PACIFIC ENERGY PARTNERS LP
Form 10-Q
May 09, 2005

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

ý **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended March 31, 2005**

**OR**

o **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 **1-313345**

# PACIFIC ENERGY PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **DELAWARE** | **68-0490580** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**5900 Cherry Avenue**

**Long Beach, CA 90805-4408**

(Address of principal executive offices)

**(562) 728-2800**

(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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

There were 19,258,330 of the registrant s Common Units and 10,465,000 of the registrant s Subordinated Units outstanding at March 31, 2005.

**PACIFIC ENERGY PARTNERS, L.P.**

**FORM 10-Q**

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## PART I. FINANCIAL INFORMATION

### ITEM 1. Financial Statements

**PACIFIC ENERGY PARTNERS, L.P. (Note 1)**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| | (in thousands) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 22,097 | $ 23,383 |
| Crude oil sales receivable | 51,999 | 28,609 |
| Transportation and storage accounts receivable | 21,997 | 20,137 |
| Canadian goods and services tax receivable | 7,595 | 7,632 |
| Insurance proceeds receivable (note 2) | 11,495 | |
| Due from related parties (note 3) | 128 | |
| Crude oil inventory | 26,449 | 9,174 |
| Prepaid expenses | 4,928 | 4,159 |
| Other | 3,654 | 2,451 |
| Total current assets | 150,342 | 95,545 |
| Property and equipment, net | 715,580 | 718,624 |
| Investment in Frontier | 8,200 | 7,886 |
| Other assets, net | 45,968 | 47,850 |
| | $ 920,090 | $ 869,905 |
| | | |
| **LIABILITIES AND PARTNERS CAPITAL** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 17,273 | $ 15,127 |
| Accrued crude oil purchases | 65,493 | 27,231 |
| Line 63 oil release reserve (note 2) | 13,496 | |
| Accrued interest | 5,538 | 1,124 |
| Due to related parties (note 3) | | 533 |
| Derivatives liability current portion | 1,410 | 400 |
| Other | 5,930 | 3,630 |
| Total current liabilities | 109,140 | 48,045 |
| Senior notes and credit facilities, net (note 4) | 356,369 | 357,163 |
| Deferred income taxes | 34,248 | 34,556 |
| Environmental liabilities | 7,022 | 7,269 |
| Other liabilities | 340 | 406 |
| Total liabilities | 507,119 | 447,439 |
| Commitments and contingencies (notes 2 and 8) | | |
| Partners capital: | | |
| Common unitholders (19,258,330 and 19,158,747 units outstanding at March 31, 2005 and December 31, 2004, respectively) | 356,708 | 361,427 |
| Subordinated unitholders (10,465,000 units outstanding at March 31, 2005 and December 31, 2004) | 38,096 | 41,521 |
| General Partner interest | 6,714 | 6,280 |
| Undistributed employee long-term incentive compensation (note 5) | | 116 |
| Accumulated other comprehensive income | 11,453 | 13,122 |

| | | | | |
|---|---|---|---|---|
| Net partners capital | | 412,971 | | 422,466 |
| | $ | 920,090 | $ | 869,905 |

See accompanying notes to condensed consolidated financial statements.

**PACIFIC ENERGY PARTNERS, L.P. (Note 1)**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**(Unaudited)**

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 |
|---|---|---|
| | (in thousands, except per unit amounts) | |
| Pipeline transportation revenue | $ 28,037 | $ 24,727 |
| Storage and terminaling revenue | 10,322 | 10,123 |
| Pipeline buy/sell transportation revenue | 9,106 | |
| Crude oil sales, net of purchases of $114,391 and $81,115 for the three months ended March 31, 2005 and 2004 | 1,782 | 4,812 |
| Net revenue | 49,247 | 39,662 |
| Expenses: | | |
| Operating | 21,754 | 18,917 |
| Line 63 oil release costs (note 2) | 2,000 | |
| General and administrative | 5,172 | 3,854 |
| Accelerated long-term incentive plan compensation expense (note 5) | 3,115 | |
| Transaction costs (notes 3 and 6) | 1,807 | |
| Depreciation and amortization | 6,529 | 5,242 |
| | 40,377 | 28,013 |
| Share of net income of Frontier | 357 | 393 |
| Operating income | 9,227 | 12,042 |
| Interest expense | (5,598) | (4,126) |
| Other income | 353 | 161 |
| Income before income taxes | 3,982 | 8,077 |
| Income tax (expense) recovery: | | |
| Current | (732) | |
| Deferred | 171 | |
| | (561) | |
| Net income | $ 3,421 | $ 8,077 |
| Net income (loss) for the general partner interest (note 6) | $ (1,702) | $ 162 |
| Net income for the limited partner interests | $ 5,123 | $ 7,915 |
| | | |
| Basic net income per limited partner unit | $ 0.17 | $ 0.32 |
| Diluted net income per limited partner unit | $ 0.17 | $ 0.31 |
| | | |
| Weighted average limited partner units outstanding: | | |
| Basic | 29,655 | 24,999 |
| Diluted | 29,673 | 25,149 |

See accompanying notes to condensed consolidated financial statements.

**PACIFIC ENERGY PARTNERS, L.P. (Note 1)**

**CONDENSED CONSOLIDATED STATEMENT OF PARTNERS CAPITAL**

**(Unaudited)**

| | Limited Partner Units | | Limited Partner Amounts | | General Partner Interest | Undistributed Employee Long-Term Incentive Compensation | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|---|
| | Common | Subordinated | Common | Subordinated | | | | |
| | | | (in thousands) | | | | | |
| Balance, December 31, 2004 | 19,159 | 10,465 | $ 361,427 | $ 41,521 | $ 6,280 | $ 116 | $ 13,122 | $ 422,466 |
| Net income (note 6) | | | 3,315 | 1,808 | (1,702) | | | 3,421 |
| Distribution to partners | | | (9,579) | (5,233) | (302) | | | (15,114) |
| General partner contribution (note 6) | | | | | 2,407 | | | 2,407 |
| Employee compensation under long-term incentive plan | | | | | | 2,886 | | 2,886 |
| Issuance of common units pursuant to long-term incentive plan (note 5) | 99 | | 1,545 | | 31 | (3,002) | | (1,426) |
| Foreign currency translation adjustment | | | | | | | (537) | (537) |
| Change in fair value of hedging derivatives | | | | | | | (1,132) | (1,132) |
| Balance, March 31, 2005 | 19,258 | 10,465 | $ 356,708 | $ 38,096 | $ 6,714 | $ | $ 11,453 | $ 412,971 |

See accompanying notes to condensed consolidated financial statements.

**PACIFIC ENERGY PARTNERS, L.P. (Note 1)**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 |
|---|---|---|
| | (in thousands) | |
| Net income | $ 3,421 | $ 8,077 |
| Change in fair value of hedging derivatives | (1,132) | (4,236) |
| Change in foreign currency translation adjustment | (537) | |
| Comprehensive income | $ 1,752 | $ 3,841 |

See accompanying notes to condensed consolidated financial statements.

**PACIFIC ENERGY PARTNERS, L.P. (Note 1)**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | | Three Months Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | | **2005** | | | **2004** | |
| | | **(in thousands)** | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Net income | | $ | 3,421 | | $ | 8,077 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Depreciation and amortization | | | 6,529 | | | 5,242 |
| Amortization of debt issue costs | | | 459 | | | 311 |
| Non-cash portion of employee compensation under long-term incentive plan | | | May 31, | | | |

2014 *

June 1,
2013 †

53 wks

52 wks

52 wks

52 wks

52 wks
Net sales

$
1,074,513

$
1,908,650

$
1,576,128

$
1,440,907

$
1,288,104

Cost of sales

1,028,963

1,260,576

1,180,407

1,138,143

1,073,555

Gross profit

45,550

648,074

395,721

302,764

214,549

Selling, general and administrative

173,980

177,760

160,386

156,712

126,956

Loss (gain) on disposal of fixed assets

3,664

(1,563
)

568

651

1,496

Legal settlement expense

—

—

—

—

28,000

Operating income (loss)

(132,094
)

471,877

234,767

145,401

58,097

Other income (expense):

| | | | | | |
|---|---|---|---|---|---|
| Interest income (expense), net | 2,785 | 3,158 | (515) | (2,656) | (3,906) |
| Equity in income of affiliates | 1,390 | 5,016 | 2,657 | 3,512 | 3,480 |
| Patronage dividends | 7,665 | 6,930 | | | |

6,893

6,139

14,300

Other, net

5,960

268

2,747

9,446

3,597

Total other income

17,800

15,372

11,782

16,441

17,471

Income (loss) before income tax and noncontrolling interest

(114,294
)

487,249

246,549

161,842

75,568

Income tax expense (benefit)

(39,867
)

169,202

84,268

52,035

24,807

Net income (loss) including noncontrolling interest

(74,427
)

318,047

162,281

109,807

50,761

Less: Net income (loss) attributable to noncontrolling interest

(149
)

2,006

1,027

600

338

Net income (loss) attributable to Cal-Maine Foods, Inc.

$
(74,278
)

$
316,041

$
161,254

$
109,207

$
50,423

Net income (loss) per common share:

Basic

$
(1.54
)

$
6.56

$
3.35

$

2.27

$
1.05

Diluted

$
(1.54
)

$
6.53

$
3.33

$
2.26

$
1.05

Cash dividends per common share

$
—

$
2.18

$
1.11

$
0.73

$
0.38

Weighted average shares outstanding:

Basic

48,362

48,195

48,136

48,095

47,967

Diluted

48,362

48,365

48,437

48,297

48,088

Balance Sheet Data (in thousands)

Working capital

$
371,527

$
542,832

$
407,418

$
354,743

$
304,681

Total assets

1,033,094

1,111,765

928,653

811,661

745,627

Total debt (including current maturities)

10,939

25,570

50,860

61,093

65,020

Total stockholders’ equity

844,493

917,361

704,562

594,745

518,044

Operating Data:

Total number of layers at period-end (thousands)

36,086

33,922

33,696

32,372

30,967

Total shell eggs sold (millions of dozens)

1,031.1

1,053.6

1,063.1

1,013.7

948.5

^ Results for fiscal 2017 include the results of operations (subsequent to acquisition) of the commerical egg assets acquired from Foodonics International, Inc., which were consolidated with our operations as of October 16, 2016, and the commercial egg assets of Happy Hen Egg Farms, Inc., which were consolidated with our operations as of February 19, 2017.

* Results for fiscal 2014 include the results of operations (subsequent to acquisition) of our joint venture partner's 50% interest in Delta Egg Farm, LLC, which was consolidated with our operations as of March 1, 2014. Prior to March 1, 2014, our equity in earnings in Delta Egg Farm, LLC are included in Equity in income of affiliates.

† Results for fiscal 2013 include the results of operations (subsequent to acquisition) of the commercial egg assets acquired from Pilgrim's Pride Corporation, which were consolidated with our operations as of August 10, 2012, and the commercial egg assets from Maxim Production Co., Inc., which were consolidated with our operations as of November 15, 2012.

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RISK FACTORS; FORWARD-LOOKING STATEMENTS

For information relating to important risks and uncertainties that could materially adversely affect our business, securities, financial condition or operating results, reference is made to the disclosure set forth under Item 1A above under the caption "Risk Factors." In addition, because the following discussion includes numerous forward-looking statements relating to us, our results of operations, financial condition and business, reference is made to the information set forth in the section of Part I immediately preceding Item 1 above under the caption "Forward-Looking Statements."

### 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 nearest to May 31 which was June 3, 2017 (53 weeks), May 28, 2016 (52 weeks), and May 30, 2015 (52 weeks) for the most recent three fiscal years.

Our operations are fully integrated. We hatch chicks, grow and maintain flocks of pullets (female chickens, under 18 weeks of age), layers (mature female chickens) and breeders (male and female birds used to produce fertile eggs to be hatched for egg production flocks), manufacture feed, and produce, process and distribute shell eggs. We are the largest producer and marketer of shell eggs in the 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 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.

Our operating results are directly tied to egg prices, which are highly volatile and subject to wide fluctuations, and are outside of our control. For example, the annual average Urner-Barry Southeastern Regional Large Egg Market Price per dozen eggs, for our fiscal 2005-2017 ranged from a low of $0.72 during fiscal 2005 to a high of $2.97 during fiscal 2016. The shell egg industry has traditionally been subject to periods of high profitability followed by periods of significant loss. In the past, during periods of high profitability, shell egg producers tended to increase the number of layers in production with a resulting increase in the supply of shell eggs, which generally caused a drop in shell egg prices until supply and demand returned to balance. As a result, our financial results from year to year may vary significantly. Shorter term, retail sales of shell eggs historically have been greatest during the fall and winter months and lowest during the summer months. Our need for working capital generally is highest in the last and first fiscal quarters ending in May and August, respectively, when egg prices are normally at seasonal lows. Prices for shell eggs fluctuate in response to seasonal factors and a natural increase in shell egg production in the spring and early summer. Shell egg prices tend to increase with the start of the school year and are highest prior to holiday periods, particularly Thanksgiving, Christmas, and Easter. Consequently, we generally experience lower sales and net income in our first and fourth fiscal quarters ending in August and May, respectively. Because of the seasonal and quarterly fluctuations, comparisons of our sales and operating results between different quarters within a single fiscal year are not necessarily meaningful comparisons.

From April through June 2015, our industry experienced a significant avian influenza ("AI") outbreak, primarily in the upper Midwestern U.S. There were no positive tests for AI at any of our locations. Based on several published industry estimates, we believe approximately 12% of the national flock of laying hens was affected. During April through June 2015, the affected laying hens were either destroyed by the disease or euthanized. The USDA data showed the supply of laying hens decreased substantially. Since that time, it began to recover and eventually exceed pre-AI levels by late 2016. In February 2017, the USDA issued revised data that showed the size of the laying hen flock for calendar years 2015 and 2016 was meaningfully higher in both years than previously reported.

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Egg prices increased significantly during the summer and fall of 2015. The average Urner-Barry Thursday prices for the large market (i.e. generic shell eggs) in the southeastern region for the months of June through November 2015 was $2.32 per dozen, with a peak of $2.97 in August. Subsequent to November 2015, shell egg prices declined. The Urner Barry price index ("UB index") hit a decade-low level in our fiscal 2016 fourth quarter. During our first quarter of fiscal 2017 it increased slightly, but remained at significantly lower levels than the corresponding period of last year. During our fiscal 2017 second quarter, the UB index returned to and dropped below the low levels seen during the fiscal 2016 fourth quarter. Early in our fiscal 2017 third quarter we saw a significant increase, but prices dropped after Christmas. During our fiscal 2017 fourth quarter, the UB index dropped again and approached the record low levels of the fiscal 2017 second quarter.

According to Nielsen data, retail customer demand for shell eggs has remained strong. The USDA reports that egg export demand has improved since the beginning of fiscal 2017; however, it has still not fully recovered from levels prior to the AI outbreak. Additionally, the industry experienced reduced demand for egg products, as many commercial customers reformulated their products to use fewer eggs when prices spiked and have been slow to resume previous egg usage. Together with the increased supply of laying hens, these factors have created an oversupply of eggs, with continued pressure on market prices. Accordingly, our net average selling price per dozen shell eggs for fiscal 2017 was $1.007 compared to $1.735 for fiscal 2016. Recent USDA reports show the chick hatch has been trending down, suggesting there may be a moderation in the size of the laying hen flock as the year progresses. We expect the egg markets to remain under pressure and we do not expect meaningful price improvement until there is a better balance of supply and demand.

We are one of the largest producers and marketers of value-added specialty shell eggs in the U.S. For accounting purposes, we classify nutritionally enhanced, cage-free, organic and brown eggs as specialty shell eggs. They have been a significant and growing segment of the market in recent years. During our fiscal 2016 an increasing number of large restaurant chains, food service companies and grocery chains, including our largest customers, announced goals to transition to a cage-free egg supply chain by specified future dates. We are working with our customers to achieve smooth progress in meeting their goals. Our focus for future expansion at our farms will be environments that are cage-free or with equipment that can easily be converted to cage-free, based on a timeline to meet our customer’s needs.

For fiscal 2017, we produced approximately 84% of the total number of shell eggs sold by us, with approximately 8% of such shell egg production provided by contract producers. Contract producers utilize their facilities to produce shell eggs from layers owned by us. We own the shell eggs produced under these arrangements. For fiscal 2017, approximately 16% of the total number of shell eggs sold by us were purchased from outside producers for resale.

Our cost of production is materially affected by feed costs, which are highly volatile and subject to wide fluctuation. For fiscal 2017, feed costs averaged about 58% of our total farm egg production cost. 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. For our last five fiscal years, average feed cost per dozen sold ranged from a low of $0.40 in fiscal 2017 to a high of $0.54 in fiscal 2013. The cost of our primary feed ingredients, which are commodities, are subject to factors over which we have little or no control such as volatile price changes caused by weather, size of harvest, transportation and storage costs, demand and the agricultural and energy policies of the U.S. and foreign governments. Subsequent to our fiscal year end, grain prices have increased and we expect this volatility to continue in fiscal 2018. In spite of this volatility, we expect to have an adequate supply of our primary feed ingredients in fiscal 2018.

During the second quarter of fiscal 2017, the Company acquired substantially all of the egg production assets and assumed certain liabilities of Foodonics International, Inc. and its related entities doing business as Dixie Egg Company (collectively, "Foodonics") for $68.6 million of cash and $3.0 million of deferred purchase price. The acquired assets include commercial egg production and processing facilities with capacity for 1.6 million laying hens, contract grower arrangements for an additional 1.5 million laying hens, and related feed production, and distribution facilities in Georgia, Alabama, and Florida. The Company acquired Foodonics' interest in American Egg Products, LLC ("AEP") and the Eggland's Best franchise with licensing rights for certain markets in Alabama, Florida, and Georgia as well as Puerto Rico, Bahamas and Cuba. The Company now owns 100% of AEP. The acquired operations of Foodonics are included in the accompanying financial statements as of October 16, 2016.

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During the third quarter of fiscal 2017, the Company acquired substantially all of the egg production, processing and distribution assets of Happy Hen Egg Farms, Inc. and its affiliates (collectively, "Happy Hen") for $17.2 million. The assets include commercial egg production and processing facilities with current capacity for 350,000 laying hens and related distribution facilities located near Harwood and Wharton, Texas. The site is designed for capacity of up to 1.2 million laying hens. The operations of Happy Hen are included in the accompanying financial statements as of February 19, 2017. The Company closed this acquisition on March 3, 2017.

We effected a 2-for-1 stock split for shares of our common stock and Class A common stock in October 2014, and all per share amounts in this report have been adjusted as necessary to reflect the split.

RESULTS OF OPERATIONS

The following table sets forth, for the fiscal years indicated, certain items from our consolidated statements of operations expressed as a percentage of net sales.

| | June 3, 2017 | May 28, 2016 | May 30, 2015 |
|---|---|---|---|
| Net sales | 100.0 % | 100.0 % | 100.0 % |
| Cost of sales | 95.8 % | 66.0 % | 74.9 % |
| Gross profit | 4.2 % | 34.0 % | 25.1 % |
| Selling, general and administrative | 16.2 % | 9.3 % | 10.2 % |
| Loss (gain) on disposal of fixed assets | 0.3 % | (0.1 )% | — % |
| Operating income (loss) | (12.3 )% | 24.8 % | 14.9 % |
| Other income | 1.7 % | 0.8 % | 0.7 % |
| Income (loss) before income taxes and noncontrolling interest | (10.6 )% | 25.6 % | 15.6 % |
| Income tax expense (benefit) | (3.7 )% | 8.9 % | 5.3 % |
| Net income (loss) including noncontrolling interest | (6.9 )% | 16.7 % | 10.3 % |
| Less: Net income (loss) attributable to noncontrolling interest | — % | 0.1 % | 0.1 % |
| Net income (loss) attributable to Cal-Maine Foods, Inc. | (6.9 )% | 16.6 % | 10.2 % |

Executive Overview of Results – June 3, 2017, May 28, 2016, and May 30, 2015

Our operating results are significantly affected by wholesale shell egg market prices and feed costs, which can fluctuate widely and are outside of our control. The majority of our shell eggs are sold at prices related to the Urner Barry Spot Egg Market Quotations for the southeastern and southcentral regions of the country, or formulas related to our costs of production which include the cost of corn and soybean meal. The following table shows our net income (loss), net average shell egg selling price, feed cost per dozen produced, and the average Urner Barry wholesale large shell egg prices in the southeast region, for each of our three most recent fiscal years.

| Fiscal Year ended | June 3, 2017 | May 28, 2016 | May 30, 2015 |
|---|---|---|---|
| Net income (loss) attributable to Cal-Maine Foods, Inc. - (in thousands) | $(74,278) | $316,041 | $161,254 |
| Gross profit (in thousands) | 45,550 | 648,074 | 395,721 |
| Net average shell egg selling price (rounded) | 1.01 | 1.74 | 1.43 |
| Average Urner Barry Spot Egg Market Quotations1 | 0.85 | 1.79 | 1.53 |
| Feed cost per dozen produced | 0.399 | 0.414 | 0.439 |

1- Average Thursday price for the large market (i.e. generic shell eggs) in the southeastern region

The shell egg industry has traditionally been subject to periods of high profitability followed by periods of significant loss. The periods of high profitability have often reflected increased consumer demand relative to supply while the periods of significant loss have often reflected excess supply for the then prevailing consumer demand. Historically, demand for shell eggs increases in line with overall population growth. As reflected above, our operating results fluctuate with changes in the spot egg market quote and feed costs. The net average shell egg selling price is the blended price for all sizes and grades of shell eggs, including non-graded shell egg sales, breaking stock and undergrades. In fiscal 2015 and 2016, our net average net selling price increased, reflecting strong demand for shell eggs across our markets as well as supply constraints resulting from the outbreak of avian influenza ("AI"), and feed costs decreased over the previous year. In fiscal 2017, our net average selling price and dozens sold decreased over the previous year primarily due to oversupply of eggs resulting from the repopulation of the national flock of laying hens to levels exceeding the pre-AI flock and a reduced demand for egg products. In fiscal 2017, feed costs continued to decrease over prior years. Gross profit and net income for fiscal 2017 decreased significantly compared to the prior year, primarily due to decreased selling prices.

Fiscal Year Ended June 3, 2017 Compared to Fiscal Year Ended May 28, 2016

NET SALES

In fiscal 2017, approximately 98% of our net sales consisted of shell eggs and approximately 2% was egg products. Net sales for the fiscal year ended June 3, 2017 were $1,074.5 million, a decrease of $834.2 million, or 43.7%, from net sales of $1,908.7 million for fiscal 2016. In fiscal 2017 total dozens of eggs sold decreased and egg selling prices decreased as compared to fiscal 2016. In fiscal 2017 total dozens of shell eggs sold were 1,031.1 million, a decrease of 22.5 million dozen, or 2.1%, compared to 1,053.6 million sold in fiscal 2016 resulting in a decrease in net sales of $22.6 million for fiscal 2017 compared with the prior year. We believe the decrease was primarily due to an oversupply of eggs in fiscal 2017 contrasted with fiscal 2016 in which we experienced supply constraints resulting from the AI outbreak. Our average selling price of shell eggs decreased from $1.735 per dozen for fiscal 2016 to $1.007 per dozen for fiscal 2017, a decrease of $0.728 per dozen, or 42.0%, primarily reflecting pressure on market prices induced by the oversupply of eggs compared with the prior year in which we experienced higher egg prices resulting from the AI outbreak. The decrease in sales price in fiscal 2017 from fiscal 2016 resulted in a corresponding decrease in net sales of approximately $750.7 million. The remainder of our decrease in net sales was the result of decreased sales of egg products which is discussed later in this section. Our operating results are significantly affected by wholesale shell egg market prices, which are outside of our control. Small changes in production or demand levels can have a large effect on shell egg prices.

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The table below represents an analysis of our non-specialty and specialty, as well as co-pack specialty, shell egg sales. Following the table is a discussion of the information presented in the table.

| | Fiscal Years Ended | | | | Quarters Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | (53 weeks) | | (52 weeks) | | (14 weeks) | | (13 Weeks) | |
| | June 3, 2017 | | May 28, 2016 | | June 3, 2017 | | May 28, 2016 | |
| | (Amounts in thousands) | | | | (Amounts in thousands) | | | |
| Total net sales | $1,074,513 | | $1,908,650 | | $274,584 | | $303,020 | |
| | | | | | | | | |
| Non-specialty shell egg sales | 548,858 | 52.3 % | 1,243,377 | 67.7 % | 145,454 | 54.3 % | 163,882 | 55.6 % |
| Specialty shell egg sales | 457,617 | 43.6 % | 534,754 | 29.1 % | 112,744 | 42.0 % | 118,356 | 40.2 % |
| Co-pack specialty shell egg sales | 32,689 | 3.1 % | 49,282 | 2.7 % | 7,198 | 2.7 % | 9,021 | 3.1 % |
| Other sales | 10,423 | 1.0 % | 10,533 | 0.5 % | 2,594 | 1.0 % | 3,245 | 1.1 % |
| Net shell egg sales | $1,049,587 | 100.0% | $1,837,946 | 100.0% | $267,990 | 100.0% | $294,504 | 100.0% |
| Net shell egg sales as a percent of total net sales | | 98 % | | 96 % | | 98 % | | 97 % |
| Dozens sold: | | | | | | | | |
| Non-specialty shell egg | 778,538 | 75.5 % | 791,058 | 75.1 % | 207,428 | 76.0 % | 189,850 | 75.0 % |
| Specialty shell egg | 236,067 | 22.9 % | 241,603 | 22.9 % | 61,862 | 22.7 % | 58,856 | 23.3 % |
| Co-pack specialty shell egg | 16,525 | 1.6 % | 20,936 | 2.0 % | 3,725 | 1.3 % | 4,371 | 1.7 % |
| Total dozens sold | 1,031,130 | 100.0% | 1,053,597 | 100.0% | 273,015 | 100.0% | 253,077 | 100.0% |
| | | | | | | | | |
| Net average selling price per dozen: | | | | | | | | |
| All shell eggs | $1.007 | | $1.735 | | $0.973 | | $1.152 | |
| Non-specialty shell eggs | $0.705 | | $1.572 | | $0.701 | | $0.863 | |
| Specialty shell eggs | $1.939 | | $2.213 | | $1.823 | | $2.011 | |

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, and small increases in production or decreases in demand can have a large adverse effect on prices and vice-versa. In fiscal 2017, non-specialty shell eggs represented approximately 52.3% of our shell egg revenue, compared to 67.7% for fiscal 2016, reflecting the large decrease in net average selling price for non-specialty eggs from $1.572 per dozen in fiscal 2016 to $0.705 per dozen in fiscal 2017. Sales of non-specialty shell eggs accounted for approximately 75.5% and 75.1% of total shell egg volumes in fiscal 2017 and 2016, respectively.

For the fourteen-week period ended June 3, 2017, non-specialty shell eggs represented approximately 54.3% of our shell egg revenue, compared to 55.6% for the thirteen-week period ended May 28, 2016, reflecting the large decrease in net average selling price for non-specialty eggs during the current period compared to the same period of last year ($0.701 per dozen in the 2017 period compared to $0.863 per dozen in the 2016 period) partially offset by an increase in non-specialty dozens sold. For the fourteen-week period ended June 3, 2017, non-specialty shell eggs accounted for approximately 76.0% of the total shell egg volume, compared to 75.0% for the thirteen-week period ended May

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28, 2016. The volume increase for both non-specialty and specialty shell eggs for the fiscal 2017 fourth quarter reflected the extra week of production in the period.

Specialty eggs, which include nutritionally enhanced, cage-free, organic and brown eggs, continued to make up a significant portion of our total shell egg revenue and dozens sold in fiscal 2017. For fiscal 2017, specialty eggs accounted for 43.6% of shell egg revenue, compared to 29.1% in fiscal 2016. Specialty eggs accounted for 22.9% of shell egg volume in both fiscal 2017 and fiscal 2016. Additionally, for fiscal 2017, specialty eggs sold through co-pack arrangements accounted for 3.1% of shell egg revenue, compared to 2.7% in fiscal 2016, and 1.6% of shell egg volume in fiscal 2017 compared to 2.0% in fiscal 2016. Our net average selling price for specialty eggs was $1.939 per dozen for fiscal 2017 compared to $2.213 per dozen for fiscal 2016. 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 increased benefits from these products. This effect was particularly evident in recent quarters as non-specialty egg prices declined more than specialty egg prices. However, as non-specialty egg prices declined, we experienced some margin and volume pressures on specialty egg sales.

For the fourteen-week period ended June 3, 2017, specialty shell eggs and specialty shell eggs sold through co-pack arrangements represented approximately 42.0% and 2.7%, of our shell egg revenue, compared to 40.2% and 3.1%, respectively, for the thirteen-week period ended May 28, 2016. As previously discussed, selling prices for non-specialty eggs were lower during the current fiscal 2017 fourth quarter resulting in a larger percentage of our shell egg sales being attributable to the less cyclical specialty shell eggs. For the fourteen-week period ended June 3, 2017, specialty shell eggs and specialty shell eggs sold through co-pack arrangements accounted for approximately 22.7% and 1.3% of the total shell egg volume, compared to 23.3% and 1.7%, respectively, for the thirteen-week period ended May 28, 2016. Our net average selling price for specialty eggs was $1.823 per dozen for the fiscal 2017 fourth quarter compared to $2.011 per dozen for the fiscal 2016 fourth quarter.

As previously disclosed, the loss of a portion of a major customer's co-pack business in the fourth quarter of fiscal 2016 also had a negative impact on our fiscal 2017 dozens sold and revenue.

The shell egg sales classified as “Other sales” represent hard cooked eggs, hatching eggs, other egg products, hens, and manure, 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 consolidated subsidiary Texas Egg Products, LLC (“TEP”). For fiscal 2017 egg product sales were $24.9 million, a decrease of $45.8 million, or 64.7%, compared to $70.7 million for fiscal 2016. Egg products volume for fiscal 2017 was 65.3 million pounds, an increase of 6.8 million pounds, or 11.6%, compared to 58.5 million pounds for fiscal 2016. In fiscal 2017, the selling price per pound was $0.382 compared to $1.213 for fiscal 2016, a decrease of 68.5%. The decrease in market prices for egg products in the current fiscal year is due to reduced demand for egg products and extraordinarily high prices for the prior fiscal year which reflected the shortage of supply caused by AI.

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COST OF SALES

Cost of sales consists of costs directly related to producing, processing and packing 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. The following table presents the key variables affecting our cost of sales:

| | Fiscal Year Ended | | | Quarter Ended | | |
|---|---|---|---|---|---|---|
| | (53 weeks) | (52 weeks) | | (14 weeks) | (13 weeks) | |
| (Amounts in thousands) | June 3, 2017 | May 28, 2016 | Percent Change | June 3, 2017 | May 28, 2016 | Percent Change |
| Cost of sales: | | | | | | |
| Farm production | $598,412 | $562,521 | 6.4 % | $159,482 | $135,187 | 18.0 % |
| Processing and packaging | 202,225 | 184,586 | 9.6 % | 54,896 | 45,089 | 21.8 % |
| Outside egg purchases and other | 207,495 | 464,008 | (55.3)% | 41,663 | 75,311 | (44.7)% |
| Total shell eggs | 1,008,132 | 1,211,115 | (16.8)% | 256,041 | 255,587 | 0.2 % |
| Egg products | 19,766 | 48,584 | (59.3)% | 6,075 | 6,473 | (6.1 )% |
| Other | 1,065 | 877 | 21.4 % | 462 | 280 | 65.0 % |
| Total | $1,028,963 | $1,260,576 | (18.4)% | $262,578 | $262,340 | 0.1 % |
| | | | | | | |
| Farm production cost (per dozen produced) | | | | | | |
| Feed | $0.399 | $0.414 | (3.6 )% | $0.381 | $0.396 | (3.8 )% |
| Other | 0.294 | 0.279 | 5.4 % | 0.298 | 0.290 | 2.8 % |
| Total | $0.693 | $0.693 | — % | $0.679 | $0.686 | (1.0 )% |
| | | | | | | |
| Outside egg purchases (average cost per dozen) | $1.01 | $1.72 | (41.3)% | $0.90 | $1.11 | (18.9)% |
| | | | | | | |
| Dozen produced | 870,252 | 819,307 | 6.2 % | 237,006 | 198,950 | 19.1 % |
| Dozen sold | 1,031,130 | 1,053,597 | (2.1 )% | 273,015 | 253,077 | 7.9 % |

Cost of sales for the fiscal year ended June 3, 2017 was $1,029.0 million, a decrease of $231.6 million, or 18.4%, compared to 1,260.6 million for fiscal 2016. Comparing fiscal 2017 to fiscal 2016, average cost per dozen purchased from outside shell egg producers and cost of feed ingredients decreased while dozens produced increased. For the 2017 fiscal year we produced 84.4% of the eggs sold by us, as compared to 77.8% for the previous year. The increase is the result of our acquisitions and expansion projects completed at our existing facilties. Feed cost for fiscal 2017 was $0.399 per dozen, compared to 0.414 per dozen for the prior fiscal year, a decrease of 3.6%. The decrease in feed cost per dozen resulted in a decrease in cost of sales of $13.1 million for fiscal 2017 compared with fiscal 2016.

For the fourteen weeks ended June 3, 2017, compared to the thirteen weeks ended May 28, 2016, cost of sales increased $238,000, or 0.1%, from $262.3 million in the fourth quarter of fiscal 2016, to $262.6 million in the current period. Feed cost per dozen for the fourth quarter of fiscal 2017 was $0.381, compared to $0.396 for the same quarter of fiscal 2016, a decrease of 3.8%.

Gross profit, as a percentage of net sales, was 4.2% for fiscal 2017, compared to 34.0% for fiscal 2016. The decline resulted primarily from lower selling prices.

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SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

| | Fiscal Years Ended | | | |
|---|---|---|---|---|
| | 53 Weeks | 52 Weeks | | |
| (Amounts in thousands) | June 3, 2017 | May 28, 2016 | Change | Change |
| Specialty egg | $56,522 | $61,294 | $(4,772) | (7.8 )% |
| Delivery expense | 53,282 | 49,629 | 3,653 | 7.4 % |
| Payroll and overhead | 35,101 | 39,149 | (4,048 ) | (10.3)% |
| Stock compensation | 3,427 | 3,018 | 409 | 13.6 % |
| Other expenses | 25,648 | 24,670 | 978 | 4.0 % |
| Total | $173,980 | $177,760 | $(3,780) | (2.1 )% |

Selling, general and administrative expenses ("SG&A"), which include costs of marketing, distribution, accounting and corporate overhead, were $174.0 million in fiscal 2017, a decrease of $3.8 million, or 2.1%, compared to $177.8 million for fiscal 2016. As a percent of net sales, selling, general and administrative expense increased from 9.3% in fiscal 2016 to 16.2% in fiscal 2017, due to the reduction of net sales in fiscal 2017.

The impact of the fiscal 2017 acquisitions was an $8.1 million increase in SG&A compared to fiscal 2016. The decrease in specialty egg expense for fiscal 2017 compared to fiscal 2016 is attributable to a 2.3% decrease in specialty shell egg dozens sold resulting in a decrease in advertising promotions and franchise expense. Payroll and overhead decreased $4.0 million, or 10.3%, compared to the same period of last year primarily due to increased bonuses in the 2016 fiscal year and decreased bonuses in fiscal 2017, partially offset by fiscal 2017 having one more week than fiscal 2016. As a percentage of net sales, payroll and overhead is 3.3% and 2.1% for fiscal 2017 and 2016, respectively. As a percentage of net sales, delivery expense is 5.0% and 2.6% for fiscal 2017 and 2016, respectively, increasing due to the reduced net sales in the current fiscal year as well as a 4.1% increase due to the impact of the acquisitions.

| | Quarters Ended | | | |
|---|---|---|---|---|
| | 14 Weeks | 13 Weeks | | |
| (Amounts in thousands) | June 3, 2017 | May 28, 2016 | Change | Change |
| Specialty egg | $14,364 | $13,768 | $596 | 4.3 % |
| Delivery expense | 13,712 | 11,945 | 1,767 | 14.8 % |
| Payroll and overhead | 11,156 | 9,450 | 1,706 | 18.1 % |
| Stock compensation | 947 | 843 | 104 | 12.3 % |
| Other expenses | 7,816 | 6,398 | 1,418 | 22.2 % |
| Total | $47,995 | $42,404 | $5,591 | 13.2 % |

SG&A expense was $48.0 million for the fourteen weeks ended June 3, 2017, an increase of $5.6 million, or 13.2%, compared to $42.4 million for the thirteen weeks ended May 28, 2016. The increase in specialty egg expense for the fiscal 2017 fourth quarter is attributable to a 5.1% increase in specialty egg dozens sold due to the extra week in the current fiscal quarter resulting in an increase in advertising promotions and franchise expense. Payroll and overhead increased $1.7 million, or 18.1%, compared to the same period of last year due to the Foodonics and Happy Hen acquisitions as well as the extra week in the fiscal 2017 fourth quarter, partially offset by reduced bonus accruals in 2017. Delivery expense increased $1.8 million for the fourteen weeks ended June 3, 2017 compared to the corresponding thirteen week period ended May 28, 2016, primarily due to the Foodonics acquisition. Other expenses for the fourteen weeks ended June 3, 2017 are up $1.4 million, or 22.2%, compared to the corresponding thirteen week period ended May 28, 2016, primarily due to an extra week in the current period, an increase in legal and audit fees in the current period, and the impact of the acquisitions.

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LOSS (GAIN) ON DISPOSAL OF FIXED ASSETS

In fiscal 2017, we recorded a $3.7 million loss due to the retirement of layer houses at certain locations. In fiscal 2016 we recorded a gain on disposal of fixed assets of $1.6 million primarily due to the sale of property in Albuquerque, New Mexico.

OPERATING INCOME (LOSS)

As a result of the above, our operating loss was $132.1 million for fiscal 2017, compared to operating income of $471.9 million for fiscal 2016.

OTHER INCOME (EXPENSE)

Total other income (expense) consists of income (expenses) not directly charged to, or related to, operations such as interest expense, interest income, patronage dividends, and equity in earnings of affiliates, among other items. Total other income for fiscal 2017 was $17.8 million compared to $15.4 million for fiscal 2016. As a percent of net sales, total other income was 1.7% for fiscal 2017, compared to 0.8% for fiscal 2016.

The Company recorded interest income of $3.1 million in fiscal 2017, compared to $4.3 million for the same period of last year. We recorded interest expense of $1.4 million and $2.3 million, of which $1.1 million was capitalized in both fiscal 2017 and 2016. Interest income from available for sale securities decreased due to lower average invested balances. The reduction of interest expense resulted from lower levels of outstanding debt.

Patronage dividends, which represent distributions from our membership in Eggland's Best, Inc., increased $735,000 from $6.9 million in fiscal 2016 to $7.7 million in fiscal 2017.

Equity in income of affiliates for fiscal 2017 was $1.4 million compared to $5.0 million for fiscal 2016. The decrease of $3.6 million is primarily due to losses at our Red River joint venture and decreased income from specialty egg sales in our other unconsolidated specialty egg joint ventures.

Other, net for fiscal 2017 was $6.0 million of income compared to $269,000 for fiscal 2016. The increase of $5.7 million is primarily due to our receipt in the fourth quarter of fiscal 2017 of payment of claims related to the Deepwater Horizon Economic and Property Damages Settlement Program. Our recovery, net of applicable fees, was $5.5 million.

INCOME TAXES

For the fiscal year ended June 3, 2017, our pre-tax loss was $114.3 million, compared to pre-tax income of $487.2 million for fiscal 2016. Income tax benefit of $39.9 million was recorded for fiscal 2017 with an effective income tax rate of 34.9%, compared to income tax expense of $169.2 million for fiscal 2016 with an effective income tax rate of 34.8%.

For the fourteen weeks ended June 3, 2017, our pretax loss was $33.2 million and our income tax benefit was $8.5 million with an effective income tax rate of 25.9%. The low effective rate is due to the Company’s decision to carry back fiscal 2017 net operating losses to recover a portion of taxes paid in fiscal 2015. The net operating loss carryback resulted in a $4.1 million decrease in the income tax benefit, as the carryback reduced fiscal 2015 taxable income and as a result reduced the benefit of domestic manufacturers deductions, a portion of which were therefore reversed in the fourth quarter of fiscal 2017.

Items causing our effective rate to differ from the federal statutory income tax rate of 35% are state income taxes and certain items included in income or loss for financial reporting purposes that are not included in taxable income or loss for income tax purposes, including tax exempt interest income, the domestic manufacturers deduction, and net income or loss attributable to noncontrolling interest.

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NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST

Net loss attributable to noncontrolling interest for fiscal 2017 was $149,000 compared to net income of $2.0 million for fiscal 2016.

NET INCOME (LOSS) ATTRIBUTABLE TO CAL-MAINE FOODS, INC.

As a result of the above, net loss for fiscal 2017 was $74.3 million, or $1.54 per basic and diluted share, compared to net income of $316.0 million, or $6.56 per basic share and $6.53 per diluted share for fiscal 2016.

Fiscal Year Ended May 28, 2016 Compared to Fiscal Year Ended May 30, 2015

NET SALES

In fiscal 2016, approximately 96% of our net sales consisted of shell eggs and approximately 4% was egg products. Net sales for the fiscal year ended May 28, 2016 were $1,908.7 million, an increase of $332.6 million, or 21.1%, from net sales of $1,576.1 million for fiscal 2015. In fiscal 2016 total dozens of eggs sold decreased and egg selling prices increased as compared to fiscal 2015. In fiscal 2016 total dozens of shell eggs sold were 1,053.6 million, a decrease of 9.5 million dozen, or 0.9%, compared to 1,063.1 million sold in fiscal 2015 resulting in a decrease in net sales of $13.6 million for fiscal 2016 compared with the prior year which we believe was primarily due to supply constraints and higher prices resulting from the AI outbreak. Our average selling price of shell eggs increased from $1.429 per dozen for fiscal 2015 to $1.735 per dozen for fiscal 2016, an increase of $0.306 per dozen, or 21.4%, primarily reflecting higher egg prices resulting from the AI outbreak and a higher percentage of specialty egg sales. The increase in sales price in fiscal 2016 over 2015 resulted in a corresponding increase in net sales of $325.1 million. The remainder of our increase in sales over the prior fiscal year not related to shell egg volume or prices was the result of increased sales from egg products which is discussed later in this section. Our operating results are significantly affected by wholesale shell egg market prices, which are outside of our control. Small changes in production or demand levels can have a large effect on shell egg prices.

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The table below represents an analysis of our non-specialty and specialty, as well as co-pack specialty, shell egg sales. Following the table is a discussion of the information presented in the table.

| | Fiscal Years Ended (52 weeks) | | | | Quarters Ended (13 weeks) | | | |
|---|---|---|---|---|---|---|---|---|
| | May 28, 2016 | | May 30, 2015 | | May 28, 2016 | | May 30, 2015 | |
| | (Amounts in thousands) | | | | (Amounts in thousands) | | | |
| Total net sales | $1,908,650 | | $1,576,128 | | $303,020 | | $403,011 | |
| | | | | | | | | |
| Non-specialty shell egg sales | 1,243,377 | 67.7 % | 1,059,070 | 69.2 % | 163,882 | 55.6 % | 268,625 | 68.5 % |
| Specialty shell egg sales | 534,754 | 29.1 % | 416,127 | 27.2 % | 118,356 | 40.2 % | 110,696 | 28.2 % |
| Co-pack specialty shell egg sales | 49,282 | 2.7 % | 43,282 | 2.8 % | 9,021 | 3.1 % | 10,278 | 2.6 % |
| Other sales | 10,533 | 0.6 % | 11,769 | 0.8 % | 3,245 | 1.1 % | 2,710 | 0.7 % |
| Net shell egg sales | $1,837,946 | 100.0% | $1,530,248 | 100.0% | $294,504 | 100.0% | $392,309 | 100.0% |
| Net shell egg sales as a percent of total net sales | | 96 % | | 97 % | | 97 % | | 97 % |
| Dozens sold: | | | | | | | | |
| Non- specialty shell egg | 791,058 | 75.1 % | 830,770 | 78.1 % | 189,850 | 75 % | 204,138 | 77.1 % |
| Specialty shell egg | 241,603 | 22.9 % | 210,606 | 19.8 % | 58,856 | 23.3 % | 55,699 | 21 % |
| Co-pack specialty shell egg | 20,936 | 2 % | 21,710 | 2.1 % | 4,371 | 1.7 % | 5,046 | 1.9 % |
| Total dozens sold | 1,053,597 | 100 % | 1,063,086 | 100 % | 253,077 | 100 % | 264,883 | 100 % |
| | | | | | | | | |
| Net average selling price per dozen | $1.74 | | $1.43 | | $1.15 | | $1.47 | |

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, and small increases in production or decreases in demand can have a large adverse effect on prices and vice-versa. In fiscal 2016, non-specialty shell eggs represented approximately 67.7% of our shell egg revenue, compared to 69.2% for fiscal 2015. Sales of non-specialty shell eggs accounted for approximately 75.1% and 78.1% of total shell egg volumes in fiscal 2016 and 2015, respectively.

For the thirteen-week period ended May 28, 2016, non-specialty shell eggs represented approximately 55.6% of our shell egg revenue, compared to 68.5% for the thirteen-week period ended May 30, 2015, reflecting the large decrease in net average selling price for non-specialty eggs during the fiscal 2016 fourth quarter compared to the same period of the prior year. For the thirteen-week period ended May 28, 2016, non-specialty shell eggs accounted for approximately 75.0% of the total shell egg volume, compared to 77.1% for the comparable period of 2015.

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Specialty eggs, which include nutritionally enhanced, cage-free, organic and brown eggs, continued to make up a larger portion of our total shell egg revenue and dozens in fiscal 2016. For fiscal 2016, specialty eggs accounted for 29.1% of shell egg revenue, compared to 27.2% in fiscal 2015, and 22.9% of shell egg volume in fiscal 2016, compared to 19.8% in fiscal 2015. Additionally, for fiscal 2016, specialty eggs sold through co-pack arrangements accounted for 2.7% of shell egg revenue, compared to 2.8% in fiscal 2015, and 2.0% of shell egg volume in fiscal 2016 and 2015. 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 increased benefits from these products. This effect was particularly evident in our fourth fiscal quarter of 2016, as non-specialty egg prices declined more than specialty egg prices. However, as non-specialty egg prices have declined, we are experiencing some margin and volume pressures on specialty egg sales.

For the thirteen-week period ended May 28, 2016, specialty shell eggs and specialty shell eggs sold through co-pack arrangements represented approximately 40.2% and 3.1%, of our shell egg revenue, compared to 28.2% and 2.6%, respectively, for the comparable period of fiscal 2015. As previously discussed, selling prices for non-specialty eggs decreased during the fiscal 2016 fourth quarter resulting in a larger percentage of our shell egg sales being attributable to the less cyclical specialty shell eggs. For the thirteen-week period ended May 28, 2016, specialty shell eggs and specialty shell eggs sold through co-pack arrangements accounted for approximately 23.3% and 1.7% of the total shell egg volume, compared to 21.0% and 1.9%, respectively, for the comparable period of fiscal 2015.

As discussed above, while egg prices increased substantially after the AI outbreak during the early part of our fiscal 2016, egg prices declined to a decade-low level during our fiscal 2016 fourth quarter, and were 21.7 percent lower than our average selling price in our fiscal 2015 fourth quarter. In addition, our sales for the fourth quarter of fiscal 2016 reflect lower volumes primarily related to the loss of a portion of a major customer’s co-pack business.

The shell egg sales classified as “Other sales” represent hard cooked eggs, hatching eggs, other egg products, hens, and manure, 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 consolidated subsidiaries American Egg Products, LLC (“AEP”) and Texas Egg Products, LLC (“TEP”). For fiscal 2016 egg product sales were $70.7 million, an increase of $25.3 million, or 55.7%, compared to $45.4 million for fiscal 2015. Egg products volume for fiscal 2016 was 58.5 million pounds, an increase of 7.5 million pounds, or 14.7%, compared to 51.0 million pounds for fiscal 2015. The increases in our sales volume and market prices for egg products in the current fiscal year were due to a shortage of supply from the AI affected locations of other producers, as the AI outbreak had a disproportionately large impact on suppliers of egg products. In fiscal 2016, the selling price per pound was $1.213 compared to $0.891 for fiscal 2015, an increase of 36.1%.

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COST OF SALES

Cost of sales consists of costs directly related to producing, processing and packing 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. The following table presents the key variables affecting our cost of sales:

| (Amounts in thousands) | Fiscal Year Ended May 28, 2016 | May 30, 2015 | Percent Change | Quarter Ended May 28, 2016 | May 30, 2015 | Percent Change |
|---|---|---|---|---|---|---|
| Cost of sales: | | | | | | |
| Farm production | $562,521 | $558,580 | 0.7 % | $135,187 | $138,580 | (2.4 )% |
| Processing and packaging | 184,586 | 173,181 | 6.6 % | 45,089 | 45,056 | 0.1 % |
| Outside egg purchases and other | 464,008 | 413,863 | 12.1 % | 75,311 | 101,029 | (25.5)% |
| Total shell eggs | 1,211,115 | 1,145,624 | 5.7 % | 255,587 | 284,665 | (10.2)% |
| Egg products | 48,584 | 33,886 | 43.4 % | 6,473 | 8,640 | (25.1)% |
| Other | 877 | 897 | (2.2 )% | 280 | 311 | (10 )% |
| Total | $1,260,576 | $1,180,407 | 6.8 % | $262,340 | $293,616 | (10.7)% |
| | | | | | | |
| Farm production cost (per dozen produced) | | | | | | |
| Feed | $0.414 | $0.439 | (5.7 )% | $0.396 | $0.406 | (2.5 )% |
| Other | 0.279 | 0.266 | 4.9 % | 0.29 | 0.272 | 6.6 % |
| Total | $0.693 | $0.705 | (1.7 )% | $0.686 | $0.678 | 1.2 % |
| | | | | | | |
| Outside egg purchases (average cost per dozen) | $1.72 | $1.41 | 22 % | $1.11 | $1.43 | (22.4)% |
| | | | | | | |
| Dozen produced | 819,307 | 798,842 | 2.6 % | 198,950 | 201,763 | (1.4 )% |
| Dozen sold | 1,053,597 | 1,063,086 | (0.9 )% | 253,077 | 264,883 | (4.5 )% |

Cost of sales for the fiscal year ended May 28, 2016 was $1,260.6 million, an increase of $80.2 million, or 6.8%, compared to $1,180.4 million for fiscal 2015. Comparing fiscal 2016 to fiscal 2015, dozens produced and average cost per dozen purchased from outside shell egg producers increased while cost of feed ingredients decreased. During our fiscal 2016 we produced 77.8% of the eggs sold by us, as compared to 75.1% for fiscal 2015. Feed cost for fiscal 2016 was $0.414 per dozen, compared to $0.439 per dozen for the prior fiscal year, a decrease of 5.7%. The decrease in feed cost per dozen resulted in a decrease in cost of sales of $20.6 million for fiscal 2016 compared with 2015.

For the thirteen weeks ended May 28, 2016, compared to the same period of 2015, cost of sales decreased from $293.6 million in the fourth quarter of fiscal 2015, to $262.3 million in the fourth quarter of fiscal 2016. This decrease of $31.3 million, or 10.7%, was primarily the result of decreased cost of outside egg purchases from $1.43 per dozen in the fourth quarter of fiscal 2015 to $1.11 in the comparable period of fiscal 2016. Feed cost per dozen for the fourth quarter of fiscal 2016 was $0.396, compared to $0.406 for the same quarter of fiscal 2015, a decrease of 2.5%.

Gross profit increased from 25.1% of net sales for fiscal 2015, to 34.0% of net sales for fiscal 2016. The improvement is the result of lower feed costs and increased egg selling prices.

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SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

| | Fiscal Years Ended 52 Weeks | | | |
|---|---|---|---|---|
| (Amounts in thousands) | May 28, 2016 | May 30, 2015 | Change | Change |
| Stock compensation expense | $3,018 | $2,955 | $63 | 2.1 % |
| Specialty egg expense | 61,294 | 53,966 | 7,328 | 13.6 % |
| Payroll and overhead | 39,149 | 31,965 | 7,184 | 22.5 % |
| Other expenses | 24,670 | 24,501 | 169 | 0.7 % |
| Delivery expense | 49,629 | 46,999 | 2,630 | 5.6 % |
| Total | $177,760 | $160,386 | $17,374 | 10.8 % |

SG&A, which include costs of marketing, distribution, accounting and corporate overhead, were $177.8 million in fiscal 2016, an increase of $17.4 million, or 10.8%, compared to $160.4 million for fiscal 2015. The increase in specialty egg expense for fiscal 2016 compared to fiscal 2015 is attributable to a 14.7% increase in specialty shell egg dozens sold resulting in an increase in advertising promotions and franchise expense. Payroll and overhead increased $7.2 million, or 22.5%, compared to the same period of prior year primarily due to increased bonus accruals in the 2016 fiscal year. As a percentage of net sales, payroll and overhead is 2.1% 2.0% for fiscal 2016 and 2015, respectively. As a percentage of net sales, delivery expense is 2.6% and 3.0% for fiscal 2016 and 2015, respectively. As a percent of net sales, selling, general and administrative expense decreased from 10.2% in fiscal 2015 to 9.3% in fiscal 2016.

| | Quarters Ended 13 Weeks | | | |
|---|---|---|---|---|
| (Amounts in thousands) | May 28, 2016 | May 30, 2015 | Change | Change |
| Stock compensation expense | $843 | $1,290 | $(447 ) | (34.7)% |
| Specialty egg expense | 13,768 | 14,217 | (449 ) | (3.2 )% |
| Payroll and overhead | 9,450 | 8,920 | 530 | 5.9 % |
| Other expenses | 6,398 | 6,679 | (281 ) | (4.2 )% |
| Delivery expense | 11,945 | 11,738 | 207 | 1.8 % |
| Total | $42,404 | $42,844 | $(440 ) | (1 )% |

SG&A expense was $42.4 million for the thirteen-week period ended May 28, 2016, a decrease of $440,000, or 1.0%, compared to $42.8 million for the thirteen-week period ended May 30, 2015.

LOSS (GAIN) ON DISPOSAL OF FIXED ASSETS

In fiscal 2016 we recorded a gain on the disposal of fixed assets of $1.6 million due to the sale of property in Albuquerque, New Mexico, compared with a loss on the disposal of fixed assets of $568,000 in fiscal 2015.

OPERATING INCOME

As a result of the above, our operating income was $470.3 million for fiscal 2016, compared to $235.3 million for fiscal 2015. Operating income as a percent of net sales was 24.7% and 14.9% for fiscal 2016 and 2015, respectively.

OTHER INCOME (EXPENSE)

Total other income (expense) consists of income (expenses) not directly charged to, or related to, operations such as interest expense, interest income, patronage dividends, and equity in earnings of affiliates, among other items. Total other income for fiscal 2016 was $15.4 million compared to $11.8 million for fiscal 2015. As a percent of net sales, total other income was 0.8% for fiscal 2016, compared to 0.7% for fiscal 2015.

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Net interest income for fiscal 2016 was $3.2 million compared to net interest expense of $515,000 for fiscal 2015. Interest income from available for sale securities increased due to higher average invested balances and higher rates of return. The reduction of interest expense resulted from the Company reducing outstanding debt.

Equity in income of affiliates for fiscal 2016 was $5.0 million compared to $2.7 million for fiscal 2015. The increase of $2.3 million is primarily due to our interest in the Southwest Specialty Egg, LLC joint venture as well as increased income from specialty egg sales and patronage dividends in our other unconsolidated specialty egg joint ventures.

INCOME TAXES

For the fiscal year ended May 28, 2016, our pre-tax income was $487.2 million, compared to $246.5 million for fiscal 2015. Income tax expense of $169.2 million was recorded for fiscal 2016 with an effective income tax rate of 34.8%, compared to $84.3 million for fiscal 2015 with an effective income tax rate of 34.3%.

Items causing our effective rate to differ from the federal statutory income tax rate of 35% are state income taxes and certain items included in income or loss for financial reporting purposes that are not included in taxable income or loss for income tax purposes, including tax exempt interest income, the domestic manufacturers deduction, and net income or loss attributable to noncontrolling interest.

NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST

Net income attributable to noncontrolling interest for fiscal 2016 was $2.0 million compared to $1.0 million for fiscal 2015.

NET INCOME ATTRIBUTABLE TO CAL-MAINE FOODS, INC.

As a result of the above, net income for fiscal 2016 was $316.0 million, or $6.56 per basic share and $6.53 per diluted share, compared to $161.3 million, or $3.35 per basic share and $3.33 per diluted share for fiscal 2015.

CAPITAL RESOURCES AND LIQUIDITY

Our working capital at June 3, 2017 was $371.5 million, compared to $542.8 million at May 28, 2016. The calculation of working capital is defined as current assets less current liabilities. Our current ratio was 6.74 at June 3, 2017 compared to 7.50 at May 28, 2016. The current ratio is calculated by dividing current assets by current liabilities. Our need for working capital generally is highest in the last and first fiscal quarters ending in May and August, respectively, when egg prices are normally at seasonal lows. We have $3.7 million in outstanding standby letters of credit, which are collateralized with cash. Our long-term debt and capital leases at June 3, 2017, including current maturities, amounted to $10.9 million, compared to $25.6 million at May 28, 2016. See Note 9 in the Notes to Consolidated Financial Statements for information regarding our long-term debt instruments.

Net cash used in operating activities was $49.3 million for fiscal year 2017 compared with net cash provided by operating activities of $381.8 million for fiscal year 2016. Decreased gross profit margins resulting from lower egg prices contributed greatly to our decrease in cash flow from operations.

For fiscal 2017, approximately $251.7 million was provided from the sale of short-term investments, $29.8 million was used to purchase short-term investments and net payments of $6.6 million were received from notes receivable and investments in affiliates. We used $85.8 million to acquire assets from Foodonics and Happy Hen. We invested $19.9 million in the Red River Valley Egg Farm LLC joint venture. For additional information see Note 3 to Notes to

Consolidated Financial Statements.  Approximately $66.7 million was used to purchase property, plant and equipment.  Refer to the table of material construction projects presented below for additional information on purchases of property, plant and equipment.  Approximately $16.5 million was used for principal payments on long-term debt.  The net result of these and other activities was a decrease in cash of $11.5 million from May 28, 2016.

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For the fiscal year ended May 28, 2016, $381.8 million in net cash was provided by operating activities. This compares to $195.3 million of net cash provided by operating activities for the fiscal year ended May 30, 2015. Improved gross profit margins contributed greatly to our positive cash flow from operations in fiscal 2016 compared to fiscal 2015. As discussed above, our gross profit margins increased in fiscal 2016 primarily as a result of an increase in egg prices and a decrease in feed costs compared to fiscal 2015.

For fiscal 2016, approximately $292.5 million was provided from the sale of short-term investments, $403.2 million was used to purchase short-term investments and net payments of $5.4 million were received from notes receivable and investments in affiliates. We invested $34.0 million in the Red River Valley Egg Farm LLC joint venture. Approximately $76.1 million was used to purchase property, plant and equipment. Approximately $120.9 million was used to pay dividends on common stock and $25.3 million was used for principal payments on long-term debt. The net result of these and other activities was an increase in cash of $20.4 million from May 30, 2015.

Certain property, plant, and equipment is pledged as collateral on our notes payable and senior secured notes. Unless otherwise approved by our lenders, we are required by provisions of our loan agreements 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 June 3, 2017, we were in compliance with the financial covenant requirements of all loan agreements. Under certain of the loan agreements, 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 applicable loan agreement. Our debt agreements require 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.

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 through our previously discussed Red River joint venture. We have contributed $53.9 million to the joint venture to fund our share of construction, startup costs, and operating losses. We estimate that we will make additional contributions of approximately $8 million to fund our share of remaining construction costs. Additionally, the following table represents material construction projects approved as of July 20, 2017 (in thousands):

| Project | Location | Projected Completion | Projected Cost | Spent as of June 3, 2017 | Remaining Projected Cost |
|---|---|---|---|---|---|
| Refurbish Cage-Free Layer Houses | Shady Dale, GA | July 2017 | $ 5,264 | $4,898 | $ 366 |
| Cage-Free Layer Houses | Lake City, FL | July 2017 | 8,785 | 8,415 | 370 |
| Convertible/Cage-Free Layer Houses | Green Forest, AR | September 2017 | 8,991 | 8,583 | 408 |
| Cage-Free Layer Houses | South Texas | September 2017 | 4,104 | 3,404 | 700 |
| Layer Complex Improvements | Bethune, SC | September 2017 | 1,758 | 1,605 | 153 |
| Convertible/Cage-Free Layer House with Pullets | South Texas | September 2017 | 12,350 | 11,350 | 1,000 |
| Convertible/Cage-Free Layer Houses with Pullets | Guthrie, KY | January 2018 | 13,252 | 9,841 | 3,411 |

| | | |
|---|---|---|
| $54,504 | $48,096 | $ 6,408 |

Looking forward to the next fiscal year, we believe current cash balances, investments, borrowing capacity, and cash flows from operations will be sufficient to fund our current and projected capital needs.

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CONTRACTUAL OBLIGATIONS

The following table summarizes by fiscal year the future estimated cash payments, in thousands, to be made under existing contractual obligations. Further information on debt obligations is contained in Note 9, and on lease obligations in Note 8, in the Notes to the Consolidated Financial Statements.

| | Total | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter |
|---|---|---|---|---|---|---|---|
| Long-Term Debt & Capital Leases (Principal) | $10,939 | $4,826 | $3,533 | $1,696 | $205 | $215 | $ 464 |
| Long-Term Debt & Capital Leases (Interest) | 901 | 506 | 247 | 70 | 34 | 25 | 19 |
| Operating Leases | 1,182 | 502 | 208 | 162 | 160 | 150 | — |
| Total | $13,022 | $5,834 | $3,988 | $1,928 | $399 | $390 | $ 483 |

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

For information on changes in accounting principles and new accounting principles, see “Impact of Recently Issued Accounting Standards” in Note 1 to the Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with U.S. generally accepted accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Management suggests our Summary of Significant Accounting Policies, as described in Note 1 of the notes to consolidated financial statements, be read in conjunction with this Management’s Discussion and Analysis of Financial Condition and Results of Operations. We believe the critical accounting policies that most impact our consolidated financial statements are described below.

INVESTMENTS IN SECURITIES AVAILABLE-FOR-SALE

Our investment securities are accounted for in accordance with ASC 320, “Investments-Debt and Equity Securities” (“ASC 320”). The Company considers all investment securities for which there is a determinable fair market value and no restrictions on the Company's ability to sell within the next 12 months as available-for-sale, and carries them at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity. Realized gains and losses are included in other income. The cost basis for realized gains and losses on available-for-sale securities is determined on the specific identification method.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

In the normal course of business, we extend credit to our customers on a short-term basis. Although credit risk associated with our customers is considered minimal, we routinely review our accounts receivable balances and make provisions for probable doubtful accounts. In circumstances where management is aware of a specific customer’s inability to meet its financial obligations to us (e.g. bankruptcy filings), a specific reserve is recorded to reduce the receivable to the amount expected to be collected. For all other customers, we recognize reserves for bad debt based on the length of time the receivables are past due, generally 100% for amounts more than 60 days past due.

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INVENTORIES

Inventories of eggs, feed, supplies and livestock are valued principally at the lower of cost (first-in, first-out method) or market. If market prices for eggs and feed grains move substantially lower, we record adjustments to write-down the carrying values of eggs and feed inventories to fair market value. The cost associated with flock inventories, consisting principally of chick purchases, feed, labor, contractor payments and overhead costs, are accumulated during the growing period of approximately 22 weeks. Capitalized flock costs are then amortized over the flock's productive life, generally one to two years. Flock mortality is charged to cost of sales as incurred. High mortality from disease or extreme temperatures would result in abnormal write-downs to flock inventories. Management continually monitors each flock and attempts to take appropriate actions to minimize the risk of mortality loss.

LONG-LIVED ASSETS

Depreciable long-lived assets are primarily comprised of buildings and improvements and machinery and equipment. Depreciation is provided by the straight-line method over the estimated useful lives, which are 15 to 25 years for buildings and improvements and 3 to 12 years for machinery and equipment. An increase or decrease in the estimated useful lives would result in changes to depreciation expense. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. We continually reevaluate the carrying value of our long-lived assets, for events or changes in circumstances which indicate the carrying value may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) are less than the carrying amount of the asset, an impairment loss is recognized to reduce the carrying value of the long-lived asset to the estimated fair value of the asset.

INTANGIBLE ASSETS

Included in other intangible assets are separable intangible assets acquired in business acquisitions, which include franchise fees, non-compete agreements and customer relationship intangibles. They are amortized over their estimated useful lives of 3 to 25 years. The gross cost and accumulated amortization of intangible assets are removed when the recorded amounts are fully amortized and the asset is no longer in use.

INVESTMENT IN AFFILIATES

We have invested in other companies engaged in the production, processing and distribution of shell eggs and egg products. These investments are recorded using the cost or equity method, and are not consolidated in our financial statements. Changes in the ownership percentages of these investments might alter the accounting methods currently used. Our investment in these companies amounted to $65.7 million at June 3, 2017. The combined total assets and total liabilities of these companies were approximately $299.9 million and $37.1 million, respectively, at June 3, 2017.

GOODWILL

At June 3, 2017, goodwill represented 3.4% of total assets and 4.2% of stockholders' equity. Goodwill relates to the following:

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| Fiscal Year | Description | Amount |
|---|---|---|
| 1999 | Acquisition of Hudson Brothers, Inc. | $3,147 |
| 2006 | Acquisition of Hillandale Farms, LLC | 869 |
| 2007 | Acquisition of Green Forest Foods, LLC | 179 |
| 2008 | Revised Hillandale incremental purchase price | 9,257 |
| 2009 | Revised Hillandale incremental purchase price | 2,527 |
| 2009 | Acquisition of Zephyr Egg, LLC | 1,876 |
| 2009 | Acquisition of Tampa Farms, LLC | 4,600 |
| 2010 | Revised Hillandale incremental purchase price | (338) |
| 2013 | Acquisition of Maxim Production Co., Inc. | 2,300 |
| 2014 | Purchase of joint venture partner's 50% in Delta Egg | 4,779 |
| 2017 | Acquisition of Foodonics International, Inc. | 3,389 |
| 2017 | Acquisition of Happy Hen Egg Farms, Inc. | 2,940 |
| | Total Goodwill | $35,525 |

Goodwill is evaluated for impairment annually by first performing a qualitative assessment to determine whether a quantitative goodwill test is necessary. After assessing the totality of events or circumstances, if we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform additional quantitative tests to determine the magnitude of any impairment.

REVENUE RECOGNITION AND DELIVERY COSTS

The Company recognizes revenue only when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- The fee for the arrangement is determinable; and
- Collectability is reasonably assured.

The Company believes the above criteria are met upon delivery and acceptance of the product by our customers. Costs to deliver product to customers are included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations and totaled $53.3 million, $49.6 million, and $47.0 million in fiscal years 2017, 2016, and 2015, respectively. Sales revenue reported in the accompanying Consolidated Statements of Operations is reduced to reflect estimated returns and allowances. The Company records an estimated sales allowance for returns and discounts at the time of sale using historical trends based on actual sales returns and sales.

SALES INCENTIVES PROVIDED TO CUSTOMERS

The Company periodically provides incentive offers to its customers to encourage purchases. Such offers include current discount offers (e.g., percentage discounts off current purchases), inducement offers (e.g., offers for future discounts subject to a minimum current purchase), and other similar offers. Current discount offers, when accepted by customers, are treated as a reduction to the sales price of the related transaction, while inducement offers, when accepted by customers, are treated as a reduction to sales price based on estimated future redemption rates. Redemption rates are estimated using the Company's historical experience for similar inducement offers. Current discount and inducement offers are presented as a net amount in ''Net sales.''

STOCK BASED COMPENSATION

We account for share-based compensation in accordance with ASC 718, “Compensation-Stock Compensation” (“ASC 718”). ASC 718 requires all share-based payments to employees, including grants of employee stock options, restricted stock and performance-based shares to be recognized in the statement of operations based on their fair values. ASC

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718 requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow. See Note 11: Stock Compensation Plans in the Notes to the Consolidated Financial Statements for more information.

INCOME TAXES

We determine our effective tax rate by estimating our permanent differences resulting from differing treatment of items for tax and accounting purposes. We are periodically audited by taxing authorities. Any audit adjustments affecting permanent differences could have an impact on our effective tax rate.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

COMMODITY PRICE RISK

Our primary exposure to market risk arises from changes in the prices of eggs, corn and soybean meal, which are commodities subject to significant price fluctuations due to market conditions that are largely beyond our control. FWe are focused on growing our specialty shell egg business because the selling prices of specialty shell eggs are generally not as volatile as non-specialty shell egg prices. The following table outlines the impact of price changes for corn and soybean meal on feed cost per dozen:

| Feed ingredient | Approximate change in feed ingredient cost | Approximate impact on feed costs per dozen | Approximate dollar impact on farm production cost for the 2017 fiscal year |
|---|---|---|---|
| Corn | $ 0.25 change in the average market price per bushel | $ 0.01 | $ 8,702,520 |
| Soybean Meal | $ 25.00 change in the average market price per ton | $ 0.01 | $ 8,702,520 |

We generally do not enter into long-term contracts to purchase corn and soybean meal or hedge against increases in the price of corn and soybean meal.

INTEREST RATE RISK

The fair value of our debt is sensitive to changes in the general level of U.S. interest rates. We maintain all of our debt as fixed rate in nature to mitigate the impact of fluctuations in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate changes. A 1% adverse move (decrease) in interest rates would adversely affect the net fair value of our debt by $144,000 at June 3, 2017.

We are not a party to any other material market risk sensitive instruments requiring disclosure.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Cal-Maine Foods, Inc. and Subsidiaries
Jackson, Mississippi

We have audited the accompanying consolidated balance sheets of Cal-Maine Foods, Inc. and Subsidiaries as of June 3, 2017 and May 28, 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended June 3, 2017. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a). These consolidated financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cal-Maine Foods, Inc. and Subsidiaries as of June 3, 2017 and May 28, 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended June 3, 2017, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cal-Maine Foods, Inc. and Subsidiaries internal control over financial reporting as of June 3, 2017, based on criteria established in 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated July 21, 2017, expressed an unqualified opinion.

/s/Frost, PLLC

Little Rock, Arkansas
July 21, 2017

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Cal-Maine Foods, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except for par value amounts)

| | June 3, 2017 | May 28, 2016 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $17,564 | $29,046 |
| Investment securities available-for-sale | 138,462 | 360,499 |
| Receivables: | | |
| Trade receivables, less allowance for doubtful accounts of $386 in 2017 and $727 in 2016 | 61,261 | 62,012 |
| Income tax receivable | 52,691 | 11,830 |
| Other | 3,248 | 5,436 |
| | 117,200 | 79,278 |
| Inventories | 160,692 | 154,799 |
| Prepaid expenses and other current assets | 2,288 | 2,661 |
| Total current assets | 436,206 | 626,283 |
| Other assets: | | |
| Other investments | 69,296 | 53,975 |
| Goodwill | 35,525 | 29,196 |
| Other intangible assets | 29,149 | 4,958 |
| Other long-lived assets | 4,734 | 5,079 |
| | 138,704 | 93,208 |
| Property, plant and equipment, less accumulated depreciation | 458,184 | 392,274 |
| Total assets | $1,033,094 | $1,111,765 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Trade accounts payable | $30,629 | $36,262 |
| Accrued wages and benefits | 15,809 | 23,198 |
| Accrued expenses and other liabilities | 13,415 | 7,671 |
| Current maturities of long-term debt | 4,826 | 16,320 |
| Total current liabilities | 64,679 | 83,451 |
| Long-term debt, less current maturities | 6,113 | 9,250 |
| Other noncurrent liabilities | 7,527 | 6,321 |
| Deferred income taxes | 110,282 | 95,382 |
| Total liabilities | 188,601 | 194,404 |
| Commitments and contingencies – See Notes 8, 9, and 13 | | |
| Stockholders' equity: | | |
| Common stock, $.01 par value | | |
| 120,000 shares authorized and 70,261 shares issued in 2017 and 2016 | | |
| 43,777 and 43,737 shares outstanding in 2017 and 2016, respectively | 703 | 703 |
| Class A convertible common stock, $.01 par value | | |
| 4,800 shares authorized, issued and outstanding in 2017 and 2016, respectively | 48 | 48 |
| Paid-in capital | 49,932 | 46,404 |
| Retained earnings | 816,046 | 890,440 |
| Accumulated other comprehensive loss, net of tax | (128) | (48) |
| Common stock in treasury, at cost – 26,484 and 26,524 shares in 2017 and 2016, respectively | (23,914) | (22,272) |
| Total Cal-Maine Foods, Inc. stockholders' equity | 842,687 | 915,275 |

| | | |
|---|---|---|
| Noncontrolling interest in consolidated entities | 1,806 | 2,086 |
| Total stockholders’ equity | 844,493 | 917,361 |
| Total liabilities and stockholders' equity | $1,033,094 | $1,111,765 |

See accompanying notes.

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Cal-Maine Foods, Inc. and Subsidiaries
Consolidated Statements of Operations
(in thousands, except per share amounts)

| | Fiscal years ended | | |
|---|---|---|---|
| | June 3, 2017 | May 28, 2016 | May 30, 2015 |
| Net sales | $1,074,513 | $1,908,650 | $1,576,128 |
| Cost of sales | 1,028,963 | 1,260,576 | 1,180,407 |
| Gross profit | 45,550 | 648,074 | 395,721 |
| Selling, general and administrative | 173,980 | 177,760 | 160,386 |
| (Gain) loss on disposal of fixed assets | 3,664 | (1,563) | 568 |
| Operating income (loss) | (132,094) | 471,877 | 234,767 |
| | | | |
| Other income (expense): | | | |
| Interest expense | (318) | (1,156) | (2,313) |
| Interest income | 3,103 | 4,314 | 1,798 |
| Patronage dividends | 7,665 | 6,930 | 6,893 |
| Equity in income of affiliates | 1,390 | 5,016 | 2,657 |
| Other, net | 5,960 | 268 | 2,747 |
| Total other income | 17,800 | 15,372 | 11,782 |
| Income (loss) before income taxes and noncontrolling interest | (114,294) | 487,249 | 246,549 |
| Income tax expense (benefit) | (39,867) | 169,202 | 84,268 |
| Net income (loss) including noncontrolling interest | (74,427) | 318,047 | 162,281 |
| Less: Net income (loss) attributable to noncontrolling interest | (149) | 2,006 | 1,027 |
| Net income (loss) attributable to Cal-Maine Foods, Inc. | $(74,278) | $316,041 | $161,254 |
| | | | |
| Net income (loss) per share: | | | |
| Basic | $(1.54) | $6.56 | $3.35 |
| Diluted | $(1.54) | $6.53 | $3.33 |
| Weighted average shares outstanding: | | | |
| Basic | 48,362 | 48,195 | 48,136 |
| Diluted | 48,362 | 48,365 | 48,437 |

See accompanying notes.

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Cal-Maine Foods, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

| | Fiscal years ended June 3, 2017 | May 28, 2016 | May 30, 2015 |
|---|---|---|---|
| Net income (loss), including noncontrolling interests | $(74,427) | $318,047 | $162,281 |
| Other comprehensive income, before tax: | | | |
| Unrealized holding gain (loss) on available-for-sale securities, net of reclassification adjustments | 177 | (25) | (143) |
| Increase in accumulated postretirement benefits obligation, net of reclassification adjustments | (334) | (118) | (741) |
| Other comprehensive loss, before tax | (157) | (143) | (884) |
| Income tax benefit related to items of other comprehensive income (loss) | (77) | (73) | (345) |
| Other comprehensive loss, net of tax | (80) | (70) | (539) |
| Comprehensive income (loss) | (74,507) | 317,977 | 161,742 |
| Less: comprehensive income (loss) attributable to the noncontrolling interest | (149) | 2,006 | 1,027 |
| Comprehensive income (loss) attributable to Cal-Maine Foods, Inc. | $(74,358) | $315,971 | $160,715 |

See accompanying notes.

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Cal-Maine Foods, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(in thousands)

| | Common Stock | | Class A | Class A | Treasury | Treasury | Paid In | Retained | Accum. Other Comp. Income (Loss) | Noncontrolling | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Capital | Earnings | | Interest | Total |
| Balance at May 31, 2014 | 35,130 | $ 351 | 2,400 | $ 24 | 13,350 | $ (20,453) | $ 40,476 | $ 572,874 | $ 561 | $ 912 | $ 594,745 |
| Dividends | | | | | | | | (53,784) | | | (53,784) |
| 2-for-1 stock split effected in the form of a dividend | 35,131 | 352 | 2,400 | 24 | 13,340 | (133) | 132 | (375) | | | — |
| Issuance of restricted stock from treasury, net of forfeitures | | | | | (91) | 70 | (70) | | | | — |
| Purchase of company stock - shares withheld to satisfy withholding obligation in connection with the vesting of restricted stock | | | | | | (2) | 2 | | | | — |
| Proceeds from stock option exercise | | | | | (36) | 36 | 101 | | | | 137 |
| Restricted stock compensation expense | | | | | | | 2,268 | | | | 2,268 |
| Tax benefit on nonqualifying disposition of incentive stock options | | | | | | | 395 | | | | 395 |
| Distribution to noncontrolling interest partners | | | | | | | | | | (941) | (941) |
| Net income for fiscal 2015 | | | | | | | | $ 161,254 | | $ 1,027 | 162,281 |
| Other comprehensive loss, net of tax | | | | | | | | | (539) | | (539) |
| | 70,261 | $ 703 | 4,800 | $ 48 | 26,563 | $ (20,482) | $ 43,304 | $ 679,969 | $ 22 | $ 998 | $ 704,562 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at May 30, 2015 | | | | | | | | | | | |
| Dividends | | | | | | | | (105,570 ) | | | (105,570 ) |
| Issuance of restricted stock from treasury, net of forfeitures | | | | | (76 ) | 58 | (58 ) | | | | — |
| Purchase of company stock - shares withheld to satisfy withholding obligation in connection with the vesting of restricted stock | | | | | 37 | (1,848 ) | | | | | (1,848 ) |
| Restricted stock compensation expense | | | | | | | 3,071 | | | | 3,071 |
| Tax benefit on nonqualifying disposition of incentive stock options | | | | | | | 87 | | | | 87 |
| Distribution to noncontrolling interest partners | | | | | | | | | | (918 ) | (918 ) |
| Net income for fiscal 2016 | | | | | | | | 316,041 | | 2,006 | 318,047 |
| Other comprehensive loss, net of tax | | | | | | | | | (70 ) | | (70 ) |
| Balance at May 28, 2016 | 70,261 | $ 703 | 4,800 | $ 48 | 26,524 | $ (22,272 ) | $ 46,404 | $ 890,440 | $ (48 ) | $ 2,086 | $ 917,361 |
| Issuance of restricted stock from treasury, net of forfeitures | | | | | (80 ) | 73 | (73 ) | | | | — |
| Purchase of company stock - shares withheld to satisfy withholding obligation in connection with the vesting of restricted stock | | | | | 40 | (1,715 ) | | | | | (1,715 ) |
| Restricted stock compensation expense | | | | | | | 3,427 | | | | 3,427 |
| | | | | | | | 174 | (174 ) | | | — |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cumulative adjustment to restricted stock compensation from the adoption of ASU 2016-09 | | | | | | | | | | | |
| Reclass of equity portion of American Egg Products in connection with Foodonics' acquisition | | | | | | | | 58 | | (58) | — |
| Distribution to noncontrolling interest partners | | | | | | | | | | (73) | (73) |
| Net loss for fiscal 2017 | | | | | | | | (74,278) | | (149) | (74,427) |
| Other comprehensive loss, net of tax | | | | | | | | | (80) | | (80) |
| Balance at June 3, 2017 | 70,261 | $703 | 4,800 | $48 | 26,484 | $(23,914) | $49,932 | $816,046 | $(128) | $1,806 | $844,493 |

See accompanying notes.

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Cal-Maine Foods, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

| | Fiscal year ended June 3, 2017 | May 28, 2016 | May 30, 2015 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Net income (loss) including noncontrolling interests | $(74,427) | $318,047 | $162,281 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 49,113 | 44,592 | 40,708 |
| Deferred income taxes | 14,833 | 19,392 | 5,108 |
| Equity in income of affiliates | (1,390) | (5,016) | (2,657) |
| (Gain) loss on disposal of property, plant and equipment | 3,664 | (1,563) | 568 |
| Stock compensation expense, net of amounts paid | 3,427 | 3,071 | 2,268 |
| Recovery of note receivable | — | (798) | (584) |
| Loss on fair value adjustment of contingent consideration | — | — | 256 |
| Other | (209) | — | — |
| Change in operating assets and liabilities, net of effects from acquisitions: | | | |
| (Increase) decrease in receivables and other assets | (37,222) | 21,160 | (18,961) |
| (Increase) decrease in inventories | 2,386 | (8,539) | (143) |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities | (9,491) | (8,508) | 6,486 |
| Net cash provided by (used in) operating activities | (49,316) | 381,838 | 195,330 |
| | | | |
| Cash flows from investing activities | | | |
| Purchases of investments | (29,849) | (403,204) | (202,506) |
| Sales of investments | 251,690 | 292,452 | 146,779 |
| Acquisition of businesses, net of cash acquired | (85,822) | — | — |
| Investment in Southwest Specialty Egg LLC | — | — | (8,160) |
| Investment in Red River Valley Egg Farm LLC | (19,900) | (33,959) | — |
| Payments received on notes receivable and from investments in affiliates | 6,586 | 5,427 | 2,019 |
| Purchases of property, plant and equipment | (66,657) | (76,125) | (82,263) |
| Net proceeds from disposal of property, plant and equipment | 84 | 2,860 | 2,499 |
| Net cash provided by (used in) investing activities | 56,132 | (212,549) | (141,632) |
| | | | |
| Cash flows from financing activities | | | |
| Principal payments on long-term debt | (16,510) | (25,290) | (10,233) |
| Distributions to noncontrolling interest partners | (73) | (918) | (940) |
| (Purchase of) proceeds from common stock by treasury (including tax benefit on nonqualifying disposition of incentive stock options) | (1,715) | (1,760) | 531 |
| Payments of dividends | — | (120,942) | (48,910) |
| Net cash used in financing activities | (18,298) | (148,910) | (59,552) |
| Increase (decrease) in cash and cash equivalents | (11,482) | 20,379 | (5,854) |
| Cash and cash equivalents at beginning of year | 29,046 | 8,667 | 14,521 |
| Cash and cash equivalents at end of year | $17,564 | $29,046 | $8,667 |

Supplemental cash flow information:
Cash paid during the year for:

| | | | |
|---|---|---|---|
| Income taxes paid (refunds received), net | $(15,233) | $166,840 | $75,533 |
| Interest (net of amount capitalized) | 317 | 1,067 | 2,313 |

See accompanying notes.

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Cal-Maine Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 3, 2017

## 1. Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of Cal-Maine Foods, Inc. and its subsidiaries ("we," "us," "our," or the "Company"). All significant intercompany transactions and accounts have been eliminated in consolidation.

### Business

The Company is principally engaged in the production, processing and distribution of shell eggs. The Company's operations are significantly affected by the market price fluctuation of its principal product, shell eggs, and the costs of its principal feed ingredients, corn, soybean meal, and other grains.

The Company sells shell eggs to a diverse group of customers, including national and local grocery store chains, club stores, foodservice distributors, and egg product consumers. The Company's sales are primarily in the southeastern, southwestern, mid-western and mid-Atlantic regions of the United States. Credit is extended based upon an evaluation of each customer's financial condition and credit history and generally collateral is not required. Credit losses have consistently been within management's expectations. Two customers, Wal-Mart and Sam's Club, on a combined basis, accounted for 28.9%, 28.9% and 25.7% of the Company's net sales in fiscal years 2017, 2016, and 2015, respectively.

### Fiscal Year

The Company's fiscal year-end is on the Saturday nearest May 31, which was June 3, 2017 (53 weeks), May 28, 2016 (52 weeks), and May 30, 2015 (52 weeks) for the most recent three fiscal years.

### Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

### Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. We maintain bank accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At June 3, 2017 and routinely throughout these years, the Company maintained cash balances with certain financial institutions in excess of federally insured amounts. The Company has not experienced any losses in such accounts. The Company manages this risk through maintaining cash deposits and other highly liquid investments in high quality financial institutions.

We primarily utilize a cash management system with a series of separate accounts consisting of lockbox accounts for receiving cash, concentration accounts where funds are moved to, and zero-balance disbursement accounts for funding payroll and accounts payable. Checks issued, but not presented to the banks for payment, may result in negative book cash balances, which are included in accounts payable. At June 3, 2017, and May 28, 2016, checks outstanding in excess of related book cash balances totaled $2.0 million and zero, respectively.

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Investment Securities

Our investment securities are accounted for in accordance with ASC 320, "Investments-Debt and Equity Securities" ("ASC 320"). The Company considers all of its investment securities for which there is a determinable fair market value and there are no restrictions on the Company's ability to sell within the next 12 months as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity. We had unrealized gains, net of tax, of $473,000 and $363,000 at June 3, 2017 and May 28, 2016, respectively, which are included in the line item "Accumulated other comprehensive income (loss), net of tax" on our Consolidated Balance Sheet. Realized gains and losses are included in other income. The cost basis for realized gains and losses on available-for-sale securities is determined on the specific identification method.

At June 3, 2017 and May 28, 2016, we had $138.5 million and $360.5 million, respectively, of current investment securities available-for-sale consisting of commercial paper, U.S. government obligations, government agency bonds, taxable municipal bonds, tax-exempt municipal bonds, zero coupon municipal bonds and corporate bonds with maturities of three months or longer when purchased. We classified these securities as current, because the amounts invested are available for current operations. At June 3, 2017 and May 28, 2016 we had $2.5 million and $1.9 million, respectively, of investments in mutual funds which are considered long term and are a part of "Other Investments" in the Consolidated Balance Sheet.

Investment in Affiliates

The equity method of accounting is used when the Company has a 20% to 50% interest in other entities or when the Company exercises significant influence over the entity. Under the equity method, original investments are recorded at cost and adjusted by the Company's share of undistributed earnings or losses of these entities. Nonmarketable investments in which the Company has less than a 20% interest and in which it does not have the ability to exercise significant influence over the investee are initially recorded at cost, and periodically reviewed for impairment.

Trade Receivables and Allowance for Doubtful Accounts

Trade receivables are comprised primarily of amounts owed to the Company from customers, which amounted to $61.3 million at June 3, 2017 and $62.0 million at May 28, 2016. They are presented net of an allowance for doubtful accounts of $386,000 at June 3, 2017 and $727,000 at May 28, 2016. The Company extends credit to customers based upon an evaluation of each customer's financial condition and credit history. Although credit risks associated with our customers are considered minimal, we routinely review our accounts receivable balances and make provisions for probable doubtful accounts. In circumstances where management is aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings), a reserve is recorded to reduce the receivable to the amount expected to be collected. For all other customers, we recognize reserves for bad debt based on the length of time the receivables are past due, generally 100% for amounts more than 60 days past due. Collateral is generally not required. Credit losses have consistently been within management's expectations. At both June 3, 2017 and May 28, 2016 two customers accounted for approximately 27% and 29% of the Company's trade accounts receivable, respectively.

Inventories

Inventories of eggs, feed, supplies and livestock are valued principally at the lower of cost (first-in, first-out method) or market.

The cost associated with flocks, consisting principally of chick purchases, feed, labor, contractor payments and overhead costs, are accumulated during a growing period of approximately 22 weeks. Flock costs are amortized to cost of sales over the productive lives of the flocks, generally one to two years. Flock mortality is charged to cost of sales as incurred.

The Company does not disclose the gross cost and accumulated amortization with respect to its flock inventories since this information is not utilized by management in the operation of the Company.

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Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided by the straight-line method over the estimated useful lives, which are 15 to 25 years for buildings and improvements and 3 to 12 years for machinery and equipment. Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property, plant, and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. The Company capitalizes interest cost incurred on funds used to construct property, plant, and equipment as part of the asset to which it relates, and is amortized over the asset's estimated useful life.

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets, other than goodwill, for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where expected future cash flows (undiscounted and without interest charges) are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors.

Intangible Assets

Included in other intangible assets are separable intangible assets acquired in business acquisitions, which include franchise fees, non-compete agreements and customer relationship intangibles, and are amortized over their estimated useful lives of 3 to 25 years. The gross cost and accumulated amortization of intangible assets are removed when the recorded amounts have been fully amortized and the asset is no longer in use or the contract has expired. Included in other long-lived assets are loan acquisition costs, which are amortized over the life of the related loan.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill is evaluated for impairment annually by first performing a qualitative assessment to determine whether a quantitative goodwill test is necessary. After assessing the totality of events or circumstances, if we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform additional quantitative tests to determine the magnitude of any impairment.

Accrued Self Insurance

We use a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for health and welfare, workers' compensation, auto liability and general liability risks. Liabilities associated with our risks retained are estimated, in part, by considering claims experience, demographic factors, severity factors and other actuarial assumptions.

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Dividends

Cal-Maine 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 computed in accordance with generally accepted accounting principles in an amount equal to one-third (1/3) of such quarterly income. Dividends are paid to shareholders of record as of the 60th day following the last day of such quarter, except for the fourth fiscal quarter. For the fourth quarter, the Company will pay dividends to shareholders of record on the 65th day after the quarter end. Dividends are payable on the 15th day following the record date. Following a quarter for which the Company does not report net income, 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. Dividends payable, which would represent accrued unpaid dividends applicable to the Company's fourth quarter, were zero at June 3, 2017 and May 28, 2016. At June 3, 2017, cumulative losses that must be recovered prior to paying a dividend were $74.7 million.

Treasury Stock

Treasury stock purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. The grant of restricted stock through the Company's share-based compensation plans is funded through the issuance of treasury stock. Gains and losses on the subsequent reissuance of shares in accordance with the Company's share-based compensation plans are credited or charged to paid-in capital in excess of par value using the average-cost method.

Revenue Recognition and Delivery Costs

The Company recognizes revenue only when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- The fee for the arrangement is determinable; and
- Collectability is reasonably assured.

The Company believes the above criteria are met upon delivery and acceptance of the product by our customers. Costs to deliver product to customers are included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations and totaled $53.3 million, $49.6 million, and $47.0 million in fiscal years 2017, 2016, and 2015, respectively. Sales revenue reported in the accompanying consolidated statements of income is reduced to reflect estimated returns and allowances. The Company records an estimated sales allowance for returns and discounts at the time of sale using historical trends based on actual sales returns and sales.

Sales Incentives provided to Customers

The Company periodically provides incentive offers to its customers to encourage purchases. Such offers include current discount offers (e.g., percentage discounts off current purchases), inducement offers (e.g., offers for future discounts subject to a minimum current purchase), and other similar offers. Current discount offers, when accepted by customers, are treated as a reduction to the sales price of the related transaction, while inducement offers, when accepted by customers, are treated as a reduction to sales price based on estimated future redemption rates. Redemption rates are estimated using the Company's historical experience for similar inducement offers. Current discount and inducement offers are presented as a net amount in ''Net sales.''

Advertising Costs

The Company expensed advertising costs as incurred of $12.1 million, $10.3 million, and $9.3 million in fiscal 2017, 2016, and 2015, respectively.

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Income Taxes

Income taxes are provided using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's policy with respect to evaluating uncertain tax positions is based upon whether management believes it is more likely than not the uncertain tax positions will be sustained upon review by the taxing authorities. The tax positions must meet the more-likely-than-not recognition threshold with consideration given to the amounts and probabilities of the outcomes that could be realized upon settlement using the facts, circumstances and information at the reporting date. The Company will reflect only the portion of the tax benefit that will be sustained upon resolution of the position and applicable interest on the portion of the tax benefit not recognized. The Company shall initially and subsequently measure the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. Based upon management's assessment, there are no uncertain tax positions expected to have a material impact on the Company's consolidated financial statements.

Stock Based Compensation

We account for share-based compensation in accordance with ASC 718, "Compensation-Stock Compensation" ("ASC 718"). ASC 718 requires all share-based payments to employees, including grants of employee stock options, restricted stock and performance-based shares to be recognized in the statement of operations based on their fair values. ASC 718 requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow. See Note 11: Stock Compensation Plans for more information.

Net Income (Loss) per Common Share

Basic net income per share is based on the weighted average common and Class A shares outstanding. Diluted net income per share includes any dilutive effects of stock options outstanding and unvested restricted shares.

Basic net income per share was calculated by dividing net income by the weighted-average number of common and Class A 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 stock options and unvested restricted shares. Due to the net loss in the year ended June 3, 2017, restricted shares in the amount of 131,292 were excluded from the calculation of diluted earnings per share because their inclusion would have been antidilutive. The computations of basic net income per share and diluted net income per share are as follows (in thousands):

| | June 3, 2017 | May 28, 2016 | May 30, 2015 |
|---|---|---|---|
| Net income (loss) attributable to Cal-Maine Foods, Inc. | $(74,278) | $316,041 | $161,254 |
| Basic weighted-average common shares (including Class A) | 48,362 | 48,195 | 48,136 |
| Effect of dilutive securities: | | | |
| Common stock options and restricted stock | — | 170 | 301 |
| Dilutive potential common shares | 48,362 | 48,365 | 48,437 |
| Net income (loss) per common share: | | | |
| Basic | $(1.54) | $6.56 | $3.35 |
| Diluted | $(1.54) | $6.53 | $3.33 |

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Contingencies

Certain conditions may exist as of the date the financial statements are issued that may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be 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 estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

The Company expenses the costs of litigation as they are incurred.

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. To date the Company's assessments efforts include evaluation of certain revenue contracts with customers and the method of retrospective application, either full or modified. We currently expect to utilize the full retrospective transition on date of adoption. Based on the findings to date, the Company does not expect ASU 2014-09 to have a material impact on the results of operations or financial position; however, the Company's assessment is not complete. The Company plans to complete its review and method of adoption in fiscal 2018.

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 March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Compensation Accounting. ASU 2016-09 requires recording excess tax benefits on the statement of operations as opposed to additional paid-in-capital, and treated as an operating activity on the statement of cash flows. ASU 2016-09 also allows companies to make an accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. ASU 2016-09 is effective for annual reporting periods beginning after

December 15, 2017 with early adoption permitted. The Company adopted ASU 2016-09 during the third quarter of fiscal 2017 and it did not have a material impact on the consolidated financial statement presentation.

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.

Reclassification

Certain prior period amounts have been reclassified to conform with current presentation. Such reclassifications had no impact on previously reported net income or shareholders' equity.

2. Acquisition

Foodonics Acquisition

On October 16, 2016, the Company acquired substantially all of the egg production assets and assumed certain liabilities of Foodonics International, Inc. and its related entities doing business as Dixie Egg Company (collectively, "Foodonics") for $68.6 million of cash and $3.0 million of deferred purchase price. The acquired assets include commercial egg production and processing facilities with capacity for 1.6 million laying hens, contract grower arrangements for an additional 1.5 million laying hens, and related feed production, milling and distribution facilities in Georgia, Alabama, and Florida. The Company also acquired Foodonics' interest in American Egg Products, LLC ("AEP") and the Eggland's Best franchise with licensing rights for certain markets in Alabama, Florida, and Georgia as well as Puerto Rico, Bahamas and Cuba. The Company now owns 100% of AEP. The acquired operations of Foodonics are included in the accompanying financial statements as of October 16, 2016.

The following table presents the final fair values of the assets acquired and liabilities assumed (in thousands):

| | |
|---|---|
| Inventory | $7,669 |
| Property, plant and equipment | 38,590 |
| Intangible assets | 24,000 |
| Liabilities assumed | (2,034) |
| Total identifiable net assets | 68,225 |
| Goodwill | 3,389 |
| Purchase price | 71,614 |
| Deferred purchase price | (3,000) |
| Cash consideration paid | $68,614 |

Happy Hen Acquisition

On February 19, 2017, the Company acquired substantially all of the egg production, processing and distribution assets of Happy Hen Egg Farms, Inc. and its affiliates (collectively, "Happy Hen"). The assets include commercial egg production and processing facilities with current capacity for 350,000 laying hens and related distribution facilities located near Harwood and Wharton, Texas. The site is designed for capacity of up to 1.2 million laying hens. The operations of Happy Hen are included in the accompanying financial statements as of February 19, 2017. The Company closed this acquisition on March 3, 2017.

The following table presents the final fair values of the assets acquired (in thousands):

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| | |
|---|---|
| Inventory | $609 |
| Property, plant and equipment | 11,259 |
| Intangible assets | 2,400 |
| Total identifiable net assets | 14,268 |
| Goodwill | 2,940 |
| Cash consideration paid | $17,208 |

These fair value measurements were primarily based on significant inputs that are not observable in the markets. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was utilized for certain property, plant and equipment. The cost to replace given assets reflects the estimated reproduction or replacement cost of the asset, less an allowance for loss in value due to depreciation. The market approach, which indicates value for a subject asset based on available market pricing for comparable assets, was utilized for inventory and the Eggland's Best franchise of Foodonics. The cost of the Eggland's Best franchise will be amortized over a period of 15 years. Customer relationships and trademarks will be amortized over a period of 8 years. Non-compete agreements will be amortized over a period of 10 years. Goodwill on business combination recognizes the difference in the fair value of the assets acquired and liabilities assumed, net of the acquisition price. Goodwill associated with the acquisition is tax deductible over 15 years.

Pro-forma information, which is usually presented for information purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been completed as of an earlier time, was not material to the Company's Consolidated Financial Statements.

3. Investment in Affiliates

The Company has several in non-consolidated affiliates that are accounted for using the equity method of accounting. As of June 3, 2017, the Company owns 50% of each of Red River Valley Egg Farm, LLC, Specialty Eggs, LLC, Southwest Specialty, LLC, and Dallas Reinsurance, Co., LTD. Investment in affiliates are included in “Other Investments” in the accompanying Consolidated Balance Sheets and totaled $62.8 million and $47.5 million at June 3, 2017 and at May 28, 2016, respectively.

Equity in income of affiliates of $1.4 million, $5.0 million, and $2.7 million from these entities has been included in the Consolidated Statements of Operations for fiscal 2017, 2016, and 2015, respectively.

The condensed consolidated financial information for the Company's unconsolidated joint ventures was as follows:

| | For the fiscal year ended | | |
|---|---|---|---|
| | June 3, 2017 | May 28, 2016 | May 30, 2015 |
| Net sales | 86,072 | 91,320 | 61,632 |
| Net income | 2,804 | 10,090 | 5,323 |
| Total assets | 131,871 | 100,700 | 30,739 |
| Total liabilities | 6,543 | 5,697 | 4,659 |
| Total equity | 125,328 | 95,003 | 26,080 |

The Company is also a member of Eggland’s Best, Inc. (“EB”), which is a cooperative. At June 3, 2017 and May 28, 2016, “Other Investments” as shown on the Company’s Consolidated Balance Sheet includes the cost of the Company’s investment in EB plus any qualified written allocations. The Company cannot exert significant influence over EB’s operating and financial activities; therefore, the Company accounts for this investment using the cost method. The carrying value of this investment at June 3, 2017 and May 28, 2016 was $2.9 million and $3.5 million, respectively.

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The Company regularly transacts business with its cost and equity method affiliates. The following relates to the Company's transactions with these unconsolidated affiliates (in thousands):

| | For the fiscal year ended | | |
|---|---|---|---|
| | June 3, 2017 | May 28, 2016 | May 30, 2015 |
| Sales to affiliates | $59,073 | $61,094 | $46,989 |
| Purchases from affiliates | 73,713 | 79,419 | 62,659 |
| Dividends from affiliates | 6,581 | 4,550 | 1,250 |

| | June 3, 2017 | May 28, 2016 |
|---|---|---|
| Accounts receivable from affiliates | $4,643 | $3,483 |
| Accounts payable to affiliates | 3,617 | 1,464 |

4. Inventories

Inventories consisted of the following (in thousands):

| | June 3, 2017 | May 28, 2016 |
|---|---|---|
| Flocks, net of accumulated amortization | $98,059 | $94,312 |
| Eggs | 14,911 | 11,519 |
| Feed and supplies | 47,722 | 48,968 |
| | $160,692 | $154,799 |

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 June 3, 2017, consisted of approximately 9.5 million pullets and breeders and 36.1 million layers.

The Company expensed amortization and mortality associated with the flocks to cost of sales as follows (in thousands):

| | June 3, 2017 | May 28, 2016 | May 30, 2015 |
|---|---|---|---|
| Amortization | $118,859 | $106,459 | $108,570 |
| Mortality | 5,213 | 3,665 | 3,803 |
| Total flock costs charge to cost of sales | $124,072 | $110,124 | $112,373 |

5. Goodwill and Other Intangible Assets

Goodwill and other intangibles consisted of the following (in thousands):

| | | Other Intangibles | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Goodwill | Franchise rights | Customer relationships | Non-compete agreements | Right of use intangible | Water rights | Trademark | Total other intangibles |
| Balance May 30, 2015 | $29,196 | $870 | $5,773 | $48 | $149 | $720 | $— | $7,560 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Additions | — | — | — | — | — | — | — | — |
| Amortization | — | (473) | (2,088) | (20) | (21) | — | — | (2,602) |
| Balance May 28, 2016 | 29,196 | 397 | 3,685 | 28 | 128 | 720 | — | 4,958 |
| Additions | 6,329 | 24,000 | 1,900 | 100 | — | — | 400 | 26,400 |
| Amortization | — | (1,183) | (925) | (24) | (62) | — | (15) | (2,209) |
| Balance June 3, 2017 | $ 35,525 | $ 23,214 | $ 4,660 | $ 104 | $ 66 | $ 720 | $ 385 | $ 29,149 |

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For the Other Intangibles listed above, the gross carrying amounts and accumulated amortization are as follows (in thousands):

| | June 3, 2017 | | May 28, 2016 | |
|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Gross carrying amount | Accumulated amortization |
| Other intangible assets: | | | | |
| Franchise rights | $29,284 | $ (6,070) | $5,284 | $ (4,887) |
| Customer relationships | 19,544 | (14,884) | 17,644 | (13,959) |
| Non-compete agreements | 200 | (96) | 100 | (72) |
| Right of use intangible | 191 | (125) | 191 | (63) |
| Water rights * | 720 | — | 720 | — |
| Trademark | 400 | (15) | — | — |
| Total | $50,339 | $ (21,190) | $23,939 | $ (18,981) |

*Water rights are an indefinite life intangible asset.

No significant residual value is estimated for these intangible assets. Aggregate amortization expense for the fiscal years ended 2017, 2016, and 2015 totaled $2.2 million, $2.6 million, and $2.9 million, respectively. The following table represents the total estimated amortization of intangible assets for the five succeeding years (in thousands):

| For fiscal period | Estimated amortization expense |
|---|---|
| 2018 | $ 2,818 |
| 2019 | 2,790 |
| 2020 | 2,765 |
| 2021 | 2,228 |
| 2022 | 1,864 |
| Thereafter | 15,964 |
| Total | $ 28,429 |

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following (in thousands):

| | June 3, 2017 | May 28, 2016 |
|---|---|---|
| Land and improvements | $87,276 | $80,775 |
| Buildings and improvements | 342,933 | 291,888 |
| Machinery and equipment | 460,218 | 399,804 |
| Construction-in-progress | 36,752 | 50,178 |
| | 927,179 | 822,645 |
| Less: accumulated depreciation | 468,995 | 430,371 |
| | $458,184 | $392,274 |

Depreciation expense was $48.8 million, $41.4 million and $37.3 million in fiscal years 2017, 2016 and 2015, respectively.

The Company maintains insurance for both property damage and business interruption relating to catastrophic events, such as fires. Insurance recoveries received for property damage and business interruption in excess of the net book

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value of damaged assets, clean-up and demolition costs, and post-event costs are recognized as income in the period received or committed when all contingencies associated with the recoveries are resolved. Gains on insurance recoveries related to business interruption are recorded within “Cost of sales” and any gains or losses related to property damage are recorded within “Other income (expense).” Insurance recoveries related to business interruption are classified as operating cash flows and recoveries related to property damage are classified as investing cash flows in the statement of cash flows. Insurance claims incurred or finalized during the fiscal years ended 2017, 2016, and 2015 are discussed below.

In the second quarter of fiscal 2015, a contract producer owned pullet complex in Florida was damaged by fire. The fire destroyed two contract producer owned pullet houses that contained the Company’s flocks. In the third quarter of fiscal 2015, the Company’s Shady Dale, Georgia complex was damaged by a fire. The fire destroyed two pullet houses. These claims were resolved in fiscal 2016 and did not have a material impact on the Company’s results of operations.

7. Leases

Future minimum payments under non-cancelable operating leases that have initial or remaining non-cancelable terms in excess of one year at June 3, 2017 are as follows (in thousands):

| | |
|---|---|
| 2018 | $502 |
| 2019 | 208 |
| 2020 | 162 |
| 2021 | 160 |
| 2022 | 150 |
| Total minimum lease payments | $1,182 |

Substantially all of the leases require the Company to pay taxes, maintenance, insurance and certain other operating expenses applicable to the leased assets. Vehicle rent expense totaled $475,000, $190,000 and $101,000 in fiscal 2017, 2016 and 2015, respectively. Rent expense excluding vehicle rent was $3.5 million, $3.9 million, and $3.0 million in fiscal 2017, 2016 and 2015, respectively, primarily for the lease of certain operating facilities and equipment.

8. Credit Facilities and Long-Term Debt

Long-term debt consisted of the following (in thousands except interest rate and installment data):

| | June 3, 2017 | May 28, 2016 |
|---|---|---|
| Note payable at 6.20%, due in monthly principal installments of $250,000, plus interest, maturing in fiscal 2020 | $7,500 | $10,500 |
| Note payable at 6.35%, due in monthly principal installments of $100,000, plus interest, paid off in fiscal 2017 | — | 9,100 |
| Note payable at 5.40%, due in monthly principal installments of $125,000, plus interest, maturing in fiscal 2019 | 1,750 | 3,250 |
| Note payable at 6.40%, due in monthly principal installments of $35,000, plus interest, paid off in fiscal 2017 | — | 2,720 |
| Capital lease obligations | 1,689 | — |
| Total debt | 10,939 | 25,570 |
| Less: current maturities | 4,826 | 16,320 |
| Long-term debt, less current maturities | $6,113 | $9,250 |

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The aggregate annual fiscal year maturities of long-term debt at June 3, 2017 are as follows (in thousands):

| | |
|---|---|
| 2018 | $4,826 |
| 2019 | 3,533 |
| 2020 | 1,696 |
| 2021 | 205 |
| 2022 | 215 |
| Thereafter | 464 |
| | $10,939 |

Certain property, plant, and equipment is pledged as collateral on our notes payable and senior secured notes. Unless otherwise approved by our lenders, we are required by provisions of our loan agreements to (1) maintain minimum levels of working capital (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); (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 not to exceed 55%); and (4) maintain various current and cash-flow coverage ratios (1.25 to 1), among other restrictions. At June 3, 2017, we were in compliance with the financial covenant requirements of all loan agreements. Under certain of the loan agreements, 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 applicable loan agreement. Our debt agreements require Fred R. Adams, Jr., the Company’s 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. We are in compliance with those covenants at June 3, 2017.

Interest, net of amount capitalized, of $317,000, $1.1 million, and $2.3 million was paid during fiscal 2017, 2016 and 2015, respectively. Interest of $1.1 million, $1.1 million and $1.2 million was capitalized for construction of certain facilities during fiscal 2017, 2016 and 2015, respectively.

9. Employee Benefit Plans

The Company maintains a medical plan that is qualified under Section 401(a) of the Internal Revenue Code and is not subject to tax under present income tax laws. The plan is funded by contributions from the Company and its employees. Under its plan, the Company self-insures its portion of medical claims for substantially all full-time employees. The Company uses stop-loss insurance to limit its portion of medical claims to $225,000 per occurrence. The Company's expenses including accruals for incurred but not reported claims were approximately $14.0 million, $11.8 million, and $9.6 million in fiscal years 2017, 2016 and 2015, respectively. The liability recorded for incurred but not reported claims was $900,000 as of June 3, 2017 and $770,000 as of May 28, 2016.

The Company has a KSOP plan that covers substantially all employees (“the Plan”). The Company makes cash contributions to the Plan at a rate of 3% of participants' eligible compensation, plus an additional amount determined at the discretion of the Board of Directors. Contributions can be made in cash or the Company's common stock, and vest immediately. The Company's cash contributions to the Plan were $3.2 million, $2.9 million, and $2.8 million in fiscal years 2017, 2016 and 2015, respectively. The Company did not make direct contributions of the Company’s common stock in fiscal years 2017, 2016, or 2015. Dividends on the Company’s common stock are paid to the Plan in cash. The Plan acquires the Company’s common stock, which is listed on the NASDAQ, by using the dividends and the Company’s cash contribution to purchase shares in the public markets. The Plan sold common stock on the NASDAQ to pay benefits to Plan participants. Participants may make contributions to the Plan up to the maximum allowed by the Internal Revenue Service regulations. The Company does not match participant contributions.

The Company has deferred compensation agreements with certain officers for payments to be made over specified periods beginning when the officers reach age 65 or over as specified in the agreements. Amounts accrued for the agreements are based upon deferred compensation earned over the estimated remaining service period of each officer. Payments made under the plan were $110,000, $102,000, and $97,000 in fiscal years 2017, 2016, and 2015, respectively. The liability recorded related to these agreements was $1.6 million at June 3, 2017 and May 28, 2016.

In December 2006, the Company adopted an additional deferred compensation plan to provide deferred compensation to named officers of the Company. The awards issued under this plan were $290,000, $284,000, and $241,000 in fiscal 2017, 2016 and 2015, respectively. Payments made under the plan were $147,000 and $128,000 in fiscal 2017 and 2016, respectively. The liability recorded related to these agreements was $2.5 million and $1.9 million at June 3, 2017 and May 28, 2016, respectively.

Deferred compensation expense for both plans totaled $616,000, $347,000 and $470,000 in fiscal 2017, 2016 and 2015, respectively.

Postretirement Medical Plan

The Company maintains an unfunded postretirement medical plan to provide limited health benefits to certain qualified retired employees and officers. Retired non-officers and spouses are eligible for coverage until attainment of Medicare eligibility, at which time coverage ceases. Retired officers and spouses are eligible for lifetime benefits under the plan. Officers and their spouses, who retired prior to May 1, 2012, must participate in Medicare Plans A and B. Officers, and their spouses, who retire on or after May 1, 2012 must participate in Medicare Plans A, B, and D.

The plan is accounted for in accordance with ASC 715, “Compensation – Retirement Benefits”, whereby an employer recognizes the funded status of a defined benefit postretirement plan as an asset or liability, and recognizes changes in the funded status in the year the change occurs through comprehensive income. Additionally, this expense is recognized on an accrual basis over the employees’ approximate period of employment. The liability associated with the plan was $2.3 million and $1.8 million as of June 3, 2017 and May 28, 2016, respectively. The remaining disclosures associated with ASC 715 are immaterial to the Company’s financial statements.

10. Stock Compensation Plans

On October 5, 2012, shareholders approved the Cal-Maine Foods, Inc. 2012 Omnibus Long-Term Incentive Plan (“2012 Plan”). The purpose of the 2012 Plan is to assist us and our subsidiaries in attracting and retaining selected individuals who, serving as our employees, outside directors and consultants, are expected to contribute to our success and to achieve long-term objectives which will benefit our shareholders through the additional incentives inherent in the awards under the 2012 Plan. The maximum number of shares of common stock that are available for awards under the 2012 Plan is 1,000,000 shares issuable from the Company’s treasury stock. Awards may be granted under the 2012 Plan to any employee, any non-employee member of the Company’s Board of Directors, and any consultant who is a natural person and provides services to us or one of our subsidiaries (except for incentive stock options which may be granted only to our employees).

In January 2017, the Company granted 86,215 restricted shares from treasury. The restricted shares vest three years from the grant date, or upon death or disability, change in control, or retirement (subject to certain requirements). The restricted shares contain no other service or performance conditions. Restricted stock is awarded in the name of the recipient and except for the right of disposal, constitutes issued and outstanding shares of the Company’s common stock for all corporate purposes during the period of restriction including the right to receive dividends. Compensation expense is a fixed amount based on the grant date closing price and is amortized over the vesting period.

Our unrecognized compensation expense as a result of non-vested shares was $5.9 million as of June 3, 2017 and $5.6 million as of May 28, 2016. The unrecognized compensation expense will be amortized to stock compensation expense over a period of 2.1 years.

The Company recognized stock compensation expense of $3.4 million, $1.7 million, and $2.3 million for equity awards in fiscal 2017, 2016, and 2015, respectively.

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A summary of our equity award activity and related information for our restricted stock is as follows:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Outstanding, May 30, 2015 | 335,140 | $ 27.24 |
| Granted | 78,560 | 49.39 |
| Vested | (122,140) | 20.76 |
| Forfeited | (2,660) | 31.29 |
| Outstanding, May 28, 2016 | 288,900 | $ 35.97 |
| Granted | 86,215 | 43.00 |
| Vested | (121,148) | 26.90 |
| Forfeited | (6,232) | 39.66 |
| Outstanding, June 3, 2017 | 247,735 | $ 42.76 |

On July 28, 2005, the Company's Board of Directors approved the Cal-Maine Foods, Inc. Stock Appreciation Rights Plan (the "Rights Plan"). The Rights Plan covers 2,000,000 shares of Common Stock of the Company. Stock Appreciation Rights ("SARs") were granted to employees or non-employee members of the Board of Directors. Upon exercise of a SAR, the holder received cash equal to the difference between the fair market value of a single share of Common Stock at the time of exercise and the strike price which is equal to the fair market value of a single share of Common Stock on the date of the grant. The SARs had a ten year term and vested over five years. The last remaining SARs were exercised during fiscal 2016 which effectively terminated this plan.

A summary of our liability award activity and related information is as follows:

| | Number Of Rights | Weighted Average Strike Price Per Right | Weighted Average Remaining Contractual Life (in Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, May 30, 2015 | 26,900 | $ 3.40 | | |
| Granted | — | — | | |
| Exercised | (26,900) | 3.40 | | |
| Forfeited | — | — | | |
| Outstanding, May 28, 2016 | — | $ — | — | $ — |

Total payments for liability awards exercised totaled zero, $1.4 million, and $373,000 for fiscal 2017, 2016 and 2015, respectively.

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11. Income Taxes

Income tax expense (benefit) consisted of the following:

| | Fiscal year ended June 3, 2017 | May 28, 2016 | May 30, 2015 |
|---|---|---|---|
| Current: | | | |
| Federal | $(48,030) | $132,250 | $70,900 |
| State | (6,670) | 17,560 | 8,260 |
| | (54,700) | 149,810 | 79,160 |
| Deferred: | | | |
| Federal | 13,076 | 17,096 | 4,503 |
| State | 1,757 | 2,296 | 605 |
| | 14,833 | 19,392 | 5,108 |
| | $(39,867) | $169,202 | $84,268 |

Significant components of the Company’s deferred tax liabilities and assets were as follows:

| | June 3, 2017 | May 28, 2016 |
|---|---|---|
| Deferred tax liabilities: | | |
| Property, plant and equipment | $68,830 | $60,998 |
| Inventories | 38,270 | 39,068 |
| Investment in affiliates | 8,563 | 1,438 |
| Other comprehensive income | 290 | 223 |
| Other | 4,656 | 4,343 |
| Total deferred tax liabilities | 120,609 | 106,070 |
| | | |
| Deferred tax assets: | | |
| Accrued expenses | 4,308 | 3,374 |
| Other | 6,019 | 7,314 |
| Total deferred tax assets | 10,327 | 10,688 |
| Net deferred tax liabilities | $110,282 | $95,382 |

The differences between income tax expense (benefit) at the Company’s effective income tax rate and income tax expense at the statutory federal income tax rate were as follows:

| | Fiscal year end June 3, 2017 | May 28, 2016 | May 30, 2015 |
|---|---|---|---|
| Statutory federal income tax (benefit) | $(39,950) | $169,835 | $85,933 |
| State income tax (benefit) | (3,193) | 12,906 | 5,762 |
| Domestic manufacturers deduction | 4,095 | (13,332) | (7,308) |
| Tax exempt interest income | (206) | (233) | (184) |
| Other, net | (613) | 26 | 65 |
| | $(39,867) | $169,202 | $84,268 |

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We had no significant unrecognized tax benefits at June 3, 2017 or at May 28, 2016. Accordingly, we do not have any accrued interest or penalties related to uncertain tax positions. However, if interest or penalties were to be incurred related to uncertain tax positions, such amounts would be recognized in income tax expense.

We are under a limited scope audit by the IRS for the fiscal years 2013 through 2015. We are subject to income tax in many jurisdictions within the U.S., and certain jurisdictions are under audit by state and local tax authorities. The resolutions of these audits are not expected to be material to our consolidated financial statements. Tax periods for all years after fiscal year 2013 remain open to examination by the federal and state taxing jurisdictions to which we are subject.

12. Contingencies

Financial Instruments

The Company maintains standby letters of credit ("LOC") with a bank totaling $3.7 million at June 3, 2017. These LOCs are collateralized with cash. The cash that collateralizes the LOCs is included in the line item "Other assets" in the consolidated balance sheets. The outstanding LOCs are for the benefit of certain insurance companies. None of the LOCs are recorded as a liability on the Consolidated Balance Sheets.

Litigation

The Company is a defendant in certain legal actions, and intends to vigorously defend its position in these actions. The Company assesses the likelihood of material adverse judgments or outcomes to the extent losses are reasonably estimable. If the assessment of a contingency indicates it is probable that 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 estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Egg Antitrust Litigation

Since September 25, 2008, the Company has been named as one of several defendants in numerous antitrust cases involving the United States shell egg industry. In some of these cases, the named plaintiffs allege that they purchased eggs or egg products directly from a defendant and have sued on behalf of themselves and a putative class of others who claim to be similarly situated. In other cases, the named plaintiffs allege that they purchased shell eggs and egg products directly from one or more of the defendants but sue only for their own alleged damages and not on behalf of a putative class. In the remaining cases, the named plaintiffs are individuals or companies who allege that they purchased shell eggs indirectly from one or more of the defendants - that is, they purchased from retailers that had previously purchased from defendants or other parties - and have sued on behalf of themselves and a putative class of others who claim to be similarly situated.

The Judicial Panel on Multidistrict Litigation consolidated all of the putative class actions (as well as certain other cases in which the Company was not a named defendant) for pretrial proceedings in the United States District Court for the Eastern District of Pennsylvania. The Pennsylvania court organized the putative class actions around two groups (direct purchasers and indirect purchasers) and named interim lead counsel for the named plaintiffs in each group.

The Direct Purchaser Putative Class Action. The direct purchaser putative class 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. As previously reported, in November 2014, the Court approved the Company's settlement with the direct purchaser plaintiff class and entered final judgment dismissing with prejudice the class members' claims against the Company.

The Indirect Purchaser Putative Class Action. The indirect purchaser putative class 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. On April 20-21, 2015, the Court held an evidentiary hearing on the indirect purchaser

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plaintiffs' motion for class certification. On September 18, 2015, the Court denied the indirect purchaser plaintiffs' motion for class certification of 21 separate classes seeking damages under the laws of 21 states, holding that the plaintiffs were not able to prove that their purported method for ascertaining class membership was reliable or administratively feasible, that common questions would predominate, or that their proposed class approach would be manageable in a single trial. In addition to barring any right to pursue a class monetary remedy under state law, the Court also denied indirect purchaser plaintiffs' request for certification of an injunctive-relief class under federal law. However, the court allowed the indirect purchaser plaintiffs to renew their motion for class certification seeking a federal injunction. The plaintiffs filed their renewed motion to certify an injunctive-relief class on October 23, 2015. The Company joined the other defendants in opposing that motion on November 20. The plaintiffs filed their reply memorandum on December 11, 2015, and on March 7, 2017, the Court heard arguments on the renewed motion for injunctive class certification. On June 27, 2017, the Court denied plaintiffs' renewed motion for injunctive class certification. The plaintiffs also filed a petition with the United States Court of Appeals for the Third Circuit, asking the court to hear an immediate appeal of the trial court's denial of the motion to certify 21 state-law damages classes. On December 3, 2015, the Third Circuit entered an order staying its consideration of the plaintiffs' request for an immediate appeal of the damages-class ruling pending the trial court's resolution of the plaintiffs' renewed motion to certify an injunctive-relief class. On July 11, 2017 the plaintiffs filed a petition with the Third Circuit asking the court to hear an appeal of the June 27 order denying plaintiffs' renewed motion for injunctive class certification. On July 21, 2017, the Company joined other defendants in a response filed with the Third Circuit opposing the plaintiffs' petition.

The Non-Class Cases. Six of the cases in which plaintiffs do not seek to certify a class have been consolidated with the putative class actions 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 court granted with prejudice the defendants' renewed motion to dismiss the non-class plaintiffs' claims for damages arising before September 24, 2004. On July 2, 2015, the Company filed and joined several motions for summary judgment that sought either dismissal of all of the claims in all of these cases or, in the alternative, dismissal of portions of these cases. On July 2, 2015, the non-class plaintiffs filed a motion for summary judgment seeking dismissal of certain affirmative defenses based on statutory immunities from federal antitrust law. The Court heard oral argument on the motions for summary judgment on February 22 and 23, 2016. On September 6, 2016, the Court granted the defendants' motion for summary judgment against the plaintiffs' claims arising from their purchases of egg products, dismissing those claims with prejudice. On September 9, 2016, the Court granted in part the Company's motion for summary judgment on liability, dismissing as a matter of law the plaintiffs' allegations of a side agreement to cease construction of new facilities and ruling that the plaintiffs' allegations against United Egg Producers (UEP) animal-welfare guidelines must be evaluated at trial under the rule of reason. On September 12, 2016, the Court granted in part the Company's motion for summary judgment on damages, ruling that plaintiffs cannot recover damages on purchases of eggs from non-defendants and cannot recover any relief on eggs and egg products produced or sold in Arizona after October 1, 2009, the date that Arizona mandated that all eggs sold or produced in that state must be produced in compliance with the 2008 version of the UEP animal-welfare guidelines. On September 13, 2016, the Court granted in part the plaintiffs' motion for summary judgment as to the applicability of the Capper-Volstead defense, ruling that United States Egg Marketers (an industry cooperative of which the Company is a member) may invoke the defense at trial but that UEP (another industry cooperative of which the Company is a member) cannot. The Capper-Volstead defense is a defense pursuant to the Capper-Volstead Act (the Co-operative Marketing Associations Act), enacted by Congress in 1922, which gives certain associations of farmers certain exemptions from antitrust laws. On October 4, 2016, certain direct action plaintiffs (Kraft Food Global, Inc., General Mills, Inc., Nestle USA, Inc., and The Kellogg Company) filed an appeal to the United States Court of Appeals for the Third Circuit from the District Court's Order dated September 6, 2016, granting defendants' motion for summary judgment and dismissing with prejudice all claims based on the purchase of egg products. These plaintiffs filed their opening brief on March 7, 2017. The defendants filed their response brief on April 20. These plaintiffs filed their reply brief on May 18. The court of appeals heard oral argument on July 11, 2017, but has not issued a ruling. On November 22, 2016, the non-class plaintiffs filed a motion asking the Court to hold a status conference and asking the court to set the non-class cases for trial in June of 2017. The parties in all of the remaining class and non-class cases submitted several different proposed trial schedules to the court, and a status conference was held on February 9, 2017. A trial date has not yet been set.

Allegations in Each Case. In all of the cases described above, the plaintiffs allege that the Company and certain other large domestic egg producers conspired to reduce the domestic supply of eggs in a concerted effort to raise the price of eggs to artificially high levels. In each case, plaintiffs allege that all defendants agreed to reduce the domestic supply of eggs by: (a) agreeing to limit production; (b) manipulating egg exports; and (c) implementing industry-wide animal welfare guidelines that reduced the number of hens and eggs.

The named plaintiffs in the remaining indirect purchaser putative class action seek treble damages under the statutes and common-law of various states and injunctive relief under the Sherman Act on behalf of themselves and all other putative class members in the United States. Although plaintiffs allege a class period starting in October, 2006 and running "through the present," the Court denied the plaintiffs' motion to certify classes seeking damages under the laws of 21 states and denied without prejudice the plaintiffs' motion to certify an injunctive-relief class, although the plaintiffs have filed a renewed motion to certify an injunctive-relief class, as discussed above.

Five of the original six non-class cases remain pending against the Company. The principal plaintiffs in these cases are: The Kroger Co.; Publix Super Markets, Inc.; SUPERVALU, Inc.; Safeway, Inc.; Albertsons LLC; H.E. Butt Grocery Co.; The Great Atlantic & Pacific Tea Company, Inc.; Walgreen Co.; Hy-Vee, Inc.; and Giant Eagle, Inc. In four of these remaining non-class cases, the plaintiffs seek treble damages and injunctive relief under the Sherman Act. In one of those four cases, the plaintiffs purchased only egg products, and as noted above, the Court dismissed with prejudice all claims arising from the purchase of egg products. On October 4, 2016, the four plaintiffs in that case (Kraft Food Global, Inc., General Mills, Inc., Nestle USA, Inc., and The Kellogg Company) appealed that decision to the United States Court of Appeals for the Third Circuit. In the fifth remaining non-class case, the plaintiff seeks treble damages and injunctive relief under the Sherman Act and the Ohio antitrust act (known as the Valentine Act).

The Pennsylvania court has entered a series of orders related to case management, discovery, class certification, summary judgment, and scheduling. The Court has also denied all four motions that the plaintiffs filed to exclude testimony from certain expert witnesses retained by the defendants. The Pennsylvania court has not set a trial date for any of the Company's remaining consolidated cases (non-class and indirect purchaser cases). As noted above, the court held a hearing on the parties' proposed trial schedules but has not yet set a trial date.

The Company intends to continue to defend the remaining cases 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 these cases. Accordingly, adjustments, if any, which might result from the resolution of these remaining legal matters, have not been reflected in the financial statements.

State of Oklahoma Watershed Pollution Litigation

On June 18, 2005, the State of Oklahoma filed suit, in the United States District Court for the Northern District of Oklahoma, against Cal-Maine Foods, Inc. and Tyson Foods, Inc. and affiliates, Cobb-Vantress, Inc., Cargill, Inc. and its affiliate, George's, Inc. and its affiliate, Peterson Farms, Inc. and Simmons Foods, Inc. The State of Oklahoma claims that through the disposal of chicken litter the defendants have polluted the Illinois River Watershed. This watershed provides water to eastern Oklahoma. The complaint seeks injunctive relief and monetary damages, but the claim for monetary damages has been dismissed by the court. Cal-Maine Foods, Inc. discontinued operations in the watershed. Accordingly, we do not anticipate that Cal-Maine Foods, Inc. will be materially affected by the request for injunctive relief unless the court orders substantial affirmative remediation. Since the litigation began, Cal-Maine Foods, Inc. purchased 100% of the membership interests of Benton County Foods, LLC, which is an ongoing commercial shell egg operation within the Illinois River Watershed. Benton County Foods, LLC is not a defendant in the litigation.

The trial in the case began in September 2009 and concluded in February 2010. The case was tried to the court without a jury and the court has not yet issued its ruling. Management believes the risk of material loss related to this matter to be remote.

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Florida Civil Investigative Demand

On November 4, 2008, the Company received an antitrust civil investigative demand from the Attorney General of the State of Florida. The demand seeks production of documents and responses to interrogatories relating to the production and sale of eggs and egg products. The Company is cooperating with this investigation and has, on three occasions, entered into an agreement with the State of Florida tolling the statute of limitations applicable to any supposed claims the State is investigating. No allegations of wrongdoing have been made against the Company in this matter.

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.

At this time, it is not possible for us to predict the ultimate outcome of the matters set forth above.

13. Description of Rights and Privileges of Capital Stock—Capital Structure Consists of Common Stock and Class A Common Stock

The Company has two classes of capital stock: Common Stock and Class A Common Stock. Holders of shares of the Company’s capital stock vote as a single class on all matters submitted to a vote of the stockholders, with each share of Common Stock entitled to one vote and each share of Class A Common Stock entitled to ten votes. The Common Stock and Class A Common Stock have equal liquidation rights and the same dividend rights. In the case of any stock dividend, holders of Common Stock are entitled to receive the same percentage dividend (payable only in shares of Common Stock) as the holders of Class A Common Stock receive (payable only in shares of Class A Common Stock). Upon liquidation, dissolution, or winding-up of the Company, the holders of Common Stock are entitled to share ratably with the holders of Class A Common Stock in all assets available for distribution after payment in full of creditors. The Class A Common Stock may only be issued to Fred R. Adams, Jr., the Company’s Founder and Chairman Emeritus, and members of his immediate family, as defined in the Company's articles of incorporation. In the event any share of Class A Common Stock, by operation of law or otherwise is, or shall be deemed to be owned by any person other than Mr. Adams or a member of his immediate family, the voting power of such stock will be reduced from ten votes per share to one vote per share. Also, shares of Class A Common Stock shall be automatically converted into Common Stock on a share per share basis in the event the beneficial or record ownership of any such share of Class A Common Stock is transferred to any person other than Mr. Adams or a member of his immediate family. Each share of Class A Common Stock is convertible, at the option of its holder, into one share of Common Stock at any time. The holders of Common Stock and Class A Common Stock are not entitled to preemptive or subscription rights. In any merger, consolidation or business combination, the consideration to be received per share by holders of Common Stock must be identical to that received by holders of Class A Common Stock, except that if any such transaction in which shares of Capital Stock are distributed, such shares may differ as to voting rights to the extent that voting rights now differ among the classes of capital stock. No class of capital stock may be combined or subdivided unless the other classes of capital stock are combined or subdivided in the same proportion. No dividend may be declared and paid on Class A Common Stock unless the dividend is payable only to the holders of Class A Common Stock and a dividend is declared and paid to Common Stock concurrently.

On July 25, 2014, the Board of Directors approved an amendment to the Company’s Amended and Restated Certificate of Incorporation to authorize an additional 60,000,000 shares of common stock and an additional 2,400,000 shares of

Class A common stock. The primary purpose of the amendment was to provide a sufficient number of authorized shares in order to effect a 2-for-1 stock split of the Company's common stock and Class A common stock. The amendment was approved by the Company's stockholders at the Company's annual meeting on October 3, 2014 and the Board of Directors approved the 2-for-1 stock split on the same day. The new shares were distributed on October 31, 2014 to shareholders of record at the close of business on October 17, 2014.

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Unless otherwise noted, all prior period share and per share information contained in this report was adjusted to reflect the effect of the stock split.

14. Fair Value Measures

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 supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The disclosure of fair value of certain financial assets and liabilities recorded at cost are as follows:
Cash and cash equivalents, accounts receivable, and accounts payable: The carrying amount approximates fair value due to the short maturity of these instruments.

Long-term debt: The carrying value of the Company's long-term debt is at its stated value. We have not elected to carry our long-term debt at fair value. Fair values for debt are based on quoted market prices or published forward interest rate curves, which are level 2 inputs. Estimated fair values are management's estimates, which is a level 3 input; however, when there is no readily available market data, the estimated fair values may not represent the amounts that could be realized in a current transaction, and the fair values could change significantly. The fair value of the Company's debt is sensitive to changes in the general level of U.S. interest rates. The Company maintains all of its debt as fixed rate in nature to mitigate the impact of fluctuations in interest rates. Under its current policies, the Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. A one percent (1%) adverse move (i.e. decrease) in interest rates would adversely affect the net fair value of the Company's debt by $144,000 at June 3, 2017. The fair value and carrying value of the Company's long-term debt were as follows (in thousands):

| | June 3, 2017 | | May 28, 2016 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| 5.40 – 6.40% Notes payable | $9,250 | $9,295 | $25,570 | $25,824 |
| Long-term leases | 1,689 | 1,520 | — | — |
| | $10,939 | $10,815 | $25,570 | $25,824 |

Assets and Liabilities Measured at Fair Value on a Recurring Basis

In accordance with the fair value hierarchy described above, the following table shows the fair value of our financial assets and liabilities that are required to be measured at fair value on a recurring basis as of June 3, 2017 and May 28, 2016 (in thousands):

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| | June 3, 2017 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Balance |
| Assets | | | | |
| US government and agency obligations | $— | $ 20,216 | $ — | $20,216 |
| Municipal bonds | — | 36,873 | — | 36,873 |
| Corporate bonds | — | 75,790 | — | 75,790 |
| Asset backed securities | — | 5,583 | — | 5,583 |
| Mutual funds | 2,459 | — | — | 2,459 |
| Total assets measured at fair value | $2,459 | $ 138,462 | $ — | $140,921 |

| | May 28, 2016 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Balance |
| Assets | | | | |
| US government and agency obligations | $— | $ 18,814 | $ — | $18,814 |
| Municipal bonds | — | 79,643 | — | 79,643 |
| Corporate bonds | — | 240,537 | — | 240,537 |
| Foreign government obligations | — | 2,046 | — | 2,046 |
| Asset backed securities | — | 15,893 | — | 15,893 |
| Mutual funds | 5,503 | — | — | 5,503 |
| Total assets measured at fair value | $5,503 | $ 356,933 | $ — | $362,436 |

Our investment securities – available-for-sale classified as level 2 consist of U.S. government and agency obligations, taxable and tax exempt municipal bonds, zero coupon municipal bonds, asset-backed securities, foreign government obligations, and corporate bonds with maturities of three months or longer when purchased. We classified these securities as current, because amounts invested are available for current operations. Observable inputs for these securities are yields, credit risks, default rates, and volatility.

The Company applies fair value accounting guidance to measure non-financial assets and liabilities associated with business acquisitions. These assets and liabilities are measured at fair value for the initial purchase price allocation and are subject to recurring revaluations. The fair value of non-financial assets acquired is determined internally. Our internal valuation methodology for non-financial assets takes into account the remaining estimated life of the assets acquired and what management believes is the market value for those assets.

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15. Investment Securities

Investment securities consisted of the following (in thousands):

| | June 3, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gains in Accumulated Other Comprehensive Income | Losses in Accumulated Other Comprehensive Income | Estimated Fair Value |
| US government and agency obligations | $20,259 | $ — | 43 | $20,216 |
| Municipal bonds | 36,839 | 34 | — | 36,873 |
| Corporate bonds | 75,769 | 21 | — | 75,790 |
| Asset backed securities | 5,583 | — | — | 5,583 |
| Mutual funds | — | — | — | — |
| Total current investment securities | $138,450 | $ 55 | $ 43 | $138,462 |
| | | | | |
| Mutual funds | 1,706 | 753 | — | 2,459 |
| Total noncurrent investment securities | $1,706 | $ 753 | — | $2,459 |

| | May 28, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gains in Accumulated Other Comprehensive Income | Losses in Accumulated Other Comprehensive Income | Estimated Fair Value |
| US government and agency obligations | $18,809 | $ 5 | — | $18,814 |
| Municipal bonds | 79,481 | 162 | — | 79,643 |
| Corporate bonds | 240,593 | — | 56 | 240,537 |
| Foreign government obligations | 2,044 | 2 | — | 2,046 |
| Asset backed securities | 15,908 | — | 15 | 15,893 |
| Mutual funds | 3,565 | 1 | — | 3,566 |
| Total current investment securities | $360,400 | $ 170 | $ 71 | $360,499 |
| | | | | |
| Mutual funds | 1,448 | 489 | — | 1,937 |
| Total noncurrent investment securities | $1,448 | $ 489 | — | $1,937 |

Proceeds from the sales of available-for-sale securities were $251.7 million, $292.5 million, and $146.8 million during fiscal 2017, 2016, and 2015, respectively. Gross realized gains on those sales during fiscal 2017, 2016, and 2015 were $231,000, $131,000, and $82,000, respectively. Gross realized losses on those sales during fiscal 2017, 2016, and 2014 were $7,000, $110,000, and $7,000, respectively. For purposes of determining gross realized gains and losses, the cost of securities sold is based on the specific identification method.

Unrealized holding gains and (losses), net of taxes, for fiscal 2017, 2016, and 2015 were as follows (in thousands):

| | June 3, 2017 | May 28, 2016 | May 30, 2015 |
|---|---|---|---|
| Current Investments | (54) | 22 | (146) |
| Noncurrent Investments | 164 | (31) | 59 |
| Total unrealized holding gains (losses) | 110 | (9) | (87) |

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Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Contractual maturities of investment securities at June 3, 2017, are as follows (in thousands):

| | Estimated Fair Value |
|---|---|
| Within one year | $82,331 |
| 1-3 years | 56,131 |
| | $138,462 |

16. Quarterly Financial Data: (unaudited, amount in thousands, except per share data):

| | Fiscal Year 2017 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Net sales | $239,845 | $253,544 | $306,540 | $274,584 |
| Gross profit | (9,569) | 3,948 | 39,165 | 12,006 |
| Net income (loss) attributable to Cal-Maine Foods, Inc. | (30,936) | (23,010) | 4,139 | (24,471) |
| Net income (loss) per share: | | | | |
| Basic | $(0.64) | $(0.48) | $0.09 | $(0.51) |
| Diluted | $(0.64) | $(0.48) | $0.09 | $(0.51) |

During the Company's fourth quarter of fiscal 2017, we decided to carry back fiscal 2017 net operating losses to recover taxes paid in fiscal 2015, which affects the comparability between quarters. The net operating loss carryback resulted in a $4.1 million decrease in the income tax benefit, as the carryback reduced prior year taxable income and as a result reduced the benefit of prior year domestic manufacturers deductions, a portion of which were therefore reversed in the fourth quarter of fiscal 2017.

| | Fiscal Year 2016 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Net sales | $609,895 | $545,975 | $449,760 | $303,020 |
| Gross profit | 263,071 | 211,597 | 132,726 | 40,680 |
| Net income (loss) attributable to Cal-Maine Foods, Inc. | 143,023 | 109,230 | 64,164 | (376) |
| Net income (loss) per share: | | | | |
| Basic | $2.97 | $2.27 | $1.33 | $(0.01) |
| Diluted | $2.95 | $2.26 | $1.33 | $(0.01) |

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SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Years ended June 3, 2017, May 28, 2016, and May 30, 2015
(in thousands)

| Description | Balance at Beginning of Period | Charged to Cost and Expense | Write-off of Accounts | Balance at End of Period |
|---|---|---|---|---|
| Year ended June 3, 2017 | | | | |
| Allowance for doubtful accounts | $ 727 | $ (176 ) | $ 165 | $ 386 |
| Year ended May 28, 2016 | | | | |
| Allowance for doubtful accounts | $ 513 | $ 225 | $ 11 | $ 727 |
| Year ended May 30, 2015 | | | | |
| Allowance for doubtful accounts | $ 430 | $ 432 | $ 349 | $ 513 |

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Securities Exchange Act of 1934, as amended (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 June 3, 2017 at the reasonable assurance level.

Internal Control Over Financial Reporting

(a) Management’s Report on Internal Control Over Financial Reporting

The following sets forth, in accordance with Section 404(a) of the Sarbanes-Oxley Act of 2002 and Item 308 of the Securities and Exchange Commission’s Regulation S-K, the report of management on our internal control over financial reporting.

1. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. “Internal control over financial reporting” is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, together with other financial officers, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

2. Our management, in accordance with Rule 13a-15(c) under the Exchange Act and with the participation of our Chief Executive Officer and Chief Financial Officer, together with other financial officers, evaluated the effectiveness of our internal control over financial reporting as of June 3, 2017. The framework on which management’s evaluation of our internal control over financial reporting is based is the “Internal Control – Integrated Framework” published in 2013 by the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission.

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3. Management has determined that our internal control over financial reporting as of June 3, 2017 is effective. It is noted that internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives, but rather reasonable assurance of achieving such objectives.
4. The attestation report of FROST, PLLC on our internal control over financial reporting, which includes that firm's opinion on the effectiveness of our internal control over financial reporting, is set forth below.

(b) Attestation Report of the Registrant's Public Accounting Firm

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Report of Independent Registered Public Accounting Firm
on Internal Control Over Financial Reporting

Board of Directors and Stockholders
Cal-Maine Foods, Inc. and Subsidiaries
Jackson, Mississippi

We have audited Cal-Maine Foods, Inc. and Subsidiaries' internal control over financial reporting as of June 3, 2017, based on criteria established in 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Cal-Maine Foods, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting in Item 9A. Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Cal-Maine Foods, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 3, 2017, based on criteria established in 2013 Internal Control-Integrated Framework issued by the COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows of Cal-Maine Foods, Inc. and Subsidiaries, and our report dated July 21, 2017, expressed an unqualified opinion.

/s/Frost, PLLC

Little Rock, Arkansas
July 21, 2017

(c) Changes in Internal Control Over Financial Reporting

In connection with its evaluation of the effectiveness, as of June 3, 2017, of our internal control over financial reporting, management determined that there was no change in our internal control over financial reporting that occurred during the fourth quarter ended June 3, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as set forth below, the information concerning directors, executive officers and corporate governance is incorporated by reference from our definitive proxy statement which is to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with our 2017 Annual Meeting of Shareholders.

We have adopted a Code of Conduct and Ethics for Directors, Officers and Employees, including the chief executive and principal financial and accounting officers of the Company. We will provide a copy of the code free of charge to any person that requests a copy by writing to:

Cal-Maine Foods, Inc.
P.O. Box 2960
Jackson, Mississippi 39207
Attn.: Investor Relations

Requests can be made by phone at (601) 948-6813

A copy is also available at our website www.calmainefoods.com. We intend to disclose any amendments to, or waivers from, the Code of Conduct and Ethics for Directors, Officers and Employees on our website promptly following the date of any such amendment or waiver. Information contained on our website is not a part of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information concerning executive compensation is incorporated by reference from our definitive proxy statement which is to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with our 2017 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information concerning security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference from our definitive proxy statement which is to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with our 2017 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information concerning certain relationships and related transactions, and director independence is incorporated by reference from our definitive proxy statement which is to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with our 2017 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information concerning principal accounting fees and services is incorporated by reference from our definitive proxy statement which is to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with our 2017 Annual Meeting of Shareholders.

PART IV.
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1)Financial Statements

The following consolidated financial statements and notes thereto of Cal-Maine Foods, Inc. and subsidiaries are included in Item 8 and are filed herewith:



(a)(2) Financial Statement Schedule



All other schedules are omitted either because they are not applicable or required, or because the required information is included in the financial statements or notes thereto.

(a)(3)Exhibits Required by Item 601 of Regulation S-K

See Part (b) of this Item 15.

(b) Exhibits Required by Item 601 of Regulation S-K

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The following exhibits are filed herewith or incorporated by reference:

| Exhibit Number | Exhibit |
|---|---|
| 3.1 | Composite Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 in the Registrant's Form 10-Q for the quarter ended November 29, 2014, filed December 29, 2014). |
| 3.2 | Composite Bylaws of the Registrant (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). |
| 10.1* | Wage Continuation Plan, dated as of April 15, 1988, between Joe Wyatt and the Registrant (incorporated by reference to Exhibit 10.8 in the Registrant's Form S-1 Registration Statement No. 333-14809, filed October 25, 1996). |
| 10.2* | Deferred Compensation Plan, dated December 28, 2006 (incorporated by reference to Exhibit 10.15 in the Registrant's Form 8-K, filed January 4, 2007). |
| 10.3 | Loan Agreement, dated as of November 12, 2009, between the Registrant and Metropolitan Life Insurance Company (incorporated by reference to Exhibit 10.3(e) in the Registrant's Form 8-K, filed November 17, 2009). |
| 10.4* | Cal-Maine Foods, Inc. KSOP, as amended and restated, effective April 1, 2012 (incorporated by reference to Exhibit 4.4 in the Registrant's Form S-8, filed March 30, 2012). |
| 10.5* | Cal-Maine Foods, Inc. KSOP Trust, as amended and restated, effective April 1, 2012 (incorporated by reference to Exhibit 4.5 in the Registrant's Form S-8, filed March 30, 2012). |
| 10.6* | 2012 Omnibus Long-Term Incentive Plan (incorporated by reference to Appendix B to the Registrant's Proxy Statement for the Annual Meeting held October 5, 2012, filed September 6, 2012). |
| 10.7* | Form of Restricted Stock Agreement for 2012 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.13 in the Registrant's Form 10-K for the year ended May 31, 2014, filed July 28, 2014). |
| 21** | Subsidiaries of the Registrant |
| 23.1** | Consent of FROST, PLLC |
| 31.1** | Rule 13a-14(a) Certification of Chief Executive Officer |
| 31.2** | Rule 13a-14(a) Certification of Chief Financial Officer |
| 32*** | Section 1350 Certifications of the Chief Executive Officer and the Chief Financial Officer |
| 99.1 | Press release dated July 24, 2017 announcing interim and annual financial information (incorporated by reference to Exhibit 99.1 in the Company's Form 8-K, filed July 24, 2017). |
| 101.INS***+ | XBRL Instance Document Exhibit |
| 101.SCH***+ | XBRL Taxonomy Extension Schema Document Exhibit |
| 101.CAL***+ | XBRL Taxonomy Extension Calculation Linkbase Document Exhibit |
| 101.DEF***+ | XBRL Taxonomy Extension Definition Linkbase Document Exhibit |
| 101.LAB***+ | XBRL Taxonomy Extension Label Linkbase Document Exhibit |
| 101.PRE***+ | XBRL Taxonomy Extension Presentation Linkbase Document |

* Management contract or compensatory plan or arrangement
** Filed herewith as an Exhibit
*** Furnished herewith as an Exhibit
+ Submitted electronically with this Annual Report on Form 10-K

The Company has not filed instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed ten percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish to the Securities and Exchange Commission, upon request, copies of any such instrument.

(c) Financial Statement Schedules Required by Regulation S-X

The financial statement schedule required by Regulation S-X is filed at page 73. All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in Jackson, Mississippi.

CAL-MAINE FOODS, INC.

/s/ Adolphus B. Baker
Adolphus B. Baker
President, Chief Executive Officer and Chairman of the Board
Date: July 21, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| Signature | Title | Date |
|---|---|---|
| /s/ Adolphus B. Baker<br>Adolphus B. Baker | President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer) | July 21, 2017 |
| /s/ Timothy A. Dawson<br>Timothy A. Dawson | Vice President, Chief Financial Officer and Director (Principal Financial Officer) | July 21, 2017 |
| /s/ Michael D. Castleberry<br>Michael D. Castleberry | Vice President, Controller (Principal Accounting Officer) | July 21, 2017 |
| /s/ Sherman Miller<br>Sherman Miller | Vice President, Chief Operating Officer and Director | July 21, 2017 |
| /s/ Letitia C. Hughes<br>Letitia C. Hughes | Director | July 21, 2017 |
| /s/ James E. Poole<br>James E. Poole | Director | July 21, 2017 |
| /s/ Steve W. Sanders<br>Steve W. Sanders | Director | July 21, 2017 |