

CENTRAL GARDEN & PET CO

Form 10-Q

May 08, 2014

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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 29, 2014**

**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**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**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)**

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

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, 2014	12,308,802
Class A Common Stock Outstanding as of April 30, 2014	36,485,029
Class B Stock Outstanding as of April 30, 2014	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 industries 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, 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 our Form 10-K for the fiscal year ended September 28, 2013, 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:

seasonality and fluctuations in our operating results and cash flow;

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

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

risks associated with innovation, including the risk that our new product innovations will not produce sufficient sales to recoup our investment;

declines in consumer spending during economic downturns;

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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;

disruptions in our business arising from the implementation of our change initiatives and the resulting consequences to our business and results of operations;

increased costs and expenses associated with our change initiatives;

consolidation trends in the retail industry;

competition in our industries;

risks associated with our acquisition strategy;

potential goodwill or intangible asset impairment;

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.

**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**

	<b>March 29, 2014</b>	<b>March 30, 2013</b>	<b>September 28, 2013</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 16,748	\$ 11,284	\$ 15,156
Short term investments	14,220	17,820	17,820
Accounts receivable (less allowance for doubtful accounts of \$24,771, \$21,201 and \$21,158)	323,183	322,190	194,260
Inventories	402,720	435,883	391,934
Prepaid expenses and other	55,882	59,408	53,484
Total current assets	812,753	846,585	672,654
Land, buildings, improvements and equipment net	185,354	193,673	188,913
Goodwill	205,756	210,223	205,756
Other intangible assets net	77,895	76,762	79,868
Deferred income taxes and other assets	12,589	19,338	13,969
Total	\$ 1,294,347	\$ 1,346,581	\$ 1,161,160
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 142,152	\$ 165,691	\$ 103,569
Accrued expenses	80,886	76,915	78,618
Current portion of long-term debt	303	271	142
Total current liabilities	223,341	242,877	182,329
Long-term debt	545,032	593,424	472,445
Other long-term obligations	40,470	34,651	36,362
Equity:			
Common stock, \$.01 par value: 12,308,802, 12,246,751, and 12,246,751 shares outstanding at March 29, 2014, March 30, 2013 and September 28, 2013	123	122	122
	364	352	353



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Class A common stock, \$.01 par value: 36,417,849, 35,206,896 and 35,291,001 shares outstanding at March 29, 2014, March 30, 2013 and September 28, 2013

Class B stock, \$.01 par value: 1,652,262 shares outstanding	16	16	16
Additional paid-in capital	396,490	386,756	389,153
Accumulated earnings	85,779	86,448	77,592
Accumulated other comprehensive income	1,529	932	1,442
Total Central Garden & Pet Company shareholders equity	484,301	474,626	468,678
Noncontrolling interest	1,203	1,003	1,346
Total equity	485,504	475,629	470,024
Total	\$ 1,294,347	\$ 1,346,581	\$ 1,161,160

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)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 29, 2014</b>	<b>March 30, 2013</b>	<b>March 29, 2014</b>	<b>March 30, 2013</b>
Net sales	\$ 501,611	\$ 498,169	\$ 792,132	\$ 790,666
Cost of goods sold and occupancy	354,015	344,999	564,795	560,537
Gross profit	147,596	153,170	227,337	230,129
Selling, general and administrative expenses	102,827	106,424	190,923	196,477
Income from operations	44,769	46,746	36,414	33,652
Interest expense	(10,405)	(10,937)	(22,622)	(21,252)
Interest income	16	27	29	92
Other income (expense)	108	(48)	(60)	(1,029)
Income before income taxes and noncontrolling interest	34,488	35,788	13,761	11,463
Income taxes	12,999	12,828	5,084	3,850
Income including noncontrolling interest	21,489	22,960	8,677	7,613
Net income attributable to noncontrolling interest	594	764	490	686
Net income attributable to Central Garden & Pet Company	\$ 20,895	\$ 22,196	\$ 8,187	\$ 6,927
Net income per share attributable to Central Garden & Pet Company:				
Basic	\$ 0.43	\$ 0.46	\$ 0.17	\$ 0.14
Diluted	\$ 0.43	\$ 0.46	\$ 0.17	\$ 0.14
Weighted average shares used in the computation of net income per share:				
Basic	48,688	48,064	48,523	47,968
Diluted	49,116	48,740	48,963	48,766

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)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 29,</b>	<b>March 30,</b>	<b>March 29,</b>	<b>March 30,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income	\$ 21,489	\$ 22,960	\$ 8,677	\$ 7,613
Other comprehensive income (loss):				
Foreign currency translation	2	(566)	87	(607)
Total comprehensive income	21,491	22,394	8,764	7,006
Comprehensive income attributable to noncontrolling interests	594	764	490	686
Comprehensive income attributable to Central Garden & Pet Company	\$ 20,897	\$ 21,630	\$ 8,274	\$ 6,320

See notes to condensed consolidated financial statements.

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**CENTRAL GARDEN & PET COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	<b>Six Months Ended</b>	
	<b>March 29, 2014</b>	<b>March 30, 2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 8,677	\$ 7,613
<b>Adjustments to reconcile net loss to net cash provided by operating activities:</b>		
Depreciation and amortization	17,512	16,347
Stock-based compensation	4,578	7,774
Excess tax benefits from stock-based awards	(321)	(289)
Deferred income taxes	5,064	6,152
Write-off of deferred financing costs	1,731	0
Unrealized losses on derivative financial instruments	0	581
Loss on sale of property and equipment	74	417
<b>Change in assets and liabilities:</b>		
Accounts receivable	(128,803)	(120,065)
Inventories	(10,587)	(106,081)
Prepaid expenses and other assets	406	(6,100)
Accounts payable	38,334	38,404
Accrued expenses	5,163	(4,843)
Other long-term obligations	(1,871)	(2,074)
<b>Net cash used in operating activities</b>	<b>(60,043)</b>	<b>(162,164)</b>
<b>Cash flows from investing activities:</b>		
Additions to property and equipment	(10,024)	(16,164)
Payments to acquire companies, net of cash acquired	0	(4,835)
Proceeds from short term investments	3,600	4,885
<b>Net cash used in investing activities</b>	<b>(6,424)</b>	<b>(16,114)</b>
<b>Cash flows from financing activities:</b>		
Repayments of long-term debt	(203)	(170)
Proceeds from issuance of common stock	461	475
Borrowings under revolving line of credit	188,000	186,000
Repayments under revolving line of credit	(116,000)	(42,000)