

Edgar Filing: CAGLES INC - Form 10-Q

CAGLES INC
Form 10-Q
February 12, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(x) Quarterly Report Pursuant to Section 13 or 15(d) of the Security Exchange Act of 1934 For the Quarterly period ended December 28, 2002
or

() Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition period from _____ to _____

Commission File Number 1-7138

CAGLE'S, INC.

GEORGIA 58-0625713
(State or other Jurisdiction of (I.R.S. Employer Identification No.)
Incorporation or Organization)

2000 Hills Avenue, N. W. Atlanta, Georgia 30318

(Address of Principal Executive Offices and Zip Code)

(404) 355-2820

(Registrant's Telephone Number, Including Area Code)

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

Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date

Class	Outstanding December 28, 2002
-----	-----
Class A Common Stock, \$1.00 Par Value	4,746,030

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PART 1. FINANCIAL INFORMATION

Cagle's, Inc. And Subsidiary Consolidated Balance Sheets
December 28, 2002 and March 30, 2002
(In Thousands, Except Par Value)
(Period 12/28/02 Unaudited)

	12/28/02	03/30/02
	-----	-----
Assets -----		
CURRENT ASSETS		
Cash	\$ 14	\$ 91
Accounts receivable, net of allowance for doubtful accounts of \$614 and \$446 at December 28, 2002 and March 30, 2002, respectively	13,176	16,919
Inventories	30,522	34,176
Income Tax Refund Receivable	5,285	10,016
Other current assets	889	559
	-----	-----
Total current assets	49,886	61,761
	-----	-----
INVESTMENTS IN AND RECEIVABLES FROM UNCONSOLIDATED AFFILIATES	3,410	45,136
OTHER ASSETS	1,898	2,232
PROPERTY HELD FOR SALE	6,887	6,738
PROPERTY, PLANT, AND EQUIPMENT	198,914	198,293
Less accumulated depreciation	(85,045)	(74,209)
	-----	-----
Property, plant, and equipment, net	113,869	124,084
	-----	-----
TOTAL ASSETS	\$ 175,950	\$ 239,951
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY-----		
CURRENT LIABILITIES		
Current maturities of long term debt	\$ 55,759	\$ 9,921
Accounts payable	23,241	24,143
Accrued expenses	10,195	8,847
	-----	-----
Total current liabilities	89,195	42,911
	-----	-----
LONG TERM DEBT (net of current maturities)	24,217	114,885
NONCURRENT DEFERRED INCOME TAXES	6,720	11,831
OTHER NONCURRENT LIABILITIES	2,503	5,927
	-----	-----
STOCKHOLDERS' EQUITY:		
Common stock, \$1 par value; authorized 9,000		
Shares and 4,748 issued	4,748	4,748
Additional paid in Capital	4,186	4,198
Treasury stock	(77)	(94)
Retained earnings	45,379	56,402
OCI(FAS133)	(921)	(857)
	-----	-----
Total stockholders' equity	53,315	64,397
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 175,950	\$ 239,951

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The accompanying notes are an integral part of these consolidated financial statements.

Cagle's, Inc., & Subsidiary

Consolidated Statements of Operations

For the 13 week and 39 week ended December 28, 2002

and the 13 week and 39 week ended December 29, 2001

(Amounts in thousands, except per share data)

(Unaudited)

	13 wks ended 12/28/02	13 wks ended 12/29/01	39wks ended 12/28/02	39wks ended 12/29/01
Net Sales	\$ 72,550	\$ 85,560	\$238,677	\$258,943
Costs and Expenses:				
Cost of Sales	81,636	84,617	250,260	256,052
Selling and Delivery	2,419	2,673	7,530	7,512
General and Administrative	2,414	2,128	7,648	6,537
Total costs and expenses	86,469	89,418	265,438	270,101
Loss From Operations	(13,919)	(3,858)	(26,761)	(11,158)
Other Income(Expense):				
Interest expense	(2,171)	(2,056)	(5,492)	(7,059)
Other income, net	848	526	11,511	322
Earnings or (Loss) Before equity in earnings of unconsolidated affiliates and income taxes	(15,242)	(5,388)	(20,742)	(17,895)
Equity in earnings of unconsolidated affiliates	930	3,037	3,622	8,679
Loss Before Income Taxes	(14,312)	(2,351)	(17,120)	(9,216)
Provision (Benefit) For Income Taxes	(5,066)	(923)	(6,093)	(8,829)
Net Loss	\$ (9,246)	(1,428)	(11,027)	(387)
Weighted Average Shares Outstanding				
-Basic	4,746	4,743	4,745	4,743
-Diluted	4,746	4,744	4,745	4,743
Net Loss Per Common Share				
-Basic	\$ (1.95)	\$ (.30)	\$ (2.32)	\$ (.08)
-Diluted	\$ (1.95)	\$ (.30)	\$ (2.32)	\$ (.08)
Dividends Per Common Share	\$.00	\$.00	\$.00	\$.00

The accompanying notes are an integral part of these consolidated financial statements.

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Cagle's, Inc & Subsidiary
Consolidated Statements of Cash Flows
For the 39 weeks ended December 28, 2002 and December 29, 2001
(In Thousands) (unaudited)

	12/28/02	12/29/01	
	-----	-----	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ (11,027)	\$ (387)	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,543	11,416	
Gain on disposal of property, plant and equipment	(27)	(999)	
Gain on sales of joint ventures	(12,914)	0	
Changes in investment in and receivables from unconsolidated affiliates	(2,388)	(3,872)	
Deferred Income Taxes		(5,111)	(3,648)
Changes in assets and liabilities:			
Accounts receivables, net	3,743	(4,961)	
Income Tax Refund Receivable		4,731	4,709
Inventories	3,654	(3,664)	
Other current assets	(330)	176	
Accounts payable	(902)	2,703	
Accrued expenses	1,348	(1,373)	
Other non-current liability		(3,424)	(3,329)
	-----	-----	
Total Adjustments	(77)	(2,842)	
	-----	-----	
Net cash provided by operating activities	(11,104)	(3,229)	
	-----	-----	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant, and equipment	(918)	(595)	
Proceeds from the sale of property, plant, equip	27	2,514	
Increase in other assets		0	(177)
Proceeds from sales of joint ventures	56,736	0	
	-----	-----	
Net cash used in investing activities	55,845	1,742	
	-----	-----	
Cash Flows from financing activities:			
Payments of long-term debt and capital lease obligations	(44,830)	(4,254)	
Proceeds from issuance of long-term debt	0	4,710	
Repurchase of Common Stock	0	(28)	
Proceeds from exercise of Stock Options	12	23	
	-----	-----	
Net cash provided or (used) by financing activities	(44,818)	451	
	-----	-----	
NET INCREASE (DECREASE) IN CASH	(77)	(1,036)	
CASH AT BEGINNING OF PERIOD	91	1,113	
	-----	-----	
CASH AT END OF PERIOD	\$ 14	\$ 77	
	=====	=====	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest (including capitalized interest of \$3,124 in 2001)	\$ 4,867	\$ 7,449	
	=====	=====	
Income Taxes (Refunded), Paid	\$ (5,678)	\$ 6,037	

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The accompanying notes are an integral part of these consolidated financial statements.

Cagle's, Inc. & Subsidiary
Notes to Consolidated Condensed Financial Statements
December 28, 2002

1. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments which are of a normal and recurring nature necessary to present fairly the consolidated financial position of Cagle's, Inc. and Subsidiary (the "Company") as of December 28, 2002 and March 30, 2002 and the results of their operations for the 13 weeks and 39 weeks ended December 28, 2002 and December 29, 2001.
2. The results of operations for the 13 weeks and 39 weeks ended December 28, 2002 and December 29, 2001 are not necessarily indicative of the results expected for the full year.

3. Inventories consisted of the following:
(In Thousands)

	December 28, 2002	March 30, 2002
Finished Product	\$ 8,981	\$11,116
Field Inventory and Breeders	16,361	16,789
Feed, Eggs, and Medication	3,576	4,395
Supplies	1,604	1,876
	-----	-----
	\$30,522	\$34,176

4. Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from those estimates.
5. Investments in and Receivables from Unconsolidated Affiliates.
The Company accounts for its investments in its unconsolidated affiliates using the equity method. The Company's share of earnings from these affiliates totaled \$930,000 and \$3,622,000 respectively for the 13 weeks and 39 ended December 28, 2002 and \$3,037,000 and \$8,679,000 for the 13 weeks and 39 ended December 29, 2001. On April 30, 2002 the Company sold its interest in Cagle Foods JV, LLC and Cagles Foods Credit LLC and recorded a gain of \$11,958,535 as other income and on December 13, 2002 the Company sold its minority interest in a rendering company and recorded a gain of \$995,000 as other income.
6. Other Non-recurring Activities
Included in the thirteen weeks ended December 28, 2002 results is \$510,814, Which represents recovery from partial settlement in lawsuits involving vitamin manufacturers. The total recovery reflected in the results reported for the 39 weeks ended December 28, 2002 is \$2,384,814. Also included in the results for the 13 weeks ended December 28, 2002 is \$150,000 of expenses required to complete the settlement agreement reported during the first quarter which ended June 29, 2002.
7. Certain prior year amounts have been re-classified for consistency with current period presentation.

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Management's Discussion and Analysis of Financial
Condition and Results of Operation
December 28, 2002

Financial Condition

The continuation of low and in most cases further erosion of market prices and the resulting losses during the quarter caused further liquidity issues for the Company. During the quarter the Company divested itself of interest in an affiliate and applied the proceeds to its revolving credit facility which has provided some additional availability of funding. This facility and a term loan expires in April, 2003. The Company has retained a consulting group to pursue replacement financing or otherwise raising capital, which has been made more difficult by continued losses and general depressed conditions throughout the poultry industry.

Results of Operations

Net Revenues for the quarter were 15.2% lower than the comparable period of a year ago and 7.8% lower for the 39 week period as compared to the same period of a year ago. This reduction is a reflection of lower prices and reduced volume.

Gross margins were \$10,029,000 lower for the quarter as compared to a year ago and \$14,474,000 lower for the 39 week period as compared to the same period of a year ago. Again pricing and effects of reduced volume on fixed cost are major factors in this change. In addition there have been increases in grain prices over year ago levels which adversely affect costs.

A major factor in low market prices throughout the 39 week period ended December 28, 2002 was the ban on poultry imports put in place by Russia early in the year which further aggravated the oversupply of meat protein in the United States by forcing this product back into the domestic market.

Selling, Delivery and Administrative Expenses

These expenses for the 13 weeks ended December 28, 2002 were essentially unchanged from the previous year; however legal expenses and bank fees are continuing to maintain these expenses at higher than normal levels.

Interest Expense

Interest expense for the 13 week period is higher than for the same period of a year ago due to the increased rates extracted in return for various concessions that have been made on the bank loans, during the quarter and 39 week period compared to a year ago levels. Interest expense for the 39 week period is lower than the comparable period of a year ago due to the overall lower outstanding debt levels, even after the higher rates.

Equity in Earnings of Unconsolidated Affiliates

Reflects the absence of income from joint ventures sold during the year.

Other Income

The increase in other income reflects the gain resulting from the sale of two

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joint ventures in the first quarter and interest in a rendering company in December, less the impact of settlements of several lawsuits of which \$750,000 has been paid and \$650,000 is due to be paid by January 31, 2003, which has been accrued.

Income Taxes

The provision for income taxes reflects the Company's estimated liability (benefit) net of any credits to which the company may be entitled.

Part II Other Information

Item 1 Legal Proceedings

Suit was filed against Cagle's Farms, Inc. on December 18, 1998 in U. S. District Court for the Northern District of Georgia by terminated contract broiler growers. Cagle's, Inc. was subsequently added as a party. These former growers sought unspecified damages and alleged, among other things, that their birds were misweighed on numerous occasions and that they were terminated as growers because of their involvement in a poultry growers association. Cagle's, Inc. and Cagle's Farms, Inc. denied all allegations. In addition to the above mentioned case, a suit was brought against Cagle's, Inc., Cagle's Farms, Inc., Cagle Foods JV, LLC and Cagle Keystone Food JV, LLC on May 12, 1999 in U. S. District Court for the Northern District of Georgia by three contract broiler growers. This suit alleged certain discrepancies in weighing live poultry as it is received at the processing plant and seek unspecified damages. This suit sought class action status, which was denied by the Court. Subsequently, on July 2, 2001, a number of individual contract broiler growers filed suit in U. S. District Court for the Northern District of Georgia, also alleging certain discrepancies in weighing and seeking unspecified damages. Cagle's, Inc. and Cagle's Farms, Inc. denied all allegations. A settlement has been reached covering these three cases.

Item 9 Exhibits and Reports on Form 8-K

- a. Not applicable
- b. No report on Form 8-K was filed during this period.

Signatures

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

/s/ J. Douglas Cagle
Chairman and C.E.O.

Date: February 12, 2003

Certifications

I, J. Douglas Cagle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cagle's, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by

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this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the issuer's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report ("Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on their evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on their most recent evaluation, to the issuer's auditors and the audit committee of the board of directors:

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls; and

6. The registrant's other certifying officers and I have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ J. Douglas Cagle
Chief Executive Officer

Date: February 12, 2003

I, Kenneth R. Barkley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cagle's, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the issuer's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report ("Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on their evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on their most recent evaluation, to the issuer's auditors and the audit committee of the board of directors:

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls; and

6. The registrant's other certifying officers and I have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Kenneth R. Barkley
Chief Financial Officer

Date: February 12, 2003