

CHARLES RIVER LABORATORIES INTERNATIONAL INC
Form 10-Q
November 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 SEPTEMBER 27, 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

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(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 November 1, 2008, there were 67,681,021 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 September 27, 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 and present spending trends 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 by us and our competitors and the effect of such capacity on pricing; 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; liquidity and expected impact of foreign exchange rates. 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.

Table of Contents**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	
	September 27, 2008	September 29, 2007
Net sales related to products	\$ 119,777	\$ 104,228
Net sales related to services	222,450	209,736
Total net sales	342,227	313,964
Costs and expenses		
Cost of products sold	64,145	55,487
Cost of services provided	147,812	134,578
Selling, general and administrative	54,450	51,847
Amortization of intangibles	7,609	8,421
Operating income	68,211	63,631
Other income (expense)		
Interest income	2,299	2,317
Interest expense	(3,589)	(4,645)
Other, net	(1,397)	(861)
Income before income taxes and minority interests	65,524	60,442
Provision for income taxes	20,819	16,808
Income before minority interests	44,705	43,634
Minority interests	(5)	(98)
Income from continuing operations	44,700	43,536
Loss from operations of discontinued businesses, net of taxes		(759)
Net income	\$ 44,700	\$ 42,777
Basic earnings per common share:		
Continuing operations	\$ 0.67	\$ 0.65
Discontinued operations (loss)		(0.01)
Net income	\$ 0.67	\$ 0.64
Diluted earnings per common share:		
Continuing operations	\$ 0.63	\$ 0.63
Discontinued operations (loss)		(0.01)
Net income	\$ 0.63	\$ 0.62

See Notes to Condensed Consolidated Interim Financial Statements

Table of Contents**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(dollars in thousands, except per share amounts)

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Net sales related to products	\$ 365,435	\$ 313,297
Net sales related to services	666,611	599,301
Total net sales	1,032,046	912,598
Costs and expenses		
Cost of products sold	190,928	166,772
Cost of services provided	442,484	385,398
Selling, general and administrative	174,820	160,956
Amortization of intangibles	22,780	24,415
Operating income	201,034	175,057
Other income (expense)		
Interest income	7,145	6,908
Interest expense	(10,308)	(13,890)
Other, net	(2,501)	(1,781)
Income before income taxes and minority interests	195,370	166,294
Provision for income taxes	55,665	47,219
Income before minority interests	139,705	119,075
Minority interests	336	(471)
Income from continuing operations	140,041	118,604
Loss from operations of discontinued businesses, net of taxes		(1,108)
Net income	\$ 140,041	\$ 117,496
Basic earnings per common share:		
Continuing operations	\$ 2.08	\$ 1.78
Discontinued operations (loss)		(0.02)
Net income	\$ 2.08	\$ 1.76
Diluted earnings per common share:		
Continuing operations	\$ 1.98	\$ 1.74
Discontinued operations (loss)		(0.02)
Net income	\$ 1.98	\$ 1.72

See Notes to Condensed Consolidated Interim Financial Statements

Table of Contents**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(dollars in thousands, except per share amounts)

	September 27, 2008	December 29, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 212,851	\$ 225,449
Trade receivables, net	237,268	213,908
Inventories	93,537	88,023
Other current assets	74,594	79,477
Current assets of discontinued operations	575	1,007
Total current assets	618,825	607,864
Property, plant and equipment, net	845,130	748,793
Goodwill, net	1,154,865	1,120,540
Other intangibles, net	152,465	148,905
Deferred tax asset	62,875	89,255
Other assets	58,535	85,993
Long term assets of discontinued operations	4,187	4,187
Total assets	\$ 2,896,882	\$ 2,805,537
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt and capital obligations	\$ 239,030	\$ 25,051
Accounts payable	36,367	36,715
Accrued compensation	48,937	53,359
Deferred revenue	85,470	102,021
Accrued liabilities	69,872	61,366
Other current liabilities	32,718	23,268
Current liabilities of discontinued operations	116	748
Total current liabilities	512,510	302,528
Long-term debt and capital lease obligations	303,681	484,998
Other long-term liabilities	132,617	154,044
Total liabilities	948,808	941,570
Commitments and contingencies		
Minority interests	780	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; 76,573,866 issued and 67,817,467 outstanding at September 27, 2008 and 75,427,649 issued and 68,135,324 shares outstanding at December 29, 2007	766	754
Capital in excess of par value	1,959,182	1,906,997
Retained earnings	317,570	177,529
Treasury stock, at cost, 8,756,399 shares and 7,292,325 shares at September 27, 2008 and December 29, 2007, respectively	(401,132)	(310,372)

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Accumulated other comprehensive income	70,908	85,559
Total shareholders' equity	1,947,294	1,860,467
Total liabilities and shareholders' equity	\$ 2,896,882	\$ 2,805,537

See Notes to Condensed Consolidated Interim Financial Statements

[Table of Contents](#)**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(dollars in thousands)

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Cash flows relating to operating activities		
Net income	\$ 140,041	\$ 117,496
Less: Loss from discontinued operations		(1,108)
Income from continuing operations	140,041	118,604
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	68,290	63,105
Gain on pension curtailment	(3,276)	
Non-cash compensation	18,473	19,815
Other, net	17,774	3,833
Changes in assets and liabilities:		
Trade receivables	(24,052)	(19,509)
Inventories	(5,713)	(5,909)
Other assets	(880)	(7,623)
Accounts payable	1,176	(7,132)
Accrued compensation	(6,319)	634
Deferred revenue	(16,551)	(4,839)
Accrued liabilities	1,274	3,067
Other liabilities	5,072	7,408
Net cash provided by operating activities	195,309	171,454
Cash flows relating to investing activities		
Acquisition of businesses, net of cash acquired	(61,792)	(11,584)
Capital expenditures	(150,030)	(137,671)
Purchases of marketable securities	(6,439)	(251,659)
Proceeds from sale of marketable securities	43,352	264,956
Other, net	(193)	3,231
Net cash used in investing activities	(175,102)	(132,727)
Cash flows relating to financing activities		
Proceeds from long-term debt and revolving credit agreement	56,000	
Payments on long-term debt and revolving credit agreement	(23,965)	(56,730)
Proceeds from exercises of employee stock options and warrants	28,027	42,966
Excess tax benefit from exercises of employee stock options	3,703	4,296
Purchase of treasury stock	(89,950)	(30,314)
Other, net		(1,392)
Net cash used in financing activities	(26,185)	(41,174)
Discontinued operations		
Net cash used in operating activities	(342)	(3,044)

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Net cash used in discontinued operations	(342)	(3,044)
Effect of exchange rate changes on cash and cash equivalents	(6,278)	13,608
Net change in cash and cash equivalents	(12,598)	8,117
Cash and cash equivalents, beginning of period	225,449	175,380
Cash and cash equivalents, end of period	\$ 212,851	\$ 183,497
Supplemental cash flow information		
Capitalized interest	\$ 1,957	\$ 3,629

See Notes to Condensed Consolidated Interim Financial Statements

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY (UNAUDITED)

(dollars in thousands)

	Total	Common Stock	Capital in Excess of Par	Accumulated Earnings	Treasury Stock	Accumulated Other Comprehensive Income
Balance at December 29, 2007	\$ 1,860,467	\$ 754	\$ 1,906,997	\$ 177,529	\$(310,372)	\$ 85,559
Components of comprehensive income, net of tax:						
Net income	140,041			140,041		
Foreign currency translation adjustment	(19,114)					(19,114)
Change in pension benefits, net of \$3,410 tax	4,888					4,888
Amortization of pension, net gain/loss and prior service cost	238					238
Unrealized loss on marketable securities	(663)					(663)
Total comprehensive income	125,390					
Exercise of warrants	741		741			
Tax benefit associated with stock issued under employee compensation plans	5,747		5,747			
Issuance of stock under employee compensation plans	27,236	12	27,224			
Acquisition of treasury shares	(90,760)				(90,760)	
Stock-based compensation	18,473		18,473			
Balance at September 27, 2008	\$ 1,947,294	\$ 766	\$ 1,959,182	\$ 317,570	\$(401,132)	\$ 70,908

See Notes to Condensed Consolidated Interim Financial Statements

Table of Contents**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS****(dollars in thousands, except per share amounts)****1. Basis of Presentation**

The condensed consolidated interim financial statements are unaudited, and certain information and footnote disclosures related thereto normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted in accordance with Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying unaudited condensed consolidated financial statements were prepared following the same policies and procedures used in the preparation of the audited financial statements and reflect all adjustments (consisting of normal recurring adjustments) considered necessary to state fairly the financial position and results of operations of Charles River Laboratories International, Inc. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 29, 2007.

Certain amounts in prior-year financial statements and related notes have been reclassified to conform with the current year presentation.

2. Business Acquisitions

On September 15, 2008 we acquired privately-held Molecular Therapeutics, Inc., the parent entity of Molecular Imaging Research, Inc. (MIR) for \$12,041 in cash. Ann Arbor, Michigan-based MIR provides discovery services utilizing extensive in vivo imaging capabilities to pharmaceutical and biotechnology clients and is included in our RMS segment. The preliminary purchase price allocation including deal cost of \$85 incurred by us and net of \$353 of cash acquired is as follows:

Current assets (excluding cash)	\$ 1,136
Property, plant and equipment	848
Noncurrent assets	127
Current liabilities	(1,710)
Noncurrent liabilities	(57)
Deferred taxes	(2,055)
Goodwill and other intangible asset	13,484
 Total purchase price allocation	 \$11,773

In conjunction with the purchase, we paid off \$364 of acquired debt.

The breakout of goodwill and other intangibles acquired with the MIR acquisition was as follows:

		Weighted average amortization life (years)
Customer relationships	\$ 4,900	6.5
Backlog	170	0.5
Goodwill	8,414	
 Total goodwill and other intangibles	 \$13,484	

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INTERIM FINANCIAL STATEMENTS (Continued)**

(dollars in thousands, except per share amounts)

2. Business Acquisitions (Continued)

Goodwill is not deductible for tax purposes.

In addition, on September 9, 2008, we acquired all of the capital stock of privately held Dusseldorf, Germany-based NewLab BioQuality AG (NewLab) for \$48,500 in cash. NewLab, a contract service organization, provides safety and quality control services to biopharmaceutical clients and enhances our existing capabilities in process validation services, in consulting services, and assisting in designing International Conference on Harmonisation (ICH)-compliant stability testing programs and is included in our PCS segment.

The preliminary purchase price allocation associated with the NewLab acquisition, including transaction costs of \$1,633 incurred by us and net of \$3,363 of cash acquired, is as follows:

Current assets (excluding cash)	\$ 5,277
Noncurrent assets	107
Property, plant and equipment	3,148
Current liabilities	(3,477)
Deferred taxes	(6,171)
Goodwill and other intangibles acquired	47,886
Total purchase price allocation	\$46,770

In conjunction with the purchase of NewLab, we utilized \$87 of available cash to prepay NewLab's existing debt.

The breakout of goodwill and other intangibles acquired with the NewLab acquisition was as follows:

		Weighted average amortization life (years)
Customer relationships	\$20,100	6.0
Backlog	1,500	0.3
Non-compete covenants	1,230	1.6
Goodwill	25,056	
Total goodwill and other intangibles	\$47,886	

Goodwill is not deductible for tax purposes.

The following selected unaudited pro forma consolidated results of operations are presented as if the above acquisitions had occurred as of the beginning of the period immediately preceding the period of acquisition after giving effect to certain adjustments including the amortization of intangibles. The pro forma data is for informational purposes only and does not necessarily reflect the results of

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

2. Business Acquisitions (Continued)

operations had the companies operated as one during the periods reported. No effect has been given for synergies, if any, that may have been realized through the acquisitions.

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales	\$ 349,872	\$ 319,344	\$ 1,052,223	\$ 927,994
Operating income	67,155	63,296	198,284	174,204
Income from continuing operations	44,881	43,079	139,377	117,641
Earnings per common share for continuing operations				
Basic	\$ 0.67	\$ 0.64	\$ 2.07	\$ 1.76
Diluted	\$ 0.63	\$ 0.62	\$ 1.97	\$ 1.73

Refer to Note 9 for further discussion of the method of computation of earnings per share.

3. Supplemental Balance Sheet Information

The composition of trade receivables is as follows:

	September 27, 2008	December 29, 2007
Customer receivables	\$ 184,525	\$ 165,057
Unbilled revenue	56,185	52,033
Total	240,710	217,090
Less allowance for doubtful accounts	(3,442)	(3,182)
Net trade receivables	\$ 237,268	\$ 213,908

The composition of inventories is as follows:

	September 27, 2008	December 29, 2007
Raw materials and supplies	\$ 14,658	\$ 13,139
Work in process	11,385	9,794
Finished products	67,494	65,090
Inventories	\$ 93,537	\$ 88,023

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INTERIM FINANCIAL STATEMENTS (Continued)**

(dollars in thousands, except per share amounts)

3. Supplemental Balance Sheet Information (Continued)

The composition of other current assets is as follows:

	September 27, 2008	December 29, 2007
Prepaid assets	\$ 30,138	\$ 26,087
Deferred tax asset	36,428	25,506
Marketable securities		14,958
Prepaid income tax	4,804	7,214
Restricted cash	3,224	3,493
Other		2,219
Other current assets	\$ 74,594	\$ 79,477

The composition of net property, plant and equipment is as follows:

	September 27, 2008	December 29, 2007
Land	\$ 38,902	\$ 35,934
Buildings	694,793	518,090
Machinery and equipment	367,681	337,215
Leasehold improvements	17,577	17,139
Furniture and fixtures	12,082	7,734
Vehicles	5,814	5,042
Construction in progress	112,344	199,399
Total	1,249,193	1,120,553
Less accumulated depreciation	(404,063)	(371,760)
Net property, plant and equipment	\$ 845,130	\$ 748,793