

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)**

|   | <b>Three Months Ended</b> |                       |
|---|---------------------------|-----------------------|
|   | <b>March 27, 2010</b>     | <b>March 28, 2009</b> |
| Net sales related to products                           | \$ 121,051                | \$ 116,910            |
| Net sales related to services                           | 176,294                   | 184,616               |
| <b>Total net sales</b>                                  | <b>297,345</b>            | <b>301,526</b>        |
| 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                 |
| <b>Operating income</b>                                 | <b>29,502</b>             | <b>39,893</b>         |
| Other income (expense)                                  |                           |                       |
| Interest income   | 397                       | 629                   |
| Interest expense  | (6,007)                   | (5,233)               |
| Other, net  | (411)                     | (262)                 |
| <b>Income before income taxes</b>                       | <b>23,481</b>             | <b>35,027</b>         |
| Provision for income taxes                              | 6,481                     | 10,158                |
| <b>Net income</b>                                       | <b>17,000</b>             | <b>24,869</b>         |
| Less: Net loss attributable to noncontrolling interests | (382)                     | (536)                 |
| <b>Net income attributable to common shareowners</b>    | <b>\$ 17,382</b>          | <b>\$ 25,405</b>      |
| <b>Earnings (loss) per common share</b>                 |                           |                       |
| 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   |
|---|---------------------|---------------------|
| <b>Assets</b>   |                     |                     |
| 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             |
| <b>Total current assets</b>   | <b>613,741</b>      | <b>595,601</b>      |
| 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              |
| <b>Total assets</b>   | <b>\$ 2,186,871</b> | <b>\$ 2,204,093</b> |
| <b>Liabilities and Equity</b>   |                     |                     |
| 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              |
| <b>Total current liabilities</b>  | <b>247,218</b>      | <b>249,773</b>      |
| Long-term debt and capital leases   | 437,911             | 457,419             |
| Other long-term liabilities   | 118,054             | 123,077             |
| <b>Total liabilities</b>  | <b>803,183</b>      | <b>830,269</b>      |
| 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    |
| <b>Cash flows relating to operating activities</b>   |                    |                   |
| 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            |
| <b>Cash flows relating to investing activities</b>   |                    |                   |
| 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)          |
| <b>Cash flows relating to financing activities</b>   |                    |                   |
| 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           |
| <b>Cash and cash equivalents, end of period</b>  | <b>\$ 222,199</b>  | <b>\$ 170,233</b> |

**Supplemental cash flow information**