

CAGLES INC

Form 10-Q

November 15, 2004

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

## FORM 10-Q

(Mark One)

### **(x) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 02, 2004

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

## **CAGLES, INC.**

(Exact name of Registrant as specified in its charter)

GEORGIA 58-0625713 (State or other jurisdiction of (I.R.S. employer incorporation or organization) identification no.)

2000 Hills Ave., Atlanta, Ga, 30318 (Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (404) 355-2820

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 (x) No ( )

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

The Registrant had 4,742,998 shares of Class A Common Stock, outstanding as of October 02, 2004.

## PART 1. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### Cagle's, Inc. & Subsidiary Consolidated Balance Sheets

October 2, 2004 and April 3, 2004

(In Thousands, Except Par Value)

(Period 10/2/04 Unaudited)

	10/02/04	04/03/04
<b>ASSETS -----</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 528	\$ 11
Trade accounts receivable, less allowance for doubtful accounts	12,384	11,662
Inventories	21,119	19,329
Note receivable	417	1,000
Refundable income taxes, current portion	701	1,068
Other current assets	980	657
<b>Total current assets</b>	<b>36,129</b>	<b>33,727</b>
<b>Investments in and receivables from unconsolidated affiliates</b>	<b>5,803</b>	<b>4,041</b>
<b>Property, Plant And Equipment, at cost:</b>		
Land	1,976	1,976
Buildings, machinery and equipment	98,172	101,466
Autos & trucks	4,436	4,639
	104,584	108,081
Less accumulated depreciation	(61,687)	(63,857)
<b>Property, plant and equipment, net</b>	<b>42,897</b>	<b>44,224</b>
<b>OTHER ASSETS</b>		
Long-term refundable income taxes	2,390	2,390
Intangible assets, net	157	169
Deferred income taxes	6,921	11,892
Other assets	3,243	3,576
<b>Total other assets</b>	<b>12,711</b>	<b>18,027</b>
<b>TOTAL ASSETS</b>	<b>\$ 97,540</b>	<b>\$ 100,019</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY -----</b>		

**PART 1. FINANCIAL INFORMATION****CURRENT LIABILITIES:**

<b>Current maturities of long-term debt</b>	<b>\$ 3,004</b>	<b>\$ 2,921</b>
<b>Accounts payable</b>	<b>12,721</b>	<b>18,367</b>
<b>Accrued expenses</b>	<b>5,578</b>	<b>6,675</b>
<b>Deferred income taxes</b>	<b>2,237</b>	<b>2,237</b>
<b>Total Current Liabilities</b>	<b>23,540</b>	<b>30,200</b>
<b>Long-Term Debt</b>	<b>30,157</b>	<b>34,552</b>
<b>Other Noncurrent Liabilities</b>	<b>696</b>	<b>1,000</b>

**STOCKHOLDERS' EQUITY:**

<b>Common stock, \$1 par value; 9,000 shares authorized, 4,744 shares issued and 4,744 shares outstanding</b>	<b>4,744</b>	<b>4,744</b>
<b>Treasury stock, at cost</b>	<b>(80)</b>	<b>(80)</b>
<b>Capital in excess of par value</b>	<b>4,198</b>	<b>4,198</b>
<b>Retained earnings</b>	<b>34,285</b>	<b>25,405</b>
<b>Total Stockholders' Equity</b>	<b>43,147</b>	<b>34,267</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 97,540</b>	<b>\$ 100,019</b>

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

Cagle's, Inc. & Subsidiary

**Consolidated Statements of Income**

For the 13 weeks and 26 weeks ended October 2, 2004

and the 13 weeks and 26 weeks ended September 27, 2003

(In Thousands, except per share data)

(Unaudited)

	13 Weeks ended 10/2/2004	13 Weeks ended 9/27/2003	26 Weeks ended 10/2/2004	26 Weeks ended 9/27/2003
<b>Net Sales</b>	<b>\$ 64,021</b>	<b>\$ 85,332</b>	<b>\$ 131,173</b>	<b>\$ 157,782</b>
<b>Costs and Expenses:</b>				
<b>Cost of Sales</b>	<b>57,642</b>	<b>79,515</b>	<b>112,697</b>	<b>152,102</b>
<b>Selling and Delivery</b>	<b>1,644</b>	<b>2,286</b>	<b>3,211</b>	<b>4,310</b>
<b>General and Administrative</b>	<b>1,612</b>	<b>2,643</b>	<b>2,966</b>	<b>4,731</b>
<b>Total costs and expenses</b>	<b>60,898</b>	<b>84,444</b>	<b>118,874</b>	<b>161,143</b>
<b>Operating income (loss)</b>	<b>3,123</b>	<b>887</b>	<b>12,299</b>	<b>(3,362)</b>
<b>Other Income(Expense):</b>				
<b>Interest expense</b>	<b>(649)</b>	<b>(2,063)</b>	<b>(1,350)</b>	<b>(3,841)</b>
<b>Other Income, Net</b>	<b>658</b>	<b>(8)</b>	<b>671</b>	<b>(6)</b>

**Cagle's, Inc. & Subsidiary****Earnings or (Loss) Before equity in earnings of**

<b>unconsolidated affiliates and income taxes</b>	3,132	(1,184)	11,620	(7,209)
<b>Equity in earnings of unconsolidated affiliates</b>	1,116	823	2,232	1,556
<b>Income(Loss) before income taxes</b>	4,248	(361)	13,852	(5,653)
<b>Income Taxes Provision(Benefit)</b>	1,529	(117)	4,971	(2,020)
<b>Net Income(Loss)</b>	\$ 2,719	\$ (244)	\$ 8,881	\$ (3,633)

**Weighted Average Shares Outstanding**

<b>-Basic</b>	4,743	4,747	4,743	4,746
<b>-Diluted</b>	4,743	4,747	4,743	4,746

**Net Income(Loss) Per Common Share**

<b>-Basic</b>	\$ 0.57	\$ (0.05)	\$ 1.87	\$ (0.77)
<b>-Diluted</b>	\$ 0.57	\$ (0.05)	\$ 1.87	\$ (0.77)
<b>Dividends Per Common Share</b>	\$ -	\$ -	\$ -	\$ -

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

Cagle's, Inc. & Subsidiary Consolidated Statements of Cash Flows For the 26 weeks ended October 2, 2004 and September 27, 2003 (In Thousands) (Unaudited)

10/2/2004 9/27/2003 CASH FLOWS FROM OPERATING ACTIVITIES: Net Income (Loss) \$ 8,881 \$ (3,633)

Adjustments to reconcile net income (loss) to net cash provided by operating activities: Cagle's, Inc. & Subsidiary  
Notes to Consolidated Condensed Financial Statements October 2, 2004

<b>Depreciation and amortization</b>	<b>1,927</b>	<b>6,321</b>
<b>Gain on sales of property, plant &amp; equip.</b>	(672)	0
<b>Changes in assets and liabilities:</b>		
<b>Income from unconsolidated affiliates, net of distributions</b>	(1,762)	(191)
<b>Deferred Income Taxes</b>	4,971	(2,161)
<b>Accounts receivables, net</b>	(722)	(2,549)
<b>Income Tax Receivables</b>	367	0
<b>Inventories</b>	(1,790)	1,118
<b>Note receivable</b>	583	0
<b>Other current assets</b>	(323)	(2,170)
<b>Accounts payable</b>	(5,950)	112
<b>Accrued expenses</b>	(1,097)	1,805
<b>Total Adjustments</b>	(4,468)	2,285
<b>Net cash provided (used) by operating activities</b>	<b>4,413</b>	<b>(1,348)</b>

<b>Depreciation and amortization</b>	<b>1,927</b>	<b>6,321</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
<b>Proceeds from sale of property, plant &amp; equipment</b>	673	0
<b>Additions to property, plant, and equipment</b>	(590)	(268)
<b>(Increase) decrease in Other Assets</b>	333	736
<b>Net cash provided (used) by investing activities</b>	<b>\$ 416</b>	<b>\$ 468</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
<b>Payments of long-term debt and capital lease obligations</b>	(4,312)	(3,492)
<b>Proceeds from issuance of long-term debt</b>	0	4,667
<b>Net cash provided (used) by financing activities</b>	(4,312)	1,175
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 517</b>	<b>\$ 295</b>
<b>CASH AT BEGINNING OF PERIOD</b>	11	100
<b>CASH AT END OF PERIOD</b>	<b>\$ 528</b>	<b>\$ 395</b>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

<b>Cash paid during the period for: Interest</b>	1,355	3,368
<b>Income Taxes (Refunded), Paid</b>	255	0

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

1. Basis of Presentation

Interim Period Accounting Policies 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 October 2, 2004 and April 3, 2004 and the results of their operations for the 13 and 26 weeks ended October 2, 2004 and the 13 and 26 weeks ended September 27, 2003. Results of operations for the 13 and 26 weeks ended October 2, 2004 are not necessarily indicative of results to be expected for the full fiscal year ending April 2, 2005.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements. Although the Company believes that the disclosures in these unaudited condensed consolidated financial statements are adequate to make the information presented for the interim periods not misleading, certain information and footnote information normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, and these financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's annual report to shareholders for the fiscal year ended April 3, 2004.

1. Computation of net income per share

1. Investments in Unconsolidated Affiliates

2. The Company accounts for its investments in its unconsolidated affiliates using the equity method.

The Company's share of earnings from these affiliates totaled \$1,116 for the 13 weeks ended October 2, 2004, and \$823 for the 13 weeks ended September 27, 2003. The Company's share of earnings

from these affiliates totaled \$2,232 for the 26 weeks ended October 2, 2004, and \$1,556 for the 26 weeks ended September 27, 2003.

1. Other Non-Recurring Activities

2. During the 26 weeks ended October 2, 2004 the Company had no non-recurring activity. During the 26 weeks ended September 27, 2003 the Company received \$1,816 as recovery in a lawsuit involving vitamin manufacturers and a class action settlement involving methionine manufactures. This represents recovery of overcharges for ingredients of poultry feed and as such was recorded as a credit to cost of sales.

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

The following table sets forth the computation of basic and diluted earnings per share:

		13 Weeks ended 10/2/2004	13 Weeks ended 9/27/2003	26 Weeks ended 10/2/2004	26 Weeks Ended 9/27/2003
Net Income(Loss)	\$ 2,719		\$ (244)	\$ 8,881	\$ (3,633)
Weighted Average Shares Outstanding					
-Basic		4,743	4,747	4,743	4,746
-Diluted		4,743	4,747	4,743	4,746
Net Income(Loss) Per Common Share					
-Basic	\$ 0.57	\$ (0.05)	\$ 1.87	\$ (0.77)	
-Diluted	\$ 0.57	\$ (0.05)	\$ 1.87	\$ (0.77)	
Dividends Per Common Share	\$ -	\$ -	\$ -	\$ -	

October 2, 2004 April 3, 2004

Processed Poultry \$ 4,709 \$ 2,918

Live Poultry-Broilers & Breeders 12,883 12,762

Feed, Eggs, and Medication 2,762 2,881

\$ 21,119 \$ 19,329

## 6. Discontinued operations

The following table details effects of discontinued operations on the previous period's Income Statement as adjusted to

Supplies 765 768

**remove effects of discontinued operations.**As ReportedAs AdjustedAs ReportedAs Adjusted13 wks ended13 wks ended26 wks ended26 wks ended 9/27/20039/27/2003 9/27/20039/27/2003Net Sales\$85,332 \$48,838\$157,782\$89,368Costs and Expenses:Cost of Sales79,51541,929152,10278,316Selling and Delivery2,2861,8644,3103,700General and Administrative 2,6432,3284,7314,090Total costs and expenses84,44446,121161,14386,106Income or (Loss) From Operations8872,717(3,362)3,262Other Income(Expense):Interest expense(2,063)(2,064)(3,841)(3,841)Other Income, Net(8)(8)(6)(7)Earnings or (Loss)

**Before equity in earnings of unconsolidated affiliates and income taxes**(1,184)645(7,209)(586)**Equity in earnings of unconsolidated affiliates**8238231,5561,556**Income(Loss) before income taxes**(361)1,468(5,653)970**Income Taxes Provision (Benefit)**(117)528(2,020)349**Net Income(Loss)**\$(244)\$939\$(3,633)\$621**Weighted Average Shares Outstanding-Basic**4,7474,7434,7474,747**Diluted**4,7474,7434,7474,747**Net Income (Loss) Per Common Share-Basic**\$(0.05)\$0.20\$(0.77)\$0.13**Diluted**\$(0.05)\$0.20\$(0.77)\$0.13**Dividends Per Common Share**\$\$\$-\$7.

## Major accounting policies

Refer to the company's 2004 annual report on Form 10-K for a description of major accounting policies. There have been no material changes to these accounting policies.

### 8. 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 and 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.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations October 2, 2004

The disclosures in this quarterly report are complementary to those made in the company's 2004 annual report on Form 10-K.

### Results of Operations

Reference below recap of key statistical variances, where the as reported columns recap results for the current 13 week period and 26 week period ended October 2, 2004 as compared to reported results for the 13 week and 26 week period ended September 27, 2003. The as adjusted columns remove from the as reported, the effect of the sale of the Perry, Ga. complex and compare the same 13 and 26 week periods.

	<b>As Reported</b>	<b>As Adjusted</b>	<b>As Reported</b>	<b>As Adjusted</b>
	<b>a year ago</b>	<b>a year ago</b>	<b>a year ago</b>	<b>a year ago</b>
	<b>compared to</b>	<b>compared to</b>	<b>compared to</b>	<b>compared to</b>
	<b>current period</b>	<b>current period</b>	<b>26 wk period</b>	<b>26 wk period</b>
	<b>% Change</b>	<b>% Change</b>	<b>% Change</b>	<b>% Change</b>
<b>Sales Tonnage</b>	(30)%	6%	(35)%	(1)%
<b>Sales Dollars</b>	(25)%	31%	(17)%	47%
<b>Total Costs and Expenses</b>	(28)%	32%	(26)%	38%

(As Adjusted column numbers are adjusted to eliminate from As Reported column the effect of the sale of a complex in the previous year)

Net sales for the second quarter of fiscal 2005 were \$64.02 million compared with \$48.84 million for the same period, as adjusted a year ago, an increase of 31%. For the quarter, net income improved to \$2.72 million or \$.57 per diluted share as compared to a \$939 thousand or \$.20 per diluted share for the second quarter of fiscal 2004. Pounds sold increased 6% for the second quarter 2005 as compared with the second quarter 2004 as we continue to move

towards full capacity at our processing facilities. Our facilities are currently operating at 90.5% of capacity.

Net sales for the first six months of fiscal 2005 were \$131.17 million compared with \$89.37 million for the same period, as adjusted of fiscal 2004. Net income for the first six months of the year totaled \$8.88 million or \$1.87 per diluted share as compared to \$.62 million or \$.13 per diluted share for the first six months of last year. Pounds sold increased 1.4% for the first six months of fiscal 2005 compared to the same period last year indicating the aforementioned increase in processed volume.

Market prices for poultry products reached record levels during the first quarter of fiscal 2005 but have since fallen dramatically. The market price for boneless breast for the second quarter of fiscal 2005 averaged \$1.86 as compared with the first quarter of 2005 average of \$2.39 per pound. Overall revenue per pound for the Company's product for the second quarter of fiscal 2005 was \$.7326 as compared to \$.5927 for the same period of fiscal 2004. Revenue per pound for the first six months of fiscal 2005 was \$.8464 compared to \$.5687 for the first six months of fiscal 2004. Current markets have continued to deteriorate with boneless breast markets at \$1.34 and average revenue per pound falling to the mid \$.60's level. Company market prices are expected to moderate with the coming holiday season and as we shift our production away from commodity based sales. Leading indicators point towards a slowing of industry expansion into 2005 which should support higher market returns for our products.

Cost of sales for the second quarter of 2005 increased 37% as compared with the second quarter of 2004, from \$41.9 million to \$57.6 million. For the six month period cost of sales increased from \$78.3 million to \$112.7 million, or 44%. The increases are due in large part to increased feed prices during the periods and increased volumes as noted. Feed ingredient prices for broilers processed the second quarter of fiscal 2005 increased 25.4% compared to the second quarter last year. Feed prices for broilers processed for the first six months of fiscal 2005 increased 27.4% compared to the same period last year. Current feed prices are down 38% as a result of record corn and soybean crops and are expected to remain low for the remainder of this fiscal year. In addition, during the 13 weeks ended September 27, 2003 the Company received \$1,816 as recovery in a lawsuit involving vitamin manufacturers and a class action settlement involving methionine manufacturers. During the 26 weeks ended September 27, 2003 the Company received \$1,874 as recovery in a lawsuit involving vitamin manufacturers and a class action settlement involving methionine manufacturers.

#### Financial Condition

As of October 2, 2004, the Company's working capital was \$12.6 million and its current ratio was 1.53 to 1. The Company's working capital at April 03, 2004 was \$3.5 million and its current ratio was 1.12 to 1. The Company has spent \$590 thousand on capital projects in the first six months of fiscal 2005. We believe that our cash flow provided by operations will be adequate to cover our fiscal 2005 working capital needs, debt service requirements and planned capital expenditures to the extent such items are known or are reasonably determinable based on current business and market conditions. However, we may elect to finance certain of our capital expenditure requirements through borrowings under our credit facilities or operating leases.

#### Selling, Delivery and Administrative Expenses

As a group, these expenses decreased 34% for the 13 weeks, and 32% for the 26 weeks, ended October 2, 2004 versus actual reported numbers for the 13 and 26 weeks ended September 27, 2003; after adjusting the 13 and 26 weeks ended September 27, 2003 for the complex disposition these expenses decreased 22% for the 13 weeks and 21% for the 26 weeks. Major reductions were generated by reductions in payroll, commissions, professional and bank fees.

#### Interest Expense



Interest expense decreased 69% for the 13 weeks, and 65% for the 26 weeks, ended October 2, 2004 versus the 13 and 26 weeks ended September 27, 2003. This is reflective of decreased borrowings and lower interest rates than a year ago.

#### Other Income

During the 13 weeks and 26 weeks ended October 2, 2004, the Company had no non-recurring activity. During the 13 ended September 27, 2003 the Company received \$1,816 as recovery in a lawsuit involving vitamin manufacturers and a class action settlement involving methionine manufacturers. During the 26 ended September 27, 2003 the Company received \$1,874 as recovery in a lawsuit involving vitamin manufacturers and a class action settlement involving methionine manufacturers.

#### Equity in Earnings of Unconsolidated Affiliates

The Company's interest in earnings of unconsolidated affiliates was \$1,116 for the 13 weeks and \$2,232 for the 26 weeks ended October 2, 2004. These earnings reflect a 36% increase for the 13 weeks and a 43% increase for the 26 weeks as compared to September 27, 2003. These increases resulted from greater volume.

#### Income Taxes

The provision for income taxes reflects the Company's estimated liability for income taxes net of any credits to which the Company may be entitled. The Company has classified the income tax benefit as a non-current tax asset in anticipation of application of loss carry forwards in future periods.

### Item 3: Quantitative and Qualitative Disclosures about Market Risk

#### Risk Factors

Industry cyclicalities can affect our earnings, especially due to fluctuations in commodity prices of feed ingredients and chicken. Profitability in the chicken industry is materially affected by the commodity prices of chicken and feed ingredients, which are determined by supply and demand factors, which result in cyclical earnings fluctuations. The production of feed ingredients is positively or negatively affected primarily by weather patterns throughout the world, the global level of supply inventories and demand for feed ingredients, and the agricultural policies of the United States and foreign governments. In particular, weather patterns often change agricultural conditions in an unpredictable manner. A sudden and significant change in weather patterns could affect supplies of feed ingredients, as well as both the industry's and our ability to obtain feed ingredients, grow chickens and deliver products. High feed ingredient prices have had a material adverse effect on our operating results in the past. We periodically seek, to the extent available, to enter into advance purchase commitments for the purchase of feed ingredients in an effort to manage our feed ingredient costs. The use of such instruments may not be successful.

Leverage. Our indebtedness could adversely affect our financial condition. We presently have, and expect to continue to have, an amount of indebtedness. Our indebtedness could have important consequences to stockholders. For example, it could: increase our vulnerability to general adverse economic conditions; require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes; limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; place us at a competitive disadvantage compared to our competitors that have less debt; limit, along with the financial and other restrictive covenants in our indebtedness, our ability to borrow additional funds, and failing to comply with those covenants could result in an event of default or require redemption of indebtedness. Either of these events could have a material adverse effect on us. Our ability to make payments on and to refinance our indebtedness will depend on our ability to generate cash in the future, which is dependent on various factors. These factors include the

commodity prices of feed ingredients and chicken and general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

**Additional Borrowings Available.** Despite our indebtedness, we are not prohibited from incurring additional indebtedness in the future.

**Contamination of Products.** If our products become contaminated, we may be subject to product liability claims and product recalls.

**Livestock and Poultry Disease.** Outbreaks of livestock diseases in general and poultry disease in particular, can significantly restrict our ability to conduct our operations. We take all reasonable precautions to ensure that our flocks are healthy and that our processing plants and other facilities operate in a sanitary and environmentally sound manner. However, events beyond our control, such as the outbreak of disease, could significantly restrict our ability to conduct our operations. Furthermore, an outbreak of disease could result in governmental restrictions on the import and export of our fresh chicken, to or from our suppliers, facilities or customers, or require us to destroy one or more of our flocks. This could result in the cancellation of orders by our customers and create adverse publicity that may have a material adverse effect on our ability to market our products successfully and on our business, reputation and prospects. **Insurance.** We are exposed to risks relating to product liability, product recall, property damage and injuries to persons for which insurance coverage is expensive, limited and potentially inadequate.

**Significant Competition.** Competition in the chicken industry with other vertically integrated poultry companies could adversely affect our business.

**Government Regulation.** Regulation, present and future, is a constant factor affecting our business. The chicken industry is subject to federal, state and local governmental regulation, including health and environmental areas. We anticipate increased regulation by various agencies concerning food safety, the use of medication in feed formulations and the disposal of poultry by-products and wastewater discharges. Unknown matters, new laws and regulations, or stricter interpretations of existing laws or regulations may materially affect our business or operations in the future.

**Cautionary Statements Relevant To Forward-Looking Information For The Purpose Of "Safe Harbor" Provisions Of The Private Securities Litigation Reform Act Of 1995**

The Company and its representatives may from time to time make written or oral forward-looking statements, including forward-looking statements made in this report, with respect to their current views and estimates of future economic circumstances, industry conditions, company performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties which could cause the Company's actual results and experiences to differ materially from the anticipated results and expectations, expressed in such forward-looking statements. The Company wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. Among the factors that may affect the operating results of the Company are the following: (1) fluctuations in the cost and availability of raw materials, such as feed grain costs; (2) changes in the availability and relative costs of labor and contract growers; (3) operating efficiencies of facilities; (4) market conditions for finished products, including the supply and pricing of

alternative proteins; (5) effectiveness of marketing programs and advertising; (6) risks associated with leverage, including cost increases due to rising interest rates; (7) risks associated with effectively evaluating derivatives and hedging activities; (8) changes in regulations and laws, including changes in accounting standards, environmental laws and occupational, health and safety laws; (9) issues related to food safety, including costs resulting from product recalls, regulatory compliance and any related claims or litigation; (10) adverse results from on-going litigation; (11) access to foreign markets together with foreign economic conditions, including currency fluctuations and import/export restrictions; and (12) the effect of, or changes in, general economic conditions. We undertake no obligation to revise or update any forward-looking statements for any reason.

#### Item 4. Controls and Procedures.

##### Evaluation of disclosure controls and procedures.

The term “disclosure controls and procedures” (defined in SEC Rule 13a-15(e)) refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported within required time periods. The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this quarterly report (the “Evaluation Date”). Based on that evaluation,

the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such controls and procedures were effective.

Changes in internal controls.

The term "internal control over financial reporting" (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed 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. The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated any changes in the Company's internal control over financial reporting that occurred during the period covered by this quarterly report, and they have concluded that there was no change to the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II Other Information

### Item 1. Legal Proceedings

Two suits were filed in the U.S. District Court for the Middle district of Georgia on June 15, 2001 and June 22, 2001 against Cagle's, Inc., Cagle's Farms, Inc., Cagle Foods JV LLC d/b/a Cagle-Keystone Foods. These two suits were brought by different contract growers seeking unspecified damages and alleging the defendants misrepresented certain facts regarding profitability and cash flow as an inducement to their becoming contract producers. During fiscal year 2004, Summary Judgment was granted in the June 22, 2001 suit in favor all defendants and during fiscal year 2004, the Plaintiff appealed the summary judgment ruling. Subsequent to the end of the fiscal year, the Court of appeals dismissed the appeal as lacking in jurisdiction because final judgment had not been rendered in the case. In fiscal 2004, final judgment was entered and the Plaintiff filed a new appeal, but that appeal was dismissed when Plaintiff's original appeal was reinstated. The Company intends to vigorously defend this appeal.

With regard to the case filed on June 15, 2001, summary judgment was entered in favor of Cagle's, Inc. and Cagle's Farms, Inc. during fiscal year 2004. Subsequent to the end of Fiscal 2004, summary judgment in the case was ultimately entered in favor of all defendants and the Plaintiff has filed a notice of appeal. The Company intends to vigorously defend this appeal.

Other than those actions listed above, the Company is routinely involved in various lawsuits and legal matters on an ongoing basis as a result of day to day operations; however, the Company does not believe that the ultimate resolution of these matters will have a material adverse effect on the Company or its business.

Item 2. Changes in Securities and Use of Proceeds None.

Item 3. Defaults upon Senior Securities None.

Item 4. Submission of Matters to a Vote of Security Holders None

Item 5. Other Information None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

1. Articles of Incorporation of the Registrant.
2. Bylaws of the Registrant.

3. Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
4. Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
5. Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
6. Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K filed during the three months ended October 2, 2004

1. The Company filed an 8-K on November 4, 2004, to furnish a press release announcing its results of operations for the second quarter of 2005. No other reports on Form 8-K were filed during the second quarter of ended October 2, 2004.

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.

Date: 11/12/04 /s/ J. Douglas Cagle /s/ Mark M. Ham IV Chairman and C.E.O. Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, J. Douglas Cagle, Chairman and Chief Executive Officer of Cagle's, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended October 2, 2004 of Cagle's, Inc.;
2. Based on my knowledge, this 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;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual

report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2004 By: /s/ J. Douglas Cagle

J. Douglas Cagle Chief Executive Officer CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark M. Ham IV, Chief Financial Officer of Cagle's, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended October 2, 2004 of Cagle's, Inc.;
2. Based on my knowledge, this 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;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control

over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2004 By: /s/ Mark M. Ham IV Mark M. Ham IV Chief Financial Officer CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q of Cagle's, Inc. for the period ended October 2, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, J. Douglas Cagle, Chief Executive Officer of Cagle's, Inc., certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, and
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2004 By: /s/ J. Douglas Cagle

J. Douglas Cagle Chief Executive Officer CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q of Cagle's, Inc. for the period ended October 2, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Mark M. Ham IV, Chief Financial Officer of Cagle's, Inc., certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, and
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2004 By: /s/ Mark M. Ham IV Mark M. Ham IV Chief Financial Officer