

CHARLES RIVER LABORATORIES INTERNATIONAL INC
Form 10-Q
April 29, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 27, 2010

OR

o **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 001-15943**

**CHARLES RIVER LABORATORIES
INTERNATIONAL, INC.**

(Exact Name of Registrant as specified in its Charter)

DELAWARE **06-1397316**
(State of Incorporation) (I.R.S. Employer Identification No.)
251 BALLARDVALE STREET, WILMINGTON, MASSACHUSETTS 01887
(Address of Principal Executive Offices) (Zip Code)

781-222-6000
(Registrant's Telephone Number, Including Area Code)

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 ý No o

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 ý No o

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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 the definitions 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

(Do not check if a
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

As of April 15, 2010, there were 66,191,029 shares of the registrant's common stock outstanding.

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

FORM 10-Q

For the Quarterly Period Ended March 27, 2010

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Special Note on Factors Affecting Future Results

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and the future results of Charles River Laboratories International, Inc. that are based on current expectations, estimates, forecasts, and projections about the industries in which Charles River operates and the beliefs and assumptions of our management. Words such as "expect," "anticipate," "target," "goal," "project," "intend," "plan," "believe," "seek," "estimate," "will," "likely," "may," "designed," "would," "future," "can," "could" and other similar expressions that are predictions of or indicate future events and trends or which do not relate to historical matters are intended to identify such forward-looking statements. These statements are based on current expectations and beliefs of Charles River and involve a number of risks, uncertainties, and assumptions that are difficult to predict. For example, we may use forward-looking statements when addressing topics such as: future demand for drug discovery and development products and services, including the outsourcing of these services; present spending trends and other cost reduction activities by our customers (particularly in light of the challenging economic environment); future actions by our management; the outcome of contingencies; changes in our business strategy; changes in our business practices and methods of generating revenue; the development and performance of our services and products; market and industry conditions, including competitive and pricing trends; changes in the composition or level of our revenues; our cost structure; the impact of acquisitions and dispositions; the timing of the opening of new and expanded facilities; our expectations with respect to sales growth and operating synergies (including the impact of specific actions intended to cause related improvements); the impact of specific actions intended to improve overall operating efficiencies and profitability (including without limitation our Sigma Six program, our ERP project, our sales force realignment, and the restructuring of our PCS segment); changes in our expectations regarding future stock option, restricted stock, and other equity grants to employees and directors; changes in our expectations regarding our stock repurchases; expectations with respect to foreign currency exchange; assessing (or changing our assessment of) our tax positions for financial statement purposes; and our cash flow and liquidity. In addition, these statements include the impact of economic and market conditions on our customers; the effects of our 2009 and 2010 cost-saving actions and other actions designed to manage expenses, operating costs and capital spending and to streamline efficiency (including the expected impact of the suspension of our PCS Massachusetts operations); the timing of our repatriation of accumulated income earned outside the United States and the ability of Charles River to withstand the current market conditions. Furthermore, statements are based on current expectations and beliefs of Charles River and WuXi PharmaTech (Cayman) Inc. (WuXi) with respect to the proposed acquisition of WuXi by Charles River, and involve a number of risks and uncertainties that could cause actual results to differ materially from those stated or implied by the forward-looking statements. Those risks and uncertainties include, but are not limited to: 1) the possibility that the companies may be unable to obtain stockholder or regulatory approvals required for the combination; 2) problems may arise in successfully integrating the businesses of the two companies; 3) the acquisition may involve unexpected costs; 4) the combined company may be unable to achieve cost synergies; 5) the businesses may suffer as a result of uncertainty surrounding the acquisition; and 6) the industry may be subject to future regulatory or legislative actions and other risks that are described in Securities and Exchange Commission (SEC) reports filed or furnished by Charles River. You should not rely on forward-looking statements because they are predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or in the case of statements incorporated by reference, on the date of the document incorporated by reference. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Form 10-K for the year ended December 26, 2009 under the section entitled "Our Strategy," the section entitled "Risks Related to Our Business and Industry," the section of this Quarterly Report on Form 10-Q entitled "Management's Discussion and Analysis of

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Financial Condition and Results of Operations" and in our press releases and other financial filings with the Securities and Exchange Commission. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks. New information, future events or risks may cause the forward-looking events we discuss in this report not to occur.

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****(dollars in thousands, except per share amounts)**

	Three Months Ended	
	March 27, 2010	March 28, 2009
Net sales related to products	\$ 121,051	\$ 116,910
Net sales related to services	176,294	184,616
Total net sales	297,345	301,526
Costs and expenses		
Cost of products sold	63,723	63,333
Cost of services provided	133,705	129,973
Selling, general and administrative	63,241	62,178
Amortization of intangibles	7,174	6,149
Operating income	29,502	39,893
Other income (expense)		
Interest income	397	629
Interest expense	(6,007)	(5,233)
Other, net	(411)	(262)
Income before income taxes	23,481	35,027
Provision for income taxes	6,481	10,158
Net income	17,000	24,869
Less: Net loss attributable to noncontrolling interests	(382)	(536)
Net income attributable to common shareowners	\$ 17,382	\$ 25,405
Earnings (loss) per common share		
Basic	\$ 0.27	\$ 0.39
Diluted	\$ 0.26	\$ 0.38

See Notes to Condensed Consolidated Interim Financial Statements

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(dollars in thousands, except per share amounts)

	March 27, 2010	December 26, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 222,199	\$ 182,574
Trade receivables, net	219,676	196,947
Inventories	97,578	102,723
Other current assets	74,288	113,357
Total current assets	613,741	595,601
Property, plant and equipment, net	848,322	865,743
Goodwill, net	504,702	508,235
Other intangibles, net	151,830	160,292
Deferred tax asset	14,615	18,978
Other assets	53,661	55,244
Total assets	\$ 2,186,871	\$ 2,204,093
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt and capital leases	\$ 36,343	\$ 35,413
Accounts payable	33,508	31,232
Accrued compensation	43,747	45,522
Deferred revenue	67,813	72,390
Accrued liabilities	49,034	49,997
Other current liabilities	16,773	15,219
Total current liabilities	247,218	249,773
Long-term debt and capital leases	437,911	457,419
Other long-term liabilities	118,054	123,077
Total liabilities	803,183	830,269
Commitments and contingencies		
Shareowners' equity		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value; 120,000,000 shares authorized; 77,484,348 issued and 66,177,997 shares outstanding at March 27, 2010 and 77,106,847 issued and 65,877,218 shares outstanding at December 26, 2009	775	771
Capital in excess of par value	2,046,243	2,038,455
Accumulated deficit	(221,111)	(238,493)
	(473,422)	(470,527)

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Treasury stock, at cost, 11,306,351 shares and 11,229,629 shares at March 27, 2010 and December 26, 2009, respectively

Accumulated other comprehensive income	33,276	45,037
Total shareowners' equity	1,385,761	1,375,243
Noncontrolling interests	(2,073)	(1,419)
Total equity	1,383,688	1,373,824
Total liabilities and equity	\$ 2,186,871	\$ 2,204,093

See Notes to Condensed Consolidated Interim Financial Statements

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)

	Three Months Ended	
	March 27, 2010	March 28, 2009
Cash flows relating to operating activities		
Net income	\$ 17,000	\$ 24,869
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	24,262	21,970
Non-cash compensation	6,904	5,669
Deferred tax	1,290	8,118
Other, net	5,030	4,328
Changes in assets and liabilities:		
Trade receivables	(27,227)	(5,613)
Inventories	3,765	(2,397)
Other assets	(4,386)	(3,278)
Accounts payable	4,703	(2,898)
Accrued compensation	(749)	(12,404)
Deferred revenue	(4,577)	(3,006)
Accrued liabilities	1,163	(2,098)
Other liabilities	1,281	3,855
Net cash provided by operating activities	28,459	37,115
Cash flows relating to investing activities		
Capital expenditures	(9,293)	(24,625)
Purchases of investments	(6,725)	(37,749)
Proceeds from sale of investments	50,151	
Other, net	1,915	69
Net cash provided by (used in) investing activities	36,048	(62,305)
Cash flows relating to financing activities		
Proceeds from long-term debt and revolving credit	1,025	
Payments on long-term debt, capital lease obligation and revolving credit agreement	(22,682)	(8,665)
Purchase of treasury stock	(2,895)	(29,571)
Other	1,314	7
Net cash used in financing activities	(23,238)	(38,229)
Effect of exchange rate changes on cash and cash equivalents	(1,644)	(9,940)
Net change in cash and cash equivalents	39,625	(73,359)
Cash and cash equivalents, beginning of period	182,574	243,592
Cash and cash equivalents, end of period	\$ 222,199	\$ 170,233

Supplemental cash flow information