CENTRAL GARDEN & PET CO
Form 10-Q
May 05, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 26, 2011

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

CENTRAL GARDEN & PET COMPANY

Delaware	**68-0275553**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

(Address of principle executive offices)

(925) 948-4000

(Registrant s telephone number, including area code)

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

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. x Yes ¨ No

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 ¨ 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 definition 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	x
Non-accelerated filer	¨	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 x 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 April 30, 2011	14,167,393
Class A Common Stock Outstanding as of April 30, 2011	39,001,198
Class B Stock Outstanding as of April 30, 2011	1,652,262

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PART I. FINANCIAL INFORMATION

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, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy, our ability to pass through grain and other raw material price increases 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, plans, intends, believes and, variations of such words or similar express intended to identify forward-looking statements. All forward-looking statements 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 25, 2010 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:

seasonality and fluctuations in our operating results and cash flow;

fluctuations in market prices for seeds and grains and other raw materials;

declines in consumer spending during economic downturns;

inflation, deflation and other adverse macro-economic conditions;

supply shortages in small animals and pet birds;

adverse weather conditions;

fluctuations in energy prices, fuel and related petrochemical costs;

access to and cost of additional capital

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dependence on a few customers for a significant portion of our business;

consolidation trends in the retail industry;

uncertainty about new product innovations and marketing programs;

competition in our industries;

risks associated with our acquisition strategy;

dependence upon our key executive officers;

implementation of a new enterprise resource planning information technology system;

potential environmental liabilities;

risk associated with international sourcing;

litigation and product liability claims;

the voting power associated with our Class B stock; and

potential dilution from issuance of authorized shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CENTRAL GARDEN & PET COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

Unaudited

	March 27, 2010	March 26, 2011	(See Note 1) September 25, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	$ 27,037	$ 11,186	$ 91,460
Short term investments		15,320	15,320
Accounts receivable (less allowance for doubtful accounts of $16,809, $17,211 and $21,564)	277,354	327,090	192,422
Inventories	330,570	381,815	285,964
Prepaid expenses and other	30,167	43,655	42,733
Total current assets	665,128	779,066	627,899
Land, buildings, improvements and equipment net	162,296	169,731	165,281
Goodwill	208,630	209,548	207,319
Other intangible assets net	101,007	87,073	86,798
Deferred income taxes and other assets	58,644	27,139	43,587
Total	$ 1,195,705	$ 1,272,557	$ 1,130,884
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	$ 147,698	$ 163,622	$ 112,611
Accrued expenses	88,573	84,415	81,418
Current portion of long-term debt	14,957	120	165
Total current liabilities	251,228	248,157	194,194
Long-term debt	400,171	517,134	400,106
Other long-term obligations	4,274	3,890	4,441
Equity:			
Common stock, $.01 par value: 17,050,384, 14,856,703 and 16,258,704 shares outstanding at March 27, 2010, March 26, 2011 and September 25, 2010	171	149	163
Class A common stock, $.01 par value: 45,719,395, 39,955,882 and 43,696,426 shares outstanding at March 27, 2010, March 26, 2011 and September 25, 2010	457	399	437
Class B stock, $.01 par value: 1,652,262 shares outstanding	16	16	16
Additional paid-in capital	505,170	443,169	483,817
Accumulated earnings	33,541	57,952	45,319
Accumulated other comprehensive income	403	1,235	944

Total Central Garden & Pet Company shareholders equity	539,758	502,920	530,696
Noncontrolling interest	274	456	1,447
Total equity	540,032	503,376	532,143
Total	$ 1,195,705	$ 1,272,557	$ 1,130,884

See notes to condensed consolidated financial statements.

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CENTRAL GARDEN & PET COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended		Six Months Ended	
	March 27, 2010	**March 26, 2011**	**March 27, 2010**	**March 26, 2011**
Net sales	$ 441,936	$ 485,724	$ 711,172	$ 767,443
Cost of goods sold and occupancy	280,747	322,455	462,214	521,117
Gross profit	161,189	163,269	248,958	246,326
Selling, general and administrative expenses	100,667	103,639	187,915	193,179
Income from operations	60,522	59,630	61,043	53,147
Interest expense	(9,814)	(9,343)	(14,758)	(18,382)
Interest income	1	60	11	193
Other income (expense)	(206)	204	386	(202)
Income before income taxes and noncontrolling interest	50,503	50,551	46,682	34,756
Income taxes	18,568	18,190	17,166	12,073
Income including noncontrolling interest	31,935	32,361	29,516	22,683
Net income attributable to noncontrolling interest	315	595	790	509
Net income attributable to Central Garden & Pet Company	$ 31,620	$ 31,766	$ 28,726	$ 22,174
Net income per share attributable to Central Garden & Pet Company:				
Basic	$ 0.49	$ 0.55	$ 0.44	$ 0.37
Diluted	$ 0.49	$ 0.54	$ 0.43	$ 0.37
Weighted average shares used in the computation of net income per share:				
Basic	63,988	57,955	65,408	59,447
Diluted	64,950	58,433	66,435	59,961

See notes to condensed consolidated financial statements.

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CENTRAL GARDEN & PET COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended March 27, 2010	Six Months Ended March 26, 2011
Cash flows from operating activities:		
Net income	$ 29,516	$ 22,683
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,463	14,210
Stock-based compensation	2,610	3,468
Excess tax benefits from stock-based awards	(422)	(412)
Deferred income taxes	(640)	8,557
Loss on extinguishment of debt, net of premium paid	1,122	
Loss (gain) on sale of property and equipment	161	(28)
Change in assets and liabilities:		
Accounts receivable	(71,206)	(131,043)
Inventories	(46,141)	(83,748)
Prepaid expenses and other assets	16,150	6,946
Accounts payable	38,254	54,397
Accrued expenses	6,854	(700)
Other long-term obligations	(251)	(551)
Net cash used by operating activities	(9,530)	(106,221)
Cash flows from investing activities:		
Additions to property and equipment	(9,426)	(13,813)
Payments to acquire companies, net of cash acquired		(24,202)
Net cash used in investing activities	(9,426)	(38,015)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	400,000	
Repayments of long-term debt	(391,206)	(132)
Borrowings under revolving line of credit		238,000
Repayments under revolving line of credit		(121,000)
Proceeds from issuance of common stock	722	641
Repurchase of common stock	(37,148)	(52,509)
Distribution to noncontrolling interest	(2,761)	(1,500)
Excess tax benefits from stock-based awards	422	412
Payment of financing costs	(9,468)	
Net cash provided by (used in) financing activities	(39,439)	63,912
Effect of exchange rate changes on cash and cash equivalents	(236)	50
Net decrease in cash and cash equivalents	(58,631)	(80,274)
Cash and equivalents at beginning of period	85,668	91,460
Cash and equivalents at end of period	$ 27,037	$ 11,186

Supplemental information:		
Cash paid for interest	$ 13,330	$ 18,165

See notes to condensed consolidated financial statements.

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CENTRAL GARDEN & PET COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended March 26, 2011

(unaudited)

1. Basis of Presentation

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the Company or Central) as of March 27, 2010 and March 26, 2011, the condensed consolidated statements of operations for the three and six months ended March 27, 2010 and March 26, 2011, and the condensed consolidated statements of cash flows for the six months ended March 27, 2010 and March 26, 2011 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. Deferred taxes are not provided on translation gains and losses, because the Company expects earnings of its foreign subsidiary to be permanently reinvested. Transaction gains and losses are included in results of operations. See Note 7, Supplemental Equity and Comprehensive Income Information, for further detail.

Due to the seasonal nature of the Company s garden business, the results of operations for the three and six month periods ended March 27, 2010 and March 26, 2011 are not indicative of the operating results that may be expected for the entire fiscal year. These interim financial statements should be read in conjunction with the annual audited financial statements, accounting policies and financial notes thereto, included in the Company s 2010 Annual Report on Form 10-K, which has previously been filed with the Securities and Exchange Commission, as well as other subsequent Securities and Exchange Commission filings. The September 25, 2010 balance sheet presented herein was derived from the audited statements.

Noncontrolling Interest

Noncontrolling interest in the Company s condensed consolidated financial statements represents the 20% interest not owned by Central in a consolidated subsidiary. Since the Company controls this subsidiary, its financial statements are fully consolidated with those of the Company, and the noncontrolling owner s 20% share of the subsidiary s net assets and results of operations is deducted and reported as noncontrolling interest on the consolidated balance sheets and as net income (loss) attributable to noncontrolling interest in the consolidated statements of operations. See Note 7, Supplemental Equity and Comprehensive Income Information, for additional information.

Derivative Instruments

The Company principally uses a combination of purchase orders and various short and long-term supply arrangements in connection with the purchase of raw materials, including certain commodities. The Company also enters into commodity futures and options contracts to reduce the volatility of price fluctuations of corn, which impacts the cost of raw materials. The Company s primary objective when entering into these derivative contracts is to achieve greater certainty with regard to the future price of commodities purchased for use in its supply chain. These derivative contracts are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments.

The Company does not perform the assessments required to achieve hedge accounting for commodity derivative positions. Accordingly, the changes in the values of these derivatives are recorded currently in cost of sales in its condensed consolidated statements of operations. As of March 26, 2011, the notional amount of these contracts was not significant.

Recent Accounting Pronouncements

On September 26, 2010, the Company adopted provisions of ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (VIEs). This ASU amends the guidance for consolidation of VIEs primarily related to the determination of the primary beneficiary of the VIE. The adoption of this standard did not have a material impact on the Company s consolidated financial statements.

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In January 2010, the FASB issued ASU No. 2010-6, Improving Disclosures about Fair Value Measurements. This ASU requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring presentation on gross basis information about purchases, sales, issuances and settlements in Level 3 fair value measurements. The ASU also clarifies existing disclosures regarding level of disaggregation, inputs and valuation techniques. The ASU is effective for interim and annual reporting periods beginning after December 15, 2009 and became effective for the Company on December 27, 2009. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010 and will be effective for the Company on September 25, 2011. The Company does not anticipate the adoption of this ASU to have a material impact on the Company s consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, Intangibles Goodwill and Other (Topic 350) When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28). The amendments in this update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years and interim periods within those years, beginning after December 15, 2010 and will be effective for the Company on September 25, 2011. The Company does not anticipate the adoption of this ASU to have a material impact on the Company s consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29, Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations (ASU 2010-29). The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for material (either on an individual or aggregate basis) business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. ASU 2010-29 is effective for the Company for acquisitions made during the quarter beginning December 26, 2010. The adoption of ASU 2010-29 during the quarter ended March 26, 2011 did not have an impact on the Company s consolidated financial statements; however, the Company may have additional disclosure requirements if a material acquisition occurs.

2. Fair Value Measurements

ASC 820 established a single authoritative definition of fair value, a framework for measuring fair value and expands disclosure of fair value measurements. ASC 820 requires financial assets and liabilities to be categorized based on the inputs used to calculate their fair values as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the asset or liability, which reflect the Company s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company had short term investments, consisting of a bank certificate of deposit, measured at fair value under Level 2 inputs in the fair value hierarchy, as of March 26, 2011. The Company had no other significant financial assets or liabilities on the balance sheet that were measured at fair value as of March 26, 2011.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company measures certain non-financial assets and liabilities, including long-lived assets, goodwill and intangible assets, at fair value on a non-recurring basis. Fair value measurements of non-financial assets and non-financial liabilities are used primarily in the impairment analyses of long-lived assets, goodwill and other intangible assets. During the period ended March 26, 2011, the Company was not required to measure any significant non-financial assets and liabilities at fair value.

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3. Financial Instruments

The Company s financial instruments include cash and equivalents, short term investments consisting of a bank certificate of deposit, accounts receivable and payable, short-term borrowings, and accrued liabilities. The carrying amount of these instruments approximates fair value because of their short-term nature.

The estimated fair value of the Company s $400 million 8.25 % senior subordinated notes due 2018 as of March 26, 2011 was $421.0 million, compared to a carrying value of $400.0 million. The estimated fair value is based on quoted market prices for these notes.

4. Goodwill

The Company accounts for goodwill in accordance with ASC 350, Intangibles Goodwill and Other, and tests goodwill for impairment annually, or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This assessment involves the use of significant accounting judgments and estimates as to future operating results and discount rates. Changes in estimates or use of different assumptions could produce significantly different results. An impairment loss is generally recognized when the carrying amount of the reporting unit s net assets exceeds the estimated fair value of the reporting unit. The Company uses discounted cash flow analysis to estimate the fair value of our reporting units. The Company s goodwill impairment analysis also includes a comparison of the aggregate estimated fair value of all four reporting units to the Company s total market capitalization.

Contingent performance payments of $1.0 million were paid through the period ended March 26, 2011 for previous acquisitions and were recorded as goodwill.

On February 28, 2011, the Company acquired certain assets of a privately-held maker of premium fertilizer for the professional and retail markets for approximately $23 million in cash. The acquired assets were integrated into the business of Pennington Seed, Inc., a wholly owned subsidiary of the Company. The purchase price exceeded the estimated fair value of the tangible and intangible assets acquired by approximately $1 million, which was recorded as goodwill during the period ended March 26, 2011.

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5. Other Intangible Assets

The following table summarizes the components of gross and net acquired intangible assets:

	Gross	Accumulated Amortization (in millions)	Impairment	Net Carrying Value
March 26, 2011				
Marketing-related intangible assets amortizable	$ 12.3	$ (5.6)	$	$ 6.7
Marketing-related intangible assets nonamortizable	59.6		(16.9)	42.7
Total	71.9	(5.6)	(16.9)	49.4
Customer-related intangible assets amortizable	41.6	(11.9)		29.7
Other acquired intangible assets amortizable	11.9	(3.9)		8.0
Other acquired intangible assets nonamortizable	1.2		(1.2)	
Total	13.1	(3.9)	(1.2)	8.0
Total other intangible assets	$ 126.6	$ (21.4)	$ (18.1)	87.1
March 27, 2010				
Marketing-related intangible assets amortizable	$ 12.3	$ (4.4)	$	$ 7.9
Marketing-related intangible assets nonamortizable	59.6		(4.9)	54.7
Total	71.9	(4.4)	(4.9)	62.6
Customer-related intangible assets amortizable	41.6	(9.7)		31.9
Other acquired intangible assets amortizable	9.2	(2.7)		6.5
Other acquired intangible assets nonamortizable	1.2		(1.2)	
Total	10.4	(2.7)	(1.2)	6.5
Total other intangible assets	$ 123.9	$ (16.8)	$ (6.1)	$ 101.0
September 25, 2010				
Marketing-related intangible assets amortizable	$ 12.3	$ (5.0)	$	$ 7.3
Marketing-related intangible assets nonamortizable	59.6		(16.9)	42.7
Total	71.9	(5.0)	(16.9)	50.0
Customer-related intangible assets amortizable	41.6	(10.8)		30.8
Other acquired intangible assets amortizable	9.2	(3.2)		6.0
Other acquired intangible assets nonamortizable	1.2		(1.2)	
Total	10.4	(3.2)	(1.2)	6.0
Total other intangible assets	$ 123.9	$ (19.0)	$ (18.1)	$ 86.8

Other intangible assets acquired include contract-based and technology-based intangible assets.

On February 28, 2011, the Company acquired approximately $2.6 million (net of $0.1 million of amortization) of identified intangible assets as part of its acquisition of certain assets of a privately-held maker of premium fertilizer. These assets are included under the caption, Other acquired intangible assets amortizable in the table above, pending final valuation.

The Company evaluates long-lived assets, including amortizable and indefinite-lived intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The Company evaluates indefinite-lived intangible assets on an annual basis. In fiscal 2010, the Company recognized a non-cash $12.0 million impairment charge to one of its indefinite-lived intangible assets as a result of the continuing challenging economic environment. The fair value of the remaining $27.8 million of indefinite-lived intangible assets exceeded their carrying value at September 25, 2010. In fiscal 2009, the Company tested its indefinite-lived intangible assets and no impairment was indicated.

The Company is currently amortizing its acquired intangible assets with definite lives; over weighted average remaining lives of eight years for marketing-related intangibles, 18 years for customer-related intangibles and six years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately $1.4 million and $1.1 million, for the three month periods ended March 26, 2011 and March 27, 2010, respectively, and $2.4 million for each of the six months periods ended March 26, 2011 and March 27, 2010, respectively, and is classified within operating expenses in the condensed consolidated statements of operations. Estimated annual amortization expense related to acquired intangible assets in each of the succeeding five years is estimated to be approximately $4 million per year from fiscal 2012 through fiscal 2016.

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6. Long-Term Debt

Long-term debt consists of the following:

	March 26, 2011	September 25, 2010
	(in thousands)	
Senior subordinated notes, interest at 8.25%, payable semi- annually, principal due March 2018	$ 400,000	$ 400,000
Revolving credit facility, interest at Alternate Base Rate plus a margin of 1.5% to 2.5%, or LIBOR plus a margin of 2.5% to 3.5%, final maturity June 2015	117,000	
Other notes payable	254	271
Total	517,254	400,271
Less current portion	(120)	(165)
Long-term portion	$ 517,134	$ 400,106

Senior Credit Facility

On June 25, 2010, the Company entered into an Amended and Restated Credit Agreement (the Credit Agreement) with respect to a five-year senior secured revolving credit facility (the Credit Facility) in an aggregate principal amount of $275 million. The Company has the option to increase the size of the Facility by an additional $200 million of incremental term loans and/or revolving loans should it exercise its option and one or more lenders are willing to make such increased amounts available to it. There was an outstanding balance of $117.0 million as of March 26, 2011 under the Credit Facility. There were also $3.7 million of letters of credit outstanding. After giving effect to the financial covenants in the Credit Agreement, the remaining potential borrowing capacity was $154.3 million.

Interest on the Credit Facility is based, at the Company s option, on a rate equal to the Alternate Base Rate (ABR), which is the greatest of the prime rate, the Federal Funds rate plus $^1/2$ of 1% or one month LIBOR plus 1%, plus a margin, which fluctuates from 1.5% to 2.5%, or LIBOR plus a margin, which fluctuates from 2.5% to 3.5% and commitment fees that range from 0.35% to 0.75%, determined quarterly based on consolidated total debt to consolidated EBITDA for the most recent trailing 12-month period. As of March 26, 2011, the applicable interest rate on the Credit Facility related to alternate base rate borrowings was 5.25%, and the applicable interest rate related to LIBOR rate borrowings was 3.26%.

The Credit Facility is guaranteed by the Company s material subsidiaries and is secured by the Company s assets, excluding real property but including substantially all of the capital stock of the Company s subsidiaries. The Credit Agreement contains certain financial and other covenants which require the Company to maintain minimum levels of interest coverage and maximum levels of senior debt to EBITDA and that restrict the Company s ability to repurchase its stock, make investments in or acquisitions of other businesses and pay dividends above certain levels over the life of the Credit Facility. Under the terms of the Company s Credit Facility, it may make restricted payments, including cash dividends and stock repurchases, in an aggregate amount initially not to exceed $200 million over the life of the Credit Facility, subject to qualifications and baskets as defined in the Credit Agreement. As of March 26, 2011, the Company s Total Leverage Ratio, as defined in the Credit Agreement, was 3.5 to 1.0, and the Company s Senior Secured Leverage Ratio, as defined in the Credit Agreement with a maximum of 2.25 to 1.0, was 0.8 to 1.0. Apart from the covenants limiting restricted payments and capital expenditures, the Credit Facility does not restrict the use of retained earnings or net income. The Company was in compliance with all financial covenants as of March 26, 2011.

Senior Subordinated Notes and Debt Refinancing

On March 8, 2010, the Company issued $400 million aggregate principal amount of 8.25% senior subordinated notes due March 1, 2018 (the 2018 Notes). The Company used the proceeds together with available cash to purchase its outstanding $150 million aggregate principal amount of 9.125% senior subordinated notes due February 1, 2013 (the 2013 Notes), including accrued interest, to repay the $267.1 million outstanding under its senior term loan maturing February 2012 and pay fees and expenses related to the offering. The Company received tenders and consents from the holders of $150 million of its 2013 Notes, including $12.8 million held in escrow for the benefit of the Company, which was previously recorded as a reduction of debt for accounting purposes against the Company s 2013 Notes.

The 2018 Notes require semiannual interest payments, which commenced on September 1, 2010. The 2018 Notes are unsecured senior subordinated obligations and are subordinated to all of the Company s existing and future senior debt, including the Company s Credit Facility. The obligations under the 2018 Notes are fully and unconditionally guaranteed on a senior subordinated basis by each of the Company s existing and future domestic restricted subsidiaries with certain exceptions. The guarantees are general unsecured senior subordinated obligations of the guarantors and are subordinated to all existing and future senior debt of the guarantors.

The Company may redeem some or all of the 2018 Notes at any time prior to March 1, 2014 at the principal amount plus a make whole premium. The Company may redeem some or all of the 2018 Notes at any time on or after March 1, 2014 for 104.125%, after March 1, 2015 for 102.063% and after March 1, 2016 for 100%, plus accrued and unpaid interest. Additionally, at any time prior to March 1, 2013, the Company may redeem up to 35% of the 2018 Notes with any proceeds the Company receives from certain equity offerings at a redemption price of 108.25% of the principal amount, plus accrued and unpaid interest. The holders of the 2018 Notes have the right to require the Company to repurchase all or a portion of the 2018 Notes at a purchase price equal to 101% of the principal amount of the notes repurchased, plus accrued and unpaid interest through the repurchase date upon the occurrence of a change of control.

The 2018 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions.

7. Supplemental Equity and Comprehensive Income Information

The following table summarizes the allocation of total comprehensive income between controlling and noncontrolling interests for the six months ended March 26, 2011 and March 27, 2010:

	Six Months Ended March 26, 2011		
(in thousands)	**Controlling Interest**	**Noncontrolling Interest**	**Total**
Net income	$ 22,174	$ 509	$ 22,683
Other comprehensive income:			