Code)

(601) 948-6813

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non – Accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of March 28, 2014.

Common Stock, \$0.01 par value	21,781,557 shares
Class A Common Stock, \$0.01 par value	2,400,000 shares

CAL-MAINE FOODS, INC. AND SUBSIDIARIES

INDEX

	Page Number
Part I. Financial Information	
Item 1. Condensed Consolidated Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets - March 1, 2014 and June 1, 2013	2
Condensed Consolidated Statements of Income - Thirteen and Thirty-Nine Weeks Ended March 1, 2014 and March 2, 2013	3
Condensed Consolidated Statements of Comprehensive Income - Thirteen and Thirty-Nine Weeks Ended March 1, 2014 and March 2, 2013	4
Condensed Consolidated Statements of Cash Flow - Thirteen and Thirty-Nine Weeks Ended March 1, 2014 and March 2, 2013	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	25
Item 4. Controls and Procedures	25
Part II. Other Information	
Item 1. Legal Proceedings	25
Item 1A. Risk Factors	27
Item 6. Exhibits	28
Signatures	29

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

	March 1, 2014 (unaudited)	June 1, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,387	\$ 24,984
Investment securities available-for-sale	175,261	157,904
Trade receivables (less allowance for doubtful accounts of \$680 at March 1, 2014 and \$771 at June 1, 2013) and other receivables	97,795	82,586
Inventories	149,296	147,993
Prepaid expenses and other current assets	2,170	1,414
Total current assets	439,909	414,881
Property, plant and equipment, net	306,528	266,008
Goodwill	28,298	24,417
Other investments	5,957	20,413
Other intangible assets	11,100	12,326
Other long-lived assets	4,799	7,017
Notes receivable – noncurrent	486	565
TOTAL ASSETS	\$ 797,077	\$ 745,627
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 72,266	\$ 71,827
Accrued legal settlement expense	-	28,000
Accrued dividends payable	14,284	-
Current maturities of long-term debt	10,577	10,373
Deferred income taxes	31,571	19,995
Total current liabilities	128,698	130,195
Long-term debt, less current maturities	53,384	54,647
Other noncurrent liabilities	4,810	4,322
Deferred income taxes	37,330	38,419
Total liabilities	224,222	227,583

Commitments and Contingencies - see Note 5

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

Stockholders' equity:

Common stock, \$0.01 par value per share:

Authorized shares – 60,000

Issued 35,130 shares and 21,782 shares outstanding at
March 1, 2014 and 21,698 at June 1, 2013

351 351

Class A common stock, \$0.01 par value per share, authorized, issued and outstanding
2,400 shares at March 1, 2014 and June 1, 2013

24 24

Paid-in capital

40,043 39,052

Retained earnings

551,827 498,711

Accumulated other comprehensive income, net of tax

365 166

Common stock in treasury at cost – 13,349 shares at March 1, 2014 and 13,432 at June
1, 2013

(20,453) (20,572)

Total Cal-Maine Foods, Inc. stockholders' equity

572,157 517,732

Noncontrolling interests in consolidated entities

698 312

Total stockholders' equity

572,855 518,044

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$ 797,077 \$ 745,627

See Notes to Condensed Consolidated Financial Statements.

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 1, 2014	March 2, 2013	March 1, 2014	March 2, 2013
Net sales	\$395,522	\$ 360,373	\$1,069,325	\$ 962,171
Cost of sales	303,627	293,326	857,852	799,111
Gross profit	91,895	67,047	211,473	163,060
Selling, general, and administrative expense	45,299	36,136	112,949	96,186
Operating income	46,596	30,911	98,524	66,874
Other income (expense):				
Interest expense, net	(563)	(963)	(2,049)	(2,849)
Royalty income	1,037	2,013	3,449	3,492
Patronage dividends	5,841	11,504	6,093	14,267
Equity in income of affiliates	1,530	2,037	2,484	2,880
Other	4,158	380	4,795	(1,684)
	12,003	14,971	14,772	16,106
Income before income taxes and noncontrolling interest	58,599	45,882	113,296	82,980
Income tax expense	15,643	15,335	35,195	28,583
Net income before noncontrolling interest	42,956	30,547	78,101	54,397
Less: Net income (loss) attributable to noncontrolling interest	103	(4)	386	141
Net income attributable to Cal-Maine Foods, Inc.	\$42,853	\$ 30,551	\$77,715	\$ 54,256
Net income per common share attributable to Cal-Maine Foods, Inc.:				
Basic	\$1.78	\$ 1.27	\$3.23	\$ 2.26
Diluted	\$1.77	\$ 1.27	\$3.22	\$ 2.26
Dividends per common share	\$0.591	\$ 0.423	\$1.020	\$ 0.753
Weighted average shares outstanding:				
Basic	24,047	24,035	24,061	23,966
Diluted	24,162	24,104	24,155	24,013

See Notes to Condensed Consolidated Financial Statements.

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

	13 Weeks Ended		39 Weeks Ended	
	March	March 2,	March	March 2,
	1, 2014	2013	1, 2014	2013
Net income, including noncontrolling interests	\$42,956	\$ 30,547	\$78,101	\$ 54,397
Other comprehensive income, before tax:				
Unrealized holding gain on available-for-sale securities, net of reclassification adjustments	97	157	325	381
Other comprehensive income, before tax	97	157	325	381
Income tax expense related to items of other comprehensive income	37	61	126	148
Other comprehensive income, net of tax	60	96	199	233
Comprehensive income	43,016	30,643	78,300	54,630
Less: comprehensive income (loss) attributable to the noncontrolling interest	103	(4) 386	141
Comprehensive income attributable to Cal-Maine Foods, Inc.	\$42,913	\$ 30,647	\$77,914	\$ 54,489

See Notes to Condensed Consolidated Financial Statements

CAL-MAINE FOODS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	39 Weeks Ended	
	March 1, 2014	March 2, 2013
Operating activities:		
Net income including noncontrolling interest	\$78,101	\$ 54,397
Depreciation and amortization	27,318	24,718
Other adjustments, net	(34,562)	(36,515)
Net cash provided by operations	70,857	42,600
Investing activities:		
Purchase of investments	(106,472)	(163,307)
Sales of investments	91,412	177,396
Purchases of property, plant and equipment	(40,927)	(19,121)
Payments received on notes receivable and from affiliates	4,379	6,285
Acquisitions of businesses, net of cash acquired	(11,548)	(74,907)
Increase in notes receivable and investments in affiliates	-	(294)
Net proceeds from disposal of property, plant and equipment	631	62
Net cash used in investing activities	(62,525)	(73,886)
Financing activities:		
Proceeds from issuance of common stock from treasury, net (including tax benefit on nonqualifying disposition of incentive stock options)	271	380
Principal payments on long-term debt	(7,884)	(8,474)
Payments of dividends	(10,316)	(20,357)
Net cash used in financing activities	(17,929)	(28,451)
Net change in cash and cash equivalents	(9,597)	(59,737)
Cash and cash equivalents at beginning of period	24,984	97,128
Cash and cash equivalents at end of period	\$15,387	\$ 37,391

See Notes to Condensed Consolidated Financial Statements

CAL-MAINE FOODS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 1, 2014

(unaudited)

1. Presentation of Interim Information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 1, 2014 are not necessarily indicative of the results that may be expected for the year ending May 31, 2014.

The condensed consolidated balance sheet at June 1, 2013 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in Cal-Maine Foods, Inc.'s annual report on Form 10-K for the fiscal year ended June 1, 2013. References to “we,” “us,” “our,” or the “Company” refer to Cal-Maine Foods, Inc.

2. Acquisition

Effective March 1, 2014, the Company purchased our joint venture partner's 50% interest in Delta Egg Farm, LLC (“Delta Egg”) for \$17.0 million. The Company previously owned 50% of Delta Egg through a joint venture with Sunbest Foods of Iowa, a Moark, LLC affiliate. The purchase price was funded from our available cash balances. In conjunction with the acquisition, the Company recognized a non-recurring, non-cash gain of \$4.0 million for the excess in purchase price over the carrying value of the 50% investment in the unconsolidated joint venture. This gain was recorded in “Other Income” in the Company's Condensed Consolidated Statements of Income. The gain is

non-taxable, and therefore resulted in a \$1.5 million reduction to the Company's income tax expense for the third quarter of fiscal 2014. Additionally, the Company recorded a \$3.7 million decrease to deferred income tax liabilities related to the outside basis of our equity investment in Delta Egg. Delta Egg's assets include a feed mill and a production complex with capacity for approximately 1.2 million laying hens near Delta, Utah, as well as an organic complex with capacity for approximately 400,000 laying hens near Chase, Kansas.

The following table represents the allocation of the purchase price to the assets and liabilities acquired, based on their fair values (in thousands):

Cash and cash equivalents	\$5,452
Investment securities available for sale	1,973
Inventories	7,033
Property, plant, and equipment	24,767
Other intangible assets	929
Goodwill	3,881
Other current assets	2,824
Current liabilities	(3,677)
Long-term debt	(5,301)
Deferred income taxes	(3,881)
 Total assets and liabilities acquired	 \$34,000

The allocation was preliminary at March 1, 2014 due to the timing of the acquisition.

3. Stock Based Compensation

Total stock based compensation expense for the thirty-nine weeks ended March 1, 2014 and March 2, 2013 was \$1.0 million and \$712,000, respectively. Liabilities associated with Stock Appreciation Rights (“SARs”) as of March 1, 2014 and June 1, 2013 were \$867,000 and \$986,000 respectively. The liabilities for our 2005 Stock Appreciation Rights are included in the line item “Accounts payable and accrued expenses” in our Condensed Consolidated Balance Sheets. Unrecognized compensation expense as a result of non-vested shares of the 2012 Omnibus Long-Term Incentive Plan at March 1, 2014 was \$4.8 million, and will be recorded over a period of 2.4 years. Refer to Note 11 of our June 1, 2013 audited financial statements for further information on our stock compensation plans.

A summary of the Company's restricted shares activity for the thirty-nine weeks ended March 1, 2014 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding, June 1, 2013	63,000	\$ 41.08
Granted	63,600	53.53
Vested	(2,600)	(46.35)
Forfeited	(300)	(41.08)
Outstanding, March 1, 2014	123,700	\$ 47.37

4. Inventories

Inventories consisted of the following (in thousands):

	March 1, 2014	June 1, 2013
Flocks	\$ 89,491	\$ 83,894
Eggs	12,050	13,694
Feed and supplies	47,755	50,405
	\$ 149,296	\$ 147,993

5. Contingencies

Financial Instruments

The Company maintains cash collateralized standby letters of credit ("LOC"), for the benefit of certain insurance companies, with a bank totaling \$3.0 million at March 1, 2014. The cash collateralizing the LOCs is included in the line item "Other long-lived assets" in the Condensed Consolidated Balance Sheets. None of the LOCs are recorded as a liability on the consolidated balance sheets.

Legal Contingencies

The Company is a defendant in certain legal actions, and intends to vigorously defend its position in these actions. If the Company's assessment of a contingency indicates it is probable a material loss has been incurred and the amount of the liability can be reasonably estimated, the estimated liability is accrued in the Company's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is 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 would be disclosed, or a statement would be made that such an estimate cannot be made.

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

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 1, 2014	March 2, 2013	March 1, 2014	March 2, 2013
Net income attributable to Cal-Maine Foods, Inc.	\$42,853	\$		

Pursuant to Rule 0-2(f) under the 1940 Act, each Applicant states that its address is as indicated below:

c/o Robert A. Hamwee
 Chief Executive Officer
 787 Seventh Avenue, 48th Floor
 New York, NY 10019
 (212) 720-0300

The Applicants further state that all written or oral communications concerning this Application should be directed to:

Steven B. Boehm, Esq.
 Anne G. Oberndorf, Esq.
 Eversheds Sutherland (US) LLP
 700 Sixth Street, NW, Suite 700
 Washington, DC 20001-3980
 (202) 383-0218

The Applicants desire that the Commission issue an Order pursuant to Rule 0-5 under the 1940 Act without conducting a hearing.

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

The verifications required by Rule 0-2(d) of the 1940 Act are attached hereto as Exhibit A.

Pursuant to Rule 0-2 under the 1940 Act, each Applicant declares that this Application for a Commission order is signed by Robert A. Hamwee as authorized by NMFC, each of the NMFC Subsidiaries, SBIC LP, each of the Guardian II Funds, and the BDC Adviser, pursuant to the general authority vested in by the Certificate of Incorporation and By-laws, Certificate of Formation and Limited Liability Company Agreement of each Applicant, or other similar document, or, with regard to NMFC, pursuant to the resolutions attached hereto as Exhibit B.

Applicants request that any questions regarding this Application be directed to the persons listed on the facing page of this Application.

VII. Request for Order of Exemption

For the foregoing reasons, the Applicants request that the Commission enter an Order under Sections 17(d) and 57(i) of the 1940 Act and Rule 17d-1 under the 1940 Act granting Applicants the relief sought by the Application. Applicants submit that the requested exemption is consistent with the protection of investors.

Dated: February 1, 2017

NEW MOUNTAIN FINANCE CORPORATION

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: Chief Executive Officer

NMF ANCORA HOLDINGS, INC.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: President

NMF QID NGL HOLDINGS, INC.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: President

NMF YP HOLDINGS, INC.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: President

NEW MOUNTAIN FINANCE SBIC, L.P.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: Principal

NEW MOUNTAIN GUARDIAN PARTNERS II,
L.P.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: Authorized Person

NEW MOUNTAIN GUARDIAN II MASTER
FUND-A, L.P.

By: /s/ Steven B. Klinsky
Name: Steven B. Klinsky
Title: Authorized Person

NEW MOUNTAIN GUARDIAN II MASTER
FUND-B, L.P.

By: /s/ Steven B. Klinsky
Name: Steven B. Klinsky
Title: Authorized Person

NEW MOUNTAIN FINANCE ADVISERS BDC,
L.L.C.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: Authorized Person

Exhibit A

Verification

The undersigned states that he has duly executed the attached Application for an order under Sections 17(d) and 57(i) of the Investment Company Act of 1940 and Rule 17d-1 under the Investment Company Act of 1940, dated February 1, 2017 for and on behalf of New Mountain Finance Corporation, NMF Ancora Holdings, Inc., NMF QID NGL Holdings, Inc., NMF YP Holdings, Inc., New Mountain Finance SBIC, L.P., New Mountain Guardian Partners II, L.P., and New Mountain Finance Advisers BDC, L.L.C., that he holds the office with each such entity as indicated below, and that all actions by stockholders, directors, members, and other bodies necessary to authorize the undersigned to execute and file such Application have been taken. The undersigned further says that he is familiar with the instrument and the contents thereof, and that the facts set forth therein are true to the best of his knowledge, information, and belief.

NEW MOUNTAIN FINANCE CORPORATION

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: Chief Executive Officer

NMF ANCORA HOLDINGS, INC.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: President

NMF QID NGL HOLDINGS, INC.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: President

NMF YP HOLDINGS, INC.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: President

NEW MOUNTAIN FINANCE SBIC, L.P.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: Principal

NEW MOUNTAIN GUARDIAN PARTNERS II,
L.P.

By: /s/ Robert A. Hamwee

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

Name: Robert A. Hamwee
Title: Authorized Person

NEW MOUNTAIN GUARDIAN II MASTER
FUND-A, L.P.

By: /s/ Steven B. Klinsky
Name: Steven B. Klinsky
Title: Authorized Person

NEW MOUNTAIN GUARDIAN II MASTER
FUND-B, L.P.

By: /s/ Steven B. Klinsky
Name: Steven B. Klinsky
Title: Authorized Person

NEW MOUNTAIN FINANCE ADVISERS BDC,
L.L.C.

By: /s/ Robert A. Hamwee
Name: Robert A. Hamwee
Title: Authorized Person

Exhibit B

**Resolutions of the Board of
New Mountain Finance Corporation**

WHEREAS, the Board of Directors has reviewed the Company's Co-Investment Exemptive Application (the ***Exemptive Application***), a copy of which is attached hereto as Exhibit A, for an order of the U.S. Securities and Exchange Commission (the ***SEC***) pursuant to Sections 17(d) and 57(i) of the Investment Company Act of 1940, as amended (the ***1940 Act***), and Rule 17d-1 promulgated under the 1940 Act, permitting certain joint transactions that otherwise may be prohibited by Section 17(d) or 57(a)(4) of the 1940 Act;

NOW, THEREFORE, BE IT RESOLVED, that the Authorized Officers (as defined below), shall be, and each of them individually hereby is, authorized, empowered and directed, in the name and on behalf of the Company, to cause to be executed, delivered and filed with the SEC the Exemptive Application, in substantially the form attached hereto as Exhibit A; and

FURTHER RESOLVED, that the Authorized Officers shall be, and each of them individually hereby is, authorized, empowered and directed, in the name and on behalf of the Company, to cause to be made, executed, delivered and filed with the SEC any amendments to the Exemptive Application and any additional applications for exemptive relief as are determined necessary, advisable or appropriate by any such officers in order to effectuate the foregoing, such determination to be conclusively evidenced by the taking of any such action; and

FURTHER RESOLVED, that all acts and things previously done by any of the Authorized Officers, on or prior to the date hereof, in the name and on behalf of the Company in connection with the foregoing resolutions are in all respects authorized, ratified, approved, confirmed and adopted as the acts and deeds by and on behalf of the Company; and

FURTHER RESOLVED, that any officer of the Company be, and each of them hereby is, authorized, empowered and directed to certify and deliver copies of these resolutions to such governmental bodies, agencies, persons, firms or corporations as such officer may deem necessary and to identify by such officer's signature or certificate, or in such form as may be required, the documents and instruments presented to and approved herein and to furnish evidence of the approval, by an officer authorized to give such approval, of any document, instrument or provision or any addition, deletion or change in any document or instrument; and

FURTHER RESOLVED, that for purposes of the foregoing resolutions, the Authorized Officers of the Company shall be the Chief Executive Officer, the President, Chief Compliance Officer & Secretary, and the Chief Financial Officer of the Company (collectively, the Authorized Officers).

(Adopted by Unanimous Written Consent dated September 9, 2016)
