

CHARLES RIVER LABORATORIES INTERNATIONAL INC
Form 10-Q
August 06, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2008

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 001-15943

**CHARLES RIVER LABORATORIES
INTERNATIONAL, INC.**

(Exact Name of Registrant as specified in its Charter)

DELAWARE
(State of Incorporation)

06-1397316
(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 ☒ 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 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

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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 August 1, 2008, there were 67,839,491 shares of the registrant's common stock outstanding.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

FORM 10-Q

For the Quarterly Period Ended June 28, 2008

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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. ("Charles River") 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 and other cost reduction activities by our customers; 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, efficiency improvements and operating synergies (including the impact of specific actions intended to cause related improvements); changes in our expectations regarding future stock option, restricted stock, performance awards and other equity grants to employees and directors; changes in our expectations regarding our stock repurchases; assessing (or changing our assessment of) our tax positions for financial statement purposes; and our cash flow and liquidity. 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 our Annual Report on Form 10-K for the year ended December 29, 2007 under 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 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.

Part I. Financial Information

Item 1. Financial Statements

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(dollars in thousands, except per share amounts)

	Three Months Ended	
	June 28, 2008	June 30, 2007
Net sales related to products	\$ 124,538	\$ 111,008
Net sales related to services	227,596	196,427
Total net sales	352,134	307,435
Costs and expenses		
Cost of products sold	64,849	60,689
Cost of services provided	149,298	125,790
Selling, general and administrative	61,064	56,092
Amortization of intangibles	7,600	8,139
Operating income	69,323	56,725
Other income (expense)		
Interest income	2,057	2,304
Interest expense	(3,264)	(4,899)
Other, net	(267)	(1,069)
Income before income taxes and minority interests	67,849	53,061
Provision for income taxes	17,920	15,101
Income before minority interests	49,929	37,960
Minority interests	258	(119)
Income from continuing operations	50,187	37,841
Income from operations of discontinued businesses, net of taxes		115
Net income	\$ 50,187	\$ 37,956
Basic earnings per common share:		
Continuing operations	\$ 0.75	\$ 0.57
Discontinued operations		
Net income	\$ 0.75	\$ 0.57
Diluted earnings per common share:		
Continuing operations	\$ 0.71	\$ 0.55
Discontinued operations		
Net income	\$ 0.71	\$ 0.55

See Notes to Condensed Consolidated Interim Financial Statements

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(dollars in thousands, except per share amounts)

	Six Months Ended	
	June 28, 2008	June 30, 2007
Net sales related to products	\$ 245,658	\$ 216,485
Net sales related to services	444,161	382,149
Total net sales	689,819	598,634
Costs and expenses		
Cost of products sold	126,783	116,823
Cost of services provided	294,672	245,282
Selling, general and administrative	120,370	109,109
Amortization of intangibles	15,171	15,994
Operating income	132,823	111,426
Other income (expense)		
Interest income	4,846	4,591
Interest expense	(6,719)	(9,245)
Other, net	(1,104)	(920)
Income before income taxes and minority interests	129,846	105,852
Provision for income taxes	34,846	30,411
Income before minority interests	95,000	75,441
Minority interests	341	(373)
Income from continuing operations	95,341	75,068
Loss from operations of discontinued businesses, net of taxes		(349)
Net income	\$ 95,341	\$ 74,719
Basic earnings per common share:		
Continuing operations	\$ 1.41	\$ 1.13
Discontinued operations (loss)		(0.01)
Net income	\$ 1.41	\$ 1.12
Diluted earnings per common share:		
Continuing operations	\$ 1.35	\$ 1.10
Discontinued operations (loss)		(0.01)
Net income	\$ 1.35	\$ 1.10

See Notes to Condensed Consolidated Interim Financial Statements

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(dollars in thousands, except per share amounts)

	June 28, 2008	December 29, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 262,438	\$ 225,449
Trade receivables, net	240,009	213,908
Inventories	93,602	88,023
Other current assets	80,328	79,477
Current assets of discontinued operations	563	1,007
Total current assets	676,940	607,864
Property, plant and equipment, net	826,835	748,793
Goodwill, net	1,121,900	1,120,540
Other intangibles, net	135,512	148,905
Deferred tax asset	65,342	89,255
Other assets	60,382	85,993
Long term assets of discontinued operations	4,187	4,187
Total assets	\$ 2,891,098	\$ 2,805,537
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 210,042	\$ 25,051
Accounts payable	43,523	36,715
Accrued compensation	52,517	53,359
Deferred revenue	94,889	102,021
Accrued liabilities	72,792	61,366
Other current liabilities	26,293	23,268
Current liabilities of discontinued operations	719	748
Total current liabilities	500,775	302,528
Long-term debt	312,260	484,998
Other long-term liabilities	128,980	154,044
Total liabilities	942,015	941,570
Commitments and contingencies		
Minority interests	3,208	3,500
Shareholders' 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; 76,105,883 issued and 67,846,024 outstanding at June 28, 2008 and 75,427,649 issued and 68,135,324 shares outstanding at December 29, 2007	762	754
Capital in excess of par value	1,939,975	1,906,997
Retained earnings	272,870	177,529
Treasury stock, at cost, 8,259,859 shares and 7,292,325 shares at June 28, 2008 and December 29, 2007, respectively	(368,985)	(310,372)
Accumulated other comprehensive income	101,253	85,559
Total shareholders' equity	1,945,875	1,860,467
Total liabilities and shareholders' equity	\$ 2,891,098	\$ 2,805,537

See Notes to Condensed Consolidated Interim Financial Statements

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)

	Six Months Ended	
	June 28, 2008	June 30, 2007
Cash flows relating to operating activities		
Net income	\$ 95,341	\$ 74,719
Less: Loss from discontinued operations		(349)
Income from continuing operations	95,341	75,068
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	45,353	41,145
Gain on pension curtailment	(3,276)	
Non-cash compensation	12,940	12,531
Other, net	5,399	6,704
Changes in assets and liabilities:		