

Cal-Maine Foods, Inc (CALM)

Food Cost Inflation hits the Front Page

April 30, 2008

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Investment Highlights

- *Cal-Maine is very attractively priced, trading at 3.84X forward earnings*
- *The recent decline in shell egg prices represents normal seasonality*
- *102% of free float is sold short*
- *Industry egg supply will be constrained due to new cage requirements*

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Executive Summary

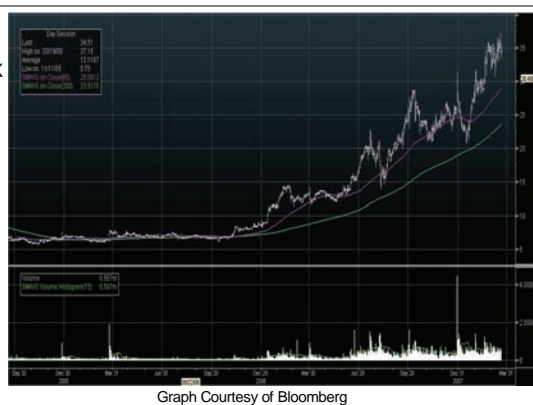
Cal-Maine Foods, which is buy-rated with a \$46.00 price target, is on track to earn \$6.34 per share in fiscal 2008, just as food cost inflation becomes front page news.

- Following our March 31st earnings update, we have revised our earnings model to more accurately reflect the lag in price realizations for feed costs.
- Shell egg price estimates have been fine-tuned, using \$1.24 for the full calendar year 2008.
- We expect corn prices to stay just below \$6.00/bu through 2009 and soy meal prices to hold steady at \$350/t.
- The earnings estimate for the current quarter is revised down from \$1.41 to \$1.38.
- We are introducing our full year earnings estimate for FY 2009 of \$8.04, giving Cal-Maine a forward PE of 4.1X.

Financial Summary and Statistics

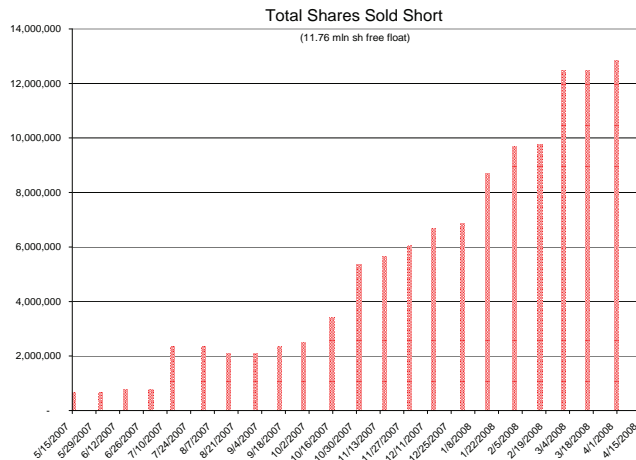
Current Price: \$29.48	Book Value/Share:	\$10.52
Price Target: \$46.00	Sales/Share (ttm):	\$25.42
Market Cap: \$732mln	Forward PE (e):	3.66X

	FY 2007	F2008e	F2009e
Revenues	\$ 598,128	\$ 911,179	\$ 1,031,431
Cost of Sales	\$ 479,504	\$ 618,589	\$ 676,932
Gross Profit	\$ 118,624	\$ 292,591	\$ 354,499
SG&A	\$ 60,394	\$ 72,395	\$ 70,398
Operating Income	\$ 58,230	\$ 220,196	\$ 284,101
Other	\$ (1,969)	\$ 6,711	\$ 9,348
Taxes	\$ 19,605	\$ 78,826	\$ 102,707
Net Income	\$ 36,656	\$ 148,080	\$ 190,742
EPS (Diluted)	\$ 1.56	\$ 6.24	\$ 8.04
Shares out	23,569	23,724	23,714



Cal-Maine sold off sharply following their March 31st earnings announcement; likely due to the disclosure that the company held \$47.2 mln in auction rate securities that have gone ‘no-bid.’ While Cal-Maine certainly does not need to access the funds in the short-term, this disclosure disappointed investors. Cal-Maine became the poster child for demonstrating just how far the debt crisis had spread. We remain unconcerned. The securities were AAA-rated at the time of purchase and Cal-Maine has insurance “guaranteeing each of the bonds’ payment of principle and interest.” Failed auction rate securities generally pay a penalty rate until either a bid returns or the debt is refinanced by the issuer. Some auction rate securities are becoming more liquid in recent weeks. We would not be surprised if a forthcoming press release declared that Cal-Maine was able to liquidate at least part of their holdings.

The NASDAQ short interest data continues to show large increases in the short interest for Cal-Maine. In fact, the April 15th NASDAQ short interest update highlighted Cal-Maine as the most heavily shorted stock on NASDAQ as a percentage of free float, with 111.2% of the float sold short. The increase in short interest in the past twelve months has been incredible, as can be seen by the following chart:



Following our March 31st earnings update, we have refined our earnings model to more accurately reflect the lag in price realizations for feed costs. We have also fine-tuned our shell egg price estimates. Our wholesale shell egg price estimate for Cal-Maine of \$1.24, for the full calendar year 2008, is explained in detail on the following pages of this report. We expect corn prices to stay just below \$6.00 for the remainder of this year and all of next, and soy meal prices to hold steady at \$350. On this basis, we expect Cal-Maine to earn \$1.38 per share in the current quarter. In addition, we have introduced a full year earnings estimate for FY 2009 at \$8.04, giving Cal-Maine a forward PE of 3.7X.

Shell Egg Market Update

Shell egg prices post-Easter have fallen sharply, generating numerous questions from investors. As we highlighted on pg. 11 of our March 24th Cal-Maine initiation piece titled *Cal-Maine Foods, Inc.: No cracks yet in this ag story*, there is a strong degree of seasonality in the egg market. Demand for shell eggs is very robust from November through Easter. November is typically the peak, with prices reaching 112% of the full year average. May is generally the trough at 84% of the full year average price.

The USDA provides daily updates on the shell egg market. The medium shell egg prices from the Daily South Central Regional Egg Report, on the USDA website, correlate most closely to egg prices received by Cal-Maine. We now have enough shell egg pricing data for 2008 to make a reasonably accurate estimation of the full year prices and form a roadmap to determine if the market is deviating from expectations. Based on the actual prices received by south central shell egg producers so far in 2008, we expect the full year average shell egg price received by wholesalers to be \$1.24. The following table displays the prices predicted by normal seasonality for each month in 2008, based on our \$1.24 estimate, and the actual pricing data received so far:

2008 Shell Egg Price Predictions

Full Year Avg: \$ 1.24

Month	Seasonality Factor	Predicted Price	Actual
Jan	1.07	\$ 1.33	\$ 1.36
Feb	1.00	\$ 1.24	\$ 1.31
Mar	1.09	\$ 1.35	\$ 1.34
Apr	0.96	\$ 1.19	\$ 1.07
May	0.84	\$ 1.04	
Jun	0.90	\$ 1.12	
Jul	0.96	\$ 1.19	
Aug	1.00	\$ 1.24	
Sep	0.96	\$ 1.19	
Oct	1.02	\$ 1.26	
Nov	1.12	\$ 1.39	
Dec	1.11	\$ 1.38	

As this table illustrates, the recent pullback in shell egg prices to the current \$.95-\$.98 level is not unusual. The decline is a bit earlier in the year than we typically see, but this is due to Easter calendared very early in 2008. Adjusting for the early Easter, we expect that egg prices will be stable to slightly lower for the next two weeks. Prices should recover in mid-May, ending the month around the \$1.05 to \$1.10 level. It is important to note that we still predict Cal-Maine to earn \$1.38 in the coming June quarter, despite these forecasts.



The number of eggs produced per layer has been trending up by .6% per year in the past fifteen years. With the total human population growing 1.0% annually in the United States, the layer flock must increase by .4% annually, assuming flat per-capita demand. The current size of the table layer flock is 279.76 mln layers, down 2.7% year over year. This decrease is chiefly due to new requirements from the United Egg Producers dictating average cage spaces be expanded to 67 square inches per layer by 2010. The new standards apply to all 196 mln cage spaces in its program and represent a 33% increase from 2002 levels. To date, compliance is estimated to have cost the industry 37 mln cage spaces. By April 2010, when full compliance is required, an additional 19.5 mln cage spaces will be lost. Farmers have also been reluctant to pay the \$12+ per cage to expand production in the face of several states' attempts to place bans on chicken cages. Connecticut recently had such a measure defeated in committee, the New Hampshire legislator recently voted down a proposed cage ban, and similar measures in California and Delaware are pending. In the UK, legislation is already in effect to ban cages in 2012 and pressure is on EU member states to follow with similar measures.

Looking at the past twelve years of data, the only other year with comparable declines in layer numbers was 2007. As the following table shows, table egg prices then rose 55.17%:

	Avg No Layers	% Change Layers	Annual Eggs/Layer	Total Egg Production	Price (cents/doz)	% Change Price
1988	278,587		251	69,878	43.1	
1989	270,415	-2.93%	250	67,503	60.5	40.37%
1990	270,946	0.20%	251	68,134	60.4	-0.17%
1991	275,451	1.66%	252	69,465	57.1	-5.46%
1992	278,824	1.22%	254	70,749	45.5	-20.32%
1993	284,770	2.13%	253	71,936	51.6	13.41%
1994	291,035	2.20%	254	73,903	49.2	-4.65%
1995	294,350	1.14%	254	74,764	50.6	2.85%
1996	298,270	1.33%	256	76,377	64.3	27.08%
1997	303,604	1.79%	255	77,532	58.7	-8.71%
1998	312,035	2.78%	255	79,690	52.4	-10.73%
1999	322,354	3.31%	257	82,715	45.2	-13.74%
2000	327,908	1.72%	257	84,412	44.6	-1.33%
2001	333,798	1.80%	257	85,702	45.4	1.79%
2002	339,024	1.57%	257	87,179	41.2	-9.25%
2003	338,393	-0.19%	259	87,473	57.6	39.81%
2004	341,956	1.05%	261	89,091	55.9	-2.95%
2005	343,792	0.54%	262	90,027	34.7	-37.92%
2006	346,078	0.66%	263	90,877	40.2	15.85%
2007		-1.57%				55.17%

In addition, there have been only three years in the past twelve in which the number of layers has declined year over year: 1989, 2003 and 2007. The average increase in shell egg prices in these three years was 45.1%, with each of these years witnessing a greater than 39% increase in shell egg prices. Given the window we have into the number of layers and the number of chicks being grown into layers, it appears very unlikely that the number of layers in 2008 will increase from 2007. We are nevertheless being relatively conservative and predicting that egg prices realized by Cal-Maine will only increase by 25.2% in 2008. In 2009, we are currently modeling a 6% increase in egg prices; despite our belief that the layer flock will be flat to slightly down in 2009, and prices of other proteins will rise 20% or more - as the current liquidation of flocks and herds that are artificially depressing protein prices comes to an end.

Examining further the impact of flat layer flock growth over the past 12 years, we discover an apparent 1.50% annual increase in the number of layers needed, on average, to drive down shell egg prices. We believe it is very unlikely the layer flock can grow by 1.50% in 2009.

Financials

Cal-Maine Foods Inc
\$33.10/sh, 21.311 mln sh out, \$803 mln EV
Accounting Policies (in Note)

Model Inputs

	Change these variable to calculate earnings					
	175.2	174.1	173.2	174.2	175.2	174.1
Dozens of eggs sold (in millions)	\$ 1,293	\$ 1,418	\$ 1,379	\$ 1,232	\$ 1,184	\$ 1,377
Feed Cost/Dozen (75% corn, 25% soymeal)	\$ 0.530	\$ 0.530	\$ 0.538	\$ 0.508	\$ 0.535	\$ 0.499

Income Statement

	FY08 End						FY07 End					
	Q4 (Jun 09) (e)	Q3 (Mar 09) (e)	Q2 (Dec 08) (e)	Q1 (Sep 08) (e)	Q4 (Jun 08) (e)	Q3 (Mar 08)	Q2 (Dec 07)	Q1 (Sep 07)	Q4 (Jun 07)	Q3 (Mar 07)	Q2 (Dec 06)	Q1 (Sep 06)
Net Sales	252,152	274,624	265,816	238,839	230,868	278,017	223,696	178,598	169,872	175,211	137,737	115,308
Cost of Sales	169,021	173,364	171,627	162,920	164,792	173,115	147,664	133,018	128,792	131,029	112,782	106,901
Gross Profit	83,130	101,260	94,190	75,919	66,077	104,902	76,032	45,580	41,080	44,182	24,955	8,407
Selling, General and Administrative Expense	17,659	17,624	17,584	17,531	17,474	19,244	17,029	18,648	14,564	16,902	14,458	14,470
Operating Income	65,471	83,636	76,605	58,388	48,603	85,658	59,003	26,932	26,516	27,280	10,497	(6,063)
Other Income (expense)												
Interest Expense, net	1,522	932	342	(248)	(376)	(676)	(1,377)	(1,647)	(677)	(1,639)	(1,764)	(1,795)
Other	200	2,200	2,200	2,200	2,200	2,905	3,744	1,938	1,269	1,956	824	(143)
INCOME (LOSS) BEFORE TAXES	67,193	86,768	79,147	60,340	50,427	87,887	61,370	27,223	27,108	27,597	9,557	(8,001)
Income tax Expense (benefit)	23,518	30,369	27,701	21,119	17,649	30,704	21,216	9,257	8,825	10,194	3,156	(2,570)
Net Income (loss)	43,676	56,399	51,446	39,221	32,777	57,183	40,154	17,966	18,283	17,403	6,401	(5,431)
Net income (loss) per share												
Basic	1.844	2.382	2.172	1.656	1.384	2.412	1.696	0.761	0.777	0.740	0.272	(0.231)
Diluted	1.842	2.378	2.169	1.654	1.382	2.408	1.693	0.757	0.775	0.738	0.271	(0.231)
Weighted avg Shares Outstanding												
Basic	23,681	23,681	23,681	23,681	23,681	23,712	23,681	23,599	23,526	23,519	23,503	23,503
Diluted	23,714	23,714	23,714	23,714	23,714	23,744	23,714	23,724	23,599	23,578	23,597	23,503
Dividend Per Share	0.608	0.785	0.716	0.546	0.456	0.804	0.013	0.013	0.013	0.013	0.013	0.013

Balance Sheet

	Q4 (Jun 09) (e)	Q3 (Mar 09) (e)	Q2 (Dec 08) (e)	Q1 (Sep 08) (e)	Q4 (Jun 08) (e)	Q3 (Mar 08)	Q2 (Dec 07)	Q1 (Sep 07)	Q4 (Jun 07)	Q3 (Mar 07)	Q2 (Dec 06)	Q1 (Sep 06)
Assets												
Current Assets:												
Cash And Equivalents	152,594	134,549	114,377	103,824	89,734	85,798	28,535	23,117	15,032	15,134	11,364	16,717
Investments	-	-	-	-	-	-	59,250	46,951	39,500	28,600	10,000	10,000
Trade and Receivables	65,559	71,402	69,112	62,098	60,026	63,977	68,888	45,051	37,096	40,525	43,745	30,753
Recoverable Income Taxes	-	-	-	-	-	-	-	-	-	896	1,086	3,596
Inventories	85,285	85,631	85,181	80,246	81,733	74,703	69,403	66,310	62,208	62,855	60,369	57,310
Other	-	-	-	-	-	-	-	-	1,084	-	-	-
Prepaid Expenses and Other	1,500	1,500	1,500	1,500	1,500	1,068	881	1,596	1,390	1,266	1,544	2,403
Total Current Assets	304,938	293,082	270,171	247,669	232,993	225,546	226,957	183,025	156,310	149,216	128,108	120,779
Notes Receivable and Investments	59,142	59,142	59,142	59,142	59,142	59,142	9,893	8,373	7,913	8,241	8,496	7,975
Goodwill	4,195	4,195	4,195	4,195	4,195	4,195	4,195	4,195	4,195	4,195	4,016	4,016
Other Assets	7,476	7,476	7,476	7,476	7,476	7,476	2,944	2,944	2,560	2,560	2,652	2,700
Property, Plant and Equipment	435,390	429,271	423,067	416,777	410,399	403,933	393,155	383,788	377,875	363,209	346,805	340,870
Less Accumulated Depreciation	227,872	221,991	216,195	210,485	204,863	199,329	192,656	187,627	184,285	178,278	172,271	167,887
TOTAL ASSETS	583,269	571,175	547,856	524,773	509,342	500,948	449,020	394,698	364,568	349,133	317,806	308,453
Liabilities and Stockholder's Equity												
Current Liabilities												
Accounts payable and Accrued Expenses	72,679	74,547	73,800	70,056	70,860	74,488	75,581	62,127	45,051	53,482	44,325	42,539
Dividends Payable	14,413	18,612	16,977	12,943	10,817	19,059	-	-	-	-	-	-
Current Maturities of Purchase Obligation	10,756	10,757	10,758	10,758	10,758	10,758	10,758	6,769	5,435	5,435	5,435	5,435
Current Maturities of Long-Term Debt	6,780	8,130	9,480	10,830	11,505	11,717	11,661	13,126	13,442	13,610	12,930	12,248
Deferred Income Taxes	12,136	12,136	12,136	12,136	12,136	11,745	12,136	12,633	11,830	11,610	11,690	11,895
Total Current Liabilities	116,764	124,181	123,150	116,722	116,076	127,767	110,136	94,655	75,758	84,137	74,380	72,117
Long-Term debt, Less current maturities	50,220	60,220	70,220	80,220	85,220	90,220	92,572	97,437	99,410	94,383	90,650	90,004
Minority Interest	888	888	888	888	888	888	1,707	888	1,194	1,894	923	752
Purchase obligation, less current maturities	9,600	9,600	9,600	9,600	9,600	9,600	9,437	5,848	9,867	9,673	9,479	9,284
Other non-current liabilities	2,200	2,200	2,200	2,200	2,200	2,240	2,210	2,180	2,150	3,701	3,920	3,890
Deferred Income Taxes	19,867	19,867	19,867	19,867	19,867	19,855	19,867	19,879	19,750	18,705	18,355	18,280
TOTAL LIABILITIES	199,539	216,956	225,925	229,497	233,851	251,389	235,110	221,193	208,829	211,522	197,536	194,357
Stockholders Equity												
Common Stock at \$.01 Par	351	351	351	351	351	351	351	351	351	351	351	351
Class A Common Stock \$.01 Par	24	24	24	24	24	24	24	24	24	24	24	24
Paid-in Capital	30,039	29,959	29,879	29,799	29,719	29,639	29,427	29,179	29,043	28,955	28,809	28,755
Retained Earnings	373,999	344,647	312,519	286,025	266,401	240,708	205,121	165,262	147,667	129,679	112,569	106,449
Common Stock in Treasury	(20,763)	(20,843)	(20,923)	(21,003)	(21,083)	(21,163)	(21,013)	(21,311)	(21,346)	(21,398)	(21,483)	(21,483)
Total Shareholders Equity	383,650	354,138	321,850	295,196	275,412	249,559	213,910	173,505	155,739	137,611	120,270	114,096
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	583,269	571,174	547,856	524,773	509,342	500,948	449,020	394,698	364,568	349,133	317,806	308,453

Statement of Cash Flows

	Q4 (Jun 09) (e)	Q3 (Mar 09) (e)	Q2 (Dec 08) (e)	Q1 (Sep 08) (e)	Q4 (Jun 08) (e)	Q3 (Mar 08)	Q2 (Dec 07)	Q1 (Sep 07)	Q4 (Jun 07)	Q3 (Mar 07)	Q2 (Dec 06)	Q1 (Sep 06)
Cash Provided by Operations	53,878	60,203	48,950	43,453	31,173	60,968	29,114	29,687	22,765	34,614	207	2,138
Cash Provided by (used in) Investing Activities												
Net Decrease in Investments	-	-	-	-	-	12,100	(12,300)	(7,450)	(10,900)	(18,600)	-	15,000
Acquisitions of Businesses net of cash	-	-	-	-	-	-	-	-	-	(1,152)	-	-
Purchases of Property, Plant and Equip.	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(11,410)	(7,641)	(4,530)	(6,401)	(5,006)	(6,827)	(5,238)
Payments Received on Notes and Investments	300	300	300	300	300	313	481	91	607	286	232	328
Increase in Notes Receivable and Investments	-	-	-	-	-	(76)	(17)	(651)	(22)	(150)	-	(1,030)
Net Proceeds from Disposal of PP&E	200	200	200	200	200	193	1,914	173	101	125	-	277
Net Cash Provided by (used in) Investing Activities	(11,500)	(11,500)	(11,500)	(11,500)	(11,500)	1,120	(17,563)	(12,367)	(27,516)	(24,497)	(6,595)	9,337
Cash Provided by (used in) Financing Activities												
Purchases of common stock for Treasury	-	-	-	-	-	-	-	-	-	-	-	-
Payment of purchase obligations	-	-	-	-	-	-	-	(6,769)	-	-	(1)	(6,101)
Proceeds from issuance of Treasury Stock	80	80	80	80	80	9	491	117	85	177	-	-
Long-Term Borrowings	-	-	-	-	-	-	-	-	26,500	-	3,000	-
Principle Payments on Long-Term Debt	(10,000)	(10,000)	(10,000)	(5,000)	(5,000)	(2,297)	(6,330)	(2,289)	(21,641)	(6,232)	(1,671)	(1,660)
Capital Distributions	(14,413)	(18,612)	(16,977)	(12,943)	(10,817)	(2,537)	(294)	(294)	(295)	(292)	(293)	(292)
Payment of Dividends	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Provided by (used in) Finance Activities	(24,333)	(28,532)	(26,897)	(17,863)	(15,737)	(4,825)	(6,133)	(9,235)	4,649	(6,347)	1,035	(8,053)
Net Change in Cash and Equivalents	18,045	20,171	10,553	14,090	3,936	57,263	5,418	8,085	(102)	3,770	(5,353)	3,422



Critical Accounting Policies

From FY2007 10K:

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 that 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.

Allowance for Doubtful Accounts. In the normal course of business, we extend credit to our customers on a short-term basis. 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 specific reserve is recorded to reduce the receivable to the amount expected to be collected. For all other customers, we recognize reserves for bad debts based on the length of time the receivables are past due, generally 100% for amounts more than 60 days past due.

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 would 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 productive lives of the flocks, 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 adjustments to write-down 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 that 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.

Investment in Affiliates. We have invested in other companies engaged in the production, processing and distribution of shell eggs and egg products. Our ownership percentages in these companies range from less than 20% to 50%. Therefore, these investments are recorded using the cost or the equity method, and accordingly, 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 \$6.4 million at June 2, 2007. The combined total assets and total liabilities of these companies were approximately \$24 million and \$11 million, respectively, at June 2, 2007. We are a guarantor of approximately \$4.8 million of long-term debt of one of the affiliates.

Goodwill. At June 2, 2007, our goodwill balance represented 1.2% of total assets and 2.7% of stockholders' equity. Goodwill relates to the fiscal 1999 acquisition of Hudson Brothers, Inc., the fiscal 2006 acquisition of Hillendale Farms, LLC, and the fiscal 2007 acquisition of Green Forest Foods, LLC. We adopted, as of June 3, 2001, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually or more frequently if impairment indicators arise, for impairment. An impairment loss would be recorded if the recorded goodwill exceeds its implied fair value. We have only one operating segment, which is our sole reporting unit. Accordingly, goodwill is tested for impairment at the entity level. Significant adverse industry or economic changes, or other factors not anticipated could result in an impairment charge to reduce recorded goodwill.



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