

CENTRAL GARDEN & PET CO
Form 10-Q
May 07, 2009
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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 March 28, 2009

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: 001-33268

CENTRAL GARDEN & PET COMPANY

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)

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(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 April 30, 2009 | 19,684,899 |
| Class A Common Stock Outstanding as of April 30, 2009 | 48,446,286 |
| Class B Stock Outstanding as of April 30, 2009 | 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, 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 27, 2008 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 and adverse macro-economic conditions;

supply shortages in small animals and pet birds;

adverse weather conditions;

fluctuations in energy prices, fuel and related petrochemical costs;

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inability to comply with the terms of our indebtedness;

limitations in our debt capacity as a result of deterioration in operating results coupled with our current outstanding indebtedness and seasonal borrowing needs;

impact of stock price decline on raising capital and dilution;

access to 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.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CENTRAL GARDEN & PET COMPANY****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

| | Unaudited | | (See Note 1) |
|--|---------------------|---------------------|-----------------------|
| | March 29, 2008 | March 28, 2009 | September 27, 2008 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 7,577 | \$ 8,545 | \$ 26,929 |
| Accounts receivable (less allowance for doubtful accounts of \$14,420, \$13,393 and \$15,181) | 342,528 | 317,713 | 260,639 |
| Inventories | 416,848 | 380,156 | 349,499 |
| Prepaid expenses and other | 33,953 | 40,030 | 34,686 |
| Total current assets | 800,906 | 746,444 | 671,753 |
| Land, buildings, improvements and equipment net | 196,204 | 168,536 | 174,013 |
| Goodwill | 204,562 | 207,173 | 201,499 |
| Other intangible assets net | 98,797 | 105,520 | 107,404 |
| Deferred income taxes and other assets | 131,827 | 84,505 | 104,649 |
| Total | \$ 1,432,296 | \$ 1,312,178 | \$ 1,259,318 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 126,946 | \$ 137,558 | \$ 133,364 |
| Accrued expenses | 92,510 | 94,571 | 84,345 |
| Current portion of long-term debt | 3,350 | 3,322 | 3,340 |
| Total current liabilities | 222,806 | 235,451 | 221,049 |
| Long-term debt | 692,141 | 543,629 | 519,807 |
| Other long-term obligations | 4,740 | 6,379 | 7,037 |
| Minority interest | 2,297 | 1,003 | 2,667 |
| Shareholders' equity: | | | |
| Common stock, \$.01 par value: 22,280,305, 19,683,660 and 21,008,384 shares outstanding at March 29, 2008, March 28, 2009 and September 27, 2008 | 221 | 197 | 210 |
| Class A common stock, \$.01 par value: 48,221,552, 48,381,234 and 48,466,999 shares outstanding at March 29, 2008, March 28, 2009 and September 27, 2008 | 482 | 484 | 485 |
| Class B stock, \$.01 par value: 1,652,262 shares outstanding | 16 | 16 | 16 |
| Additional paid-in capital | 557,541 | 548,955 | 555,310 |
| Accumulated deficit | (52,201) | (23,627) | (50,463) |
| Accumulated other comprehensive income (loss) | 4,253 | (309) | 3,200 |
| Total shareholders' equity | 510,312 | 525,716 | 508,758 |
| Total | \$ 1,432,296 | \$ 1,312,178 | \$ 1,259,318 |

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 | | Six Months Ended | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | March 29, 2008 | March 28, 2009 | March 29, 2008 | March 28, 2009 |
| Net sales | \$ 484,688 | \$ 476,425 | \$ 798,473 | \$ 768,967 |
| Cost of goods sold and occupancy | 324,878 | 315,872 | 544,341 | 522,933 |
| Gross profit | 159,810 | 160,553 | 254,132 | 246,034 |
| Selling, general and administrative expenses | 115,160 | 103,397 | 200,096 | 191,544 |
| Goodwill and other impairments | | | 400,000 | |
| Income (loss) from operations | 44,650 | 57,156 | (345,964) | 54,490 |
| Interest expense | (9,780) | (5,751) | (21,285) | (12,635) |
| Interest income | 266 | 270 | 554 | 602 |
| Other income (expense) | 1,191 | (131) | 1,674 | (1,081) |
| Income (loss) before income taxes (tax benefit) and minority interest | 36,327 | 51,544 | (365,021) | 41,376 |
| Income taxes (tax benefit) | 15,403 | 17,980 | (96,411) | 14,127 |
| Minority interest | 471 | 544 | 463 | 413 |
| Net income (loss) | \$ 20,453 | \$ 33,020 | \$ (269,073) | \$ 26,836 |
| Net income (loss) per share: | | | | |
| Basic | \$ 0.29 | \$ 0.48 | \$ (3.77) | \$ 0.38 |
| Diluted | \$ 0.28 | \$ 0.47 | \$ (3.77) | \$ 0.38 |
| Weighted average shares used in the computation of net income (loss) per share: | | | | |
| Basic | 71,427 | 69,122 | 71,295 | 70,122 |
| Diluted | 72,035 | 69,872 | 71,295 | 70,588 |

See notes to condensed consolidated financial statements.

Table of Contents**CENTRAL GARDEN & PET COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

| | Six Months Ended | |
|--|---------------------------|---------------------------|
| | March 29, 2008 | March 28, 2009 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (269,073) | \$ 26,836 |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 16,069 | 14,696 |
| Stock-based compensation | 6,767 | 6,383 |
| Excess tax benefits from stock-based awards | (24) | (74) |
| Minority interest | 463 | 413 |
| Deferred income taxes | (113,419) | (682) |
| Gain on sales of property | (7,931) | |
| Loss on sale of a business and equipment | 1,592 | 435 |
| Goodwill impairment | 400,000 | |
| Other impairments | 2,000 | |
| Proceeds from interest rate swap termination, net of amounts reclassified into earnings | | 2,186 |
| Change in assets and liabilities (excluding businesses acquired): | | |
| Accounts receivable | (94,975) | (58,301) |
| Inventories | (37,116) | (33,454) |
| Prepaid expenses and other assets | 7,747 | 1,273 |
| Accounts payable | (10,621) | 3,607 |
| Accrued expenses | 11,192 | 10,526 |
| Other long-term obligations | (1,248) | (658) |
| Net cash used in operating activities | (88,577) | (26,814) |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (13,132) | (7,110) |
| Proceeds from property sales, net of expenses | 12,053 | |
| Businesses acquired, net of cash acquired | (4,998) | (4,799) |
| Restricted investments | (39) | |