

CENTRAL GARDEN & PET CO
Form 10-Q
February 04, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 26, 2009

or

TRANSITION REPORT PURSUANT OF SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-33268

CENTRAL GARDEN & PET COMPANY

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Delaware
(State or other jurisdiction
of incorporation or organization)

68-0275553
(I.R.S. Employer
Identification No.)

1340 Treat Blvd., Suite 600, Walnut Creek, California 94597

(Address of principle executive offices)

(925) 948-4000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Common Stock Outstanding as of January 31, 2010	17,057,533
Class A Common Stock Outstanding as of January 31, 2010	45,727,431
Class B Stock Outstanding as of January 31, 2010	1,652,262

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Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This Form 10-Q includes forward-looking statements. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries and economies in which we operate and other information that is not historical information. When used in this Form 10-Q, the words estimates, expects, anticipates, projects, plans, intends, believes and, variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith, and we believe there is a reasonable basis for them, but we cannot assure you that our expectations, beliefs and projections will be realized.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Form 10-Q. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Form 10-Q are set forth in our Form 10-K for the fiscal year ended September 26, 2009 including the factors described in the section entitled Risk Factors. If any of these risks or uncertainties materialize, or if any of our underlying assumptions are incorrect, our actual results may differ significantly from the results that we express in or imply by any of our forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances. Presently known risk factors include, but are not limited to, the following factors:

seasonality and fluctuations in our operating results and cash flow;

fluctuations in market prices for seeds and grains;

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declines in consumer spending during economic downturns;

inflation, deflation and other adverse macro-economic conditions;

supply shortages in small animals and pet birds;

adverse weather conditions;

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fluctuations in energy prices, fuel and related petrochemical costs;

our ability to refinance our indebtedness on reasonable terms;

future reductions in our debt capacity in the event of a future deterioration in operating results;

access to and cost of additional capital;

dependence on a few customers for a significant portion of our business;

consolidation trends in the retail industry;

uncertainty about new product innovations and marketing programs;

competition in our industries;

risks associated with our acquisition strategy;

dependence upon our key executive officers;

implementation of a new enterprise resource planning information technology system;

potential environmental liabilities;

risk associated with international sourcing;

litigation and product liability claims;

the voting power associated with our Class B stock; and

potential dilution from issuance of authorized shares.

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(in thousands, except share and per share amounts)

Unaudited

	December 27, 2008	December 26, 2009	(See Note 1) September 26, 2008
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,862	\$ 91,791	\$ 85,668
Accounts receivable (less allowance for doubtful accounts of \$14,192, \$17,890 and \$18,014)	165,681	128,991	206,565
Inventories	393,702	327,403	284,834
Prepaid expenses and other	41,207	48,023	44,425
Total current assets	609,452	596,208	621,492
Land, buildings, improvements and equipment net	171,616	162,336	164,734
Goodwill	201,499	207,749	207,749
Other intangible assets net	106,493	102,236	103,366
Deferred income taxes and other assets	105,301	53,448	53,584
Total	\$ 1,194,361	\$ 1,121,977	\$ 1,150,925
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 120,936	\$ 117,635	\$ 108,836
Accrued expenses	78,268	83,091	82,143
Current portion of long-term debt	3,332	3,256	3,270
Total current liabilities	202,536	203,982	194,249
Long-term debt	487,721	404,007	404,815
Other long-term obligations	6,663	4,405	4,526
Shareholders equity:			
Common stock, \$.01 par value: 20,763,918, 17,125,695 and 18,777,155 shares outstanding at December 27, 2008, December 26, 2009 and September 26, 2009	208	171	188
Class A common stock, \$.01 par value: 47,967,785, 45,745,191 and 47,532,954 shares outstanding at December 27, 2008, December 26, 2009 and September 26, 2009	480	458	475
Class B stock, \$.01 par value: 1,652,262 shares outstanding	16	16	16
Additional paid-in capital	552,893	505,568	531,300
Accumulated earnings (deficit)	(56,647)	2,309	12,044
Accumulated other comprehensive income	32	1,101	1,062
Total Central Garden & Pet Company shareholders equity	496,982	509,623	545,085

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Noncontrolling interest	459	(40)	2,250
Total shareholders' equity	497,441	509,583	547,335
Total	\$ 1,194,361	\$ 1,121,977	\$ 1,150,925

See notes to condensed consolidated financial statements.

Table of Contents**CENTRAL GARDEN & PET COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts)****(unaudited)**

	Three Months Ended	
	December 27, 2008	December 26, 2009
Net sales	\$ 292,542	\$ 269,236
Cost of goods sold and occupancy	207,061	181,467
Gross profit	85,481	87,769
Selling, general and administrative expenses	88,147	87,248
Income (loss) from operations	(2,666)	521
Interest expense	(6,884)	(4,944)
Interest income	332	10
Other income (expense)	(950)	592
Loss before income tax benefit	(10,168)	(3,821)
Income tax benefit	(3,853)	(1,402)
Loss including noncontrolling interest	(6,315)	(2,419)
Net income (loss) attributable to noncontrolling interest	(131)	475
Net loss attributable to Central Garden & Pet Company	\$ (6,184)	\$ (2,894)
Net loss per share attributable to Central Garden & Pet Company:		
Basic and diluted	\$ (0.09)	\$ (0.04)
Weighted average shares used in the computation of net loss per share:		
Basic and diluted	70,519	66,828

See notes to condensed consolidated financial statements.

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	Three Months Ended	
	December 27, 2008	December 26, 2009
Cash flows from operating activities:		
Net loss	\$ (6,315)	\$ (2,419)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,474	7,231
Stock-based compensation	1,072	1,846
Excess tax benefits from stock-based awards		(196)
Deferred income taxes	(365)	(519)
(Gain) loss on sale of property and equipment	(11)	112
Gain on termination of interest rate swap		(142)
Change in assets and liabilities:		
Accounts receivable	94,061	77,578
Inventories	(46,805)	(42,522)
Prepaid expenses and other assets	(3,554)	(2,948)
Accounts payable	(12,769)	7,946
Accrued expenses	(6,335)	(1,558)
Other long-term obligations	(374)	(121)
Net cash provided by operating activities	26,079	44,288
Cash flows from investing activities:		
Additions to property and equipment	(3,889)	(2,612)
Restricted investments	(331)	
Net cash used in investing activities	(4,220)	(2,612)
Cash flows from financing activities:		
Borrowings on revolving line of credit	148,000	
Repayments of revolving line of credit	(160,000)	
Repayments of long-term debt	(22,486)	(823)
Proceeds from issuance of common stock		295
Repurchase of common stock	(2,866)	(32,450)
Distribution to noncontrolling interest	(2,082)	(2,761)
Excess tax benefits from stock-based awards		196
Net cash used in financing activities	(39,434)	(35,543)
Effect of exchange rate changes on cash and cash equivalents	(492)	(10)
Net (decrease) increase in cash and cash equivalents	(18,0)	