

CENTRAL GARDEN & PET CO  
Form 10-Q  
August 08, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2007

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

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**CENTRAL GARDEN & PET COMPANY**

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

68-0275553  
(I.R.S. Employer

Identification No.)

(Address of principle executive offices)

(925) 948-4000

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(Registrant's telephone number, including area code)

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

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 July 31, 2007	22,290,643
Class A Common Stock Outstanding as of July 31, 2007	47,811,406
Class B Stock Outstanding as of July 31, 2007	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, 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 30, 2006 and our Forms 10-Q for the quarters ended December 30, 2006 and March 31, 2007, 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:

consolidation trends in the retail industry;

dependence on a few customers for a significant portion of each of our businesses;

uncertainty of our product innovations and marketing programs;

fluctuations in market prices for seeds and grains;

competition in our industries;

risks associated with our acquisition strategy;

adverse weather during the peak gardening season;

supply shortages in pet birds and small animals;

declining sales and margins in garden distribution;

seasonality and fluctuations in our operating results and cash flows;

dependence upon our key executive officers;

rising energy prices, fuel and related petrochemical costs;

implementation of a new enterprise planning information system over the next several years;

potential environmental liabilities and product liability claims;

pending litigation and claims; and

the voting power associated with our Class B stock.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CENTRAL GARDEN &amp; PET COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	September 30, 2006	June 30, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 28,406	\$ 15,815
Accounts receivable (less allowance for doubtful accounts of \$12,798 and \$14,338)	239,172	276,858
Inventories	332,214	381,748
Prepaid expenses and other	34,910	42,196
Total current assets	634,702	716,617
Land, buildings, improvements and equipment net	162,604	196,653
Goodwill	557,820	566,665
Other intangible assets, net	110,548	116,911
Deferred income taxes and other assets	68,149	63,605
Total	\$ 1,533,823	\$ 1,660,451
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 122,960	\$ 139,715
Accrued expenses	81,305	96,827
Current portion of long-term debt	3,039	3,347
Total current liabilities	207,304	239,889
Long-term debt	565,410	612,988
Other long-term obligations	29,583	28,853
Convertible redeemable preferred stock	3,000	750
Minority interest	1,167	1,749
Shareholders equity:		
Common stock, \$.01 par value: 22,008,431 and 22,290,643 shares outstanding at September 30, 2006 and June 30, 2007	218	220
Class A common stock, \$.01 par value: 47,321,386 and 47,811,406 shares outstanding at September 30, 2006 and June 30, 2007	473	478
Class B stock, \$.01 par value: 1,652,262 shares outstanding	16	16
Additional paid-in capital	540,131	552,287
Retained earnings	185,031	219,030
Accumulated other comprehensive income	1,490	4,191
Total shareholders equity	727,359	776,222

Total	\$ 1,533,823	\$ 1,660,451
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See notes to condensed consolidated financial statements.

## CENTRAL GARDEN &amp; PET COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended		Nine Months Ended	
	June 24,	June 30,	June 24,	June 30,
	2006	2007	2006	2007
Net sales	\$ 506,694	\$ 466,778	\$ 1,200,757	\$ 1,269,836
Cost of goods sold and occupancy	334,983	315,638	800,296	852,980
Gross profit	171,711	151,140	400,461	416,856
Selling, general and administrative expenses	111,842	113,948	285,083	327,509
Income from operations	59,869	37,192	115,378	89,347
Interest expense	(12,213)	(13,198)	(28,784)	(37,296)
Interest income	1,582	292	2,869	1,257
Other income	1,371	1,194	3,223	2,879
Income before income taxes and minority interest	50,609	25,480	92,686	56,187
Income taxes	19,070	9,495	32,362	20,904
Minority interest	809	470	809	1,284
Net income	\$ 30,730	\$ 15,515	\$ 59,515	\$ 33,999
Net income per share (restated):				
Basic	\$ 0.44	\$ 0.22	\$ 0.90	\$ 0.48
Diluted	\$ 0.43	\$ 0.22	\$ 0.87	\$ 0.47
Weighted average shares used in the computation of net income per share (restated):				
Basic	70,131	70,910	66,180	70,730
Diluted	72,198	72,048	68,190	72,066

See notes to condensed consolidated financial statements.

## CENTRAL GARDEN &amp; PET COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended	
	June 24, 2006	June 30, 2007
Cash flows from operating activities:		
Net income	\$ 59,515	\$ 33,999
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	18,628	21,875
Stock-based compensation	3,928	3,723
Excess tax benefits from stock-based awards	(3,003)	(1,932)
Minority interest	809	1,284
Deferred income taxes	(1,084)	(1,423)
Gain on disposal of property		(74)
Change in assets and liabilities (excluding businesses acquired):		
Receivables	(47,585)	(37,232)
Inventories	(21,978)	(48,605)
Prepaid expenses and other assets	(15,939)	(6,514)
Accounts payable	(15,328)	16,943
Accrued expenses	22,168	15,787
Other long-term obligations	1,754	(730)
Net cash provided by (used in) operating activities	1,885	(2,899)
Cash flows from investing activities:		
Additions to property	(30,716)	(47,462)
Businesses acquired, net of cash acquired	(370,123)	(19,612)
Collection of notes	16,058	3,340
Restricted investments		292
Net cash used in investing activities	(384,781)	(63,442)
Cash flows from financing activities:		
Borrowings on revolving line of credit	826,530	665,000
Repayments of revolving line of credit	(697,678)	(615,000)
Proceeds from issuance of long-term debt	600,000	
Repayments of long-term debt	(472,642)	(2,114)
Proceeds from issuance of common stock	109,529	4,258
Excess tax benefits from stock-based awards	3,003	1,932
Payment of financing costs	(6,583)	(416)
Net cash provided by financing activities	362,159	53,660
Effect of exchange rate changes on cash and cash equivalents	(34)	90
Net decrease in cash and cash equivalents	(20,771)	(12,591)
Cash and equivalents at beginning of period	28,792	28,406
Cash and equivalents at end of period	\$ 8,021	\$ 15,815

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Supplemental information:

Cash paid for interest	\$ 20,739	\$ 34,566
Cash paid for income taxes net of refunds	\$ 16,047	\$ 2,954
Liabilities assumed in connection with acquisitions	\$	\$ 3
Conversion of preferred stock to common stock	\$	\$ 2,250

See notes to condensed consolidated financial statements.

**CENTRAL GARDEN & PET COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Three and Nine Months Ended June 30, 2007**

**(unaudited)**

**1. Basis of Presentation**

The condensed consolidated balance sheet of Central Garden & Pet Company and subsidiaries (the Company or Central ) as of June 30, 2007, the condensed consolidated statements of operations for the three months and nine months ended June 24, 2006 and June 30, 2007 and the condensed consolidated statements of cash flows for the nine months ended June 24, 2006 and June 30, 2007 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) considered necessary to present fairly the financial position, results of operations and cash flows of the Company for the periods mentioned above, have been made.

For the Company's foreign business in the UK, the local currency is the functional currency. Assets and liabilities are translated using the exchange rate in effect at the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Comprehensive income was \$36.7 million for the nine month period ended June 30, 2007 and includes net income of \$34.0 million and foreign currency translation adjustments of \$2.7 million that are excluded from net earnings but reported in accumulated other comprehensive income, a separate component of shareholders' equity. Comprehensive income was \$59.8 million for the nine month period ended June 24, 2006 and included net earnings of \$59.5 million and foreign currency translation adjustments of \$0.3 million. Deferred taxes are not p