

CENTRAL GARDEN & PET CO
Form 10-Q
February 07, 2013
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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 29, 2012

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)
68-0275553
(I.R.S. Employer
of incorporation or organization) 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, 2013	12,247,359
Class A Common Stock Outstanding as of January 31, 2013	35,053,731
Class B Stock Outstanding as of January 31, 2013	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, projected cost savings, 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 industry 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, including, without limitation, our examination of historical operating trends, 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 this Form 10-K for the fiscal year ended September 29, 2012, including the factors described in the section entitled Item 1A 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:

the success of our transformational change initiatives;

disruptions in our business as we implement our transformational change initiatives and the resulting consequences to our business and results of operations;

increased costs and expenses associated with our transformational change initiatives;

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seasonality and fluctuations in our operating results and cash flow;

fluctuations in market prices for seeds and grains and other raw materials;

our ability to pass through cost increases in a timely manner;

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;

fluctuations in energy prices, fuel and related petrochemical costs;

access to and cost of additional capital;

dependence on a small number of 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 executives;

implementation of a new enterprise resource planning information technology system;

our ability to protect our intellectual property rights;

potential environmental liabilities;

risk associated with international sourcing;

litigation and product liability claims;

regulatory issues;

the impact of product recalls;

potential costs and risks associated with actual or anticipated cyber attacks;

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 29, 2012	December 24, 2011	(See Note 1) September 29, 2012
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 12,591	\$ 10,289	\$ 48,475
Short term investments	17,820	17,820	22,705
Accounts receivable (less allowance for doubtful accounts of \$18,555, \$15,791 and \$18,574)	150,767	139,254	202,422
Inventories	397,725	365,743	330,032
Prepaid expenses and other	66,629	62,614	48,149
Total current assets	645,532	595,720	651,783
Land, buildings, improvements and equipment net	192,486	180,401	191,163
Goodwill	210,223	210,223	210,223
Other intangible assets net	77,790	83,458	78,853
Deferred income taxes and other assets	20,041	18,467	17,525
Total	\$ 1,146,072	\$ 1,088,269	\$ 1,149,547
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	\$ 130,484	\$ 122,009	126,662
Accrued expenses	83,580	66,862	79,491
Current portion of long-term debt	309	328	331
Total current liabilities	214,373	189,199	206,484
Long-term debt	450,446	460,346	449,483
Other long-term obligations	30,968	14,253	28,697
Equity:			
Common stock, \$.01 par value: 12,247,359, 12,254,778, and 12,247,571 shares outstanding at December 29, 2012, December 24, 2011 and September 29, 2012	122	123	122
Class A common stock, \$.01 par value: 34,765,783, 34,130,214 and 34,706,902 shares outstanding at December 29, 2012, December 24, 2011 and September 29, 2012	347	341	347
Class B stock, \$.01 par value: 1,652,262 shares outstanding	16	16	16
Additional paid-in capital	383,615	377,598	382,195
Accumulated earnings	64,449	45,455	79,718
Accumulated other comprehensive income	1,497	1,110	1,539
Total Central Garden & Pet Company shareholders equity	450,046	424,643	463,937

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Noncontrolling interest	239	(172)	946
Total equity	450,285	424,471	464,883
Total	\$ 1,146,072	\$ 1,088,269	\$ 1,149,547

See notes to condensed consolidated financial statements.

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CENTRAL GARDEN & PET COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended	
	December 29, 2012	December 24, 2011
Net sales	\$ 292,497	\$ 302,066
Cost of goods sold and occupancy	215,538	221,328
Gross profit	76,959	80,738
Selling, general and administrative expenses	90,053	92,018
Loss from operations	(13,094)	(11,280)
Interest expense	(10,315)	(9,547)
Interest income	65	28
Other expense	(981)	(114)
Loss before income taxes and noncontrolling interest	(24,325)	(20,913)
Income tax benefit	(8,978)	(7,646)
Loss including noncontrolling interest	(15,347)	(13,267)
Net loss attributable to noncontrolling interest	(78)	(177)
Net loss attributable to Central Garden & Pet Company	\$ (15,269)	\$ (13,090)
Net loss per share attributable to Central Garden & Pet Company:		
Basic and diluted	\$ (0.32)	\$ (0.27)
Weighted average shares used in the computation of net loss per share:		
Basic and diluted	47,871	47,823

See notes to condensed consolidated financial statements.

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CENTRAL GARDEN & PET COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended	
	December 29, 2012	December 24, 2011
Net loss	\$ (15,347)	\$ (13,267)
Other comprehensive income (loss):		
Foreign currency translation	(42)	91
Total comprehensive loss	(15,389)	(13,176)
Comprehensive loss attributable to noncontrolling interests	(78)	(177)
Comprehensive loss attributable to Central Garden & Pet Company	\$ (15,311)	\$ (12,999)

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

	Three Months Ended	
	December 29, 2012	December 24, 2011
Cash flows from operating activities:		
Net loss	\$ (15,347)	\$ (13,267)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,016	7,444
Stock-based compensation	1,576	1,866
Excess tax benefits from stock-based awards	(74)	(74)
Deferred income taxes	2,820	5,049
Unrealized losses on derivative financial instruments	627	5
Loss on sale of property and equipment	149	17
Change in assets and liabilities:		