

CENTRAL GARDEN & PET CO
Form 10-Q
August 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 24, 2017

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 (I.R.S. Employer
of incorporation or organization) Identification No.)

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

(Address of principal 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. 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: CENTRAL GARDEN & PET CO - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). " Yes 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 July 25, 2017	12,160,023
Class A Common Stock Outstanding as of July 25, 2017	37,962,372
Class B Stock Outstanding as of July 25, 2017	1,652,262

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited):</u>	
	<u>Condensed Consolidated Balance Sheets as of June 24, 2017, June 25, 2016 and September 24, 2016</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Operations Three and Nine Months Ended June 24, 2017 and June 25, 2016</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Comprehensive Income Three and Nine Months Ended June 24, 2017 and June 25, 2016</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows Nine Months Ended June 24, 2017 and June 25, 2016</u>	<u>7</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>41</u>
Item 4.	<u>Controls and Procedures</u>	<u>41</u>

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>41</u>
Item 1A.	<u>Risk Factors</u>	<u>41</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>41</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>42</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>42</u>
Item 5.	<u>Other Information</u>	<u>42</u>
Item 6.	<u>Exhibits</u>	<u>43</u>

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 and the trends we anticipate in the industries 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 expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, our future earnings expectations, 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 the Form 10-K for the fiscal year ended September 24, 2016, including the factors described in the section entitled “Item 1A – Risk Factors.” If any of these risks or uncertainties materializes, 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, except as required by law. 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;
- our inability to pass through cost increases in a timely manner;
- our dependence upon key executives;

Table of Contents

- risks associated with new product introductions, including the risk that our new products will not produce sufficient sales to recoup our investment;
- fluctuations in energy prices, fuel and related petrochemical costs;
- declines in consumer spending during economic downturns;
- inflation, deflation and other adverse macro-economic conditions;
- supply shortages in pet birds, small animals and fish;
- adverse weather conditions;
- risks associated with our acquisition strategy and joint ventures;
- access to and cost of additional capital;
- dependence on a small number of customers for a significant portion of our business;
- increasing consolidation and other trends in the retail industry;
- competition in our industries;
- potential goodwill or intangible asset impairment;
- continuing implementation of an enterprise resource planning information technology system;
- our ability to protect our intellectual property rights;
- potential environmental liabilities;
- risk associated with international sourcing;
- litigation and product liability claims;
- regulatory issues;
- the impact of product recalls;
- potential costs and risks associated with actual or anticipated cyber attacks;
- the voting power associated with our Class B stock; and
- potential dilution from issuance of authorized shares.

Table of Contents

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)

	June 24, 2017	June 25, 2016	September 24, 2016
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 14,473	\$ 40,000	\$ 92,982
Restricted cash	10,999	12,029	10,910
Accounts receivable (less allowance for doubtful accounts of \$21,277, \$25,429 and \$21,069)	279,504	241,954	201,151
Inventories	383,449	361,813	362,004
Deferred taxes, prepaid expenses and other	51,964	45,075	47,759
Total current assets	740,389	700,871	714,806
Land, buildings, improvements and equipment—net	177,784	159,430	158,224
Goodwill	230,385	233,011	231,385
Other intangible assets—net	90,004	95,070	95,865
Other assets	113,185	28,525	11,913
Total	\$ 1,351,747	\$ 1,216,907	\$ 1,212,193
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	\$ 106,408	\$ 96,906	\$ 102,413
Accrued expenses	112,091	102,953	99,343
Current portion of long-term debt	375	530	463
Total current liabilities	218,874	200,389	202,219
Long-term debt	435,074	394,603	394,806
Deferred taxes and other long-term obligations	68,792	63,975	60,581
Equity:			
Common stock, 12,160,023, 11,998,472, and 11,998,472 shares outstanding at June 24, 2017, June 25, 2016 and September 24, 2016	122	120	120
Class A common stock, \$0.01 par value: 37,933,970, 37,197,569 and 37,418,572 shares outstanding at June 24, 2017, June 25, 2016 and September 24, 2016	379	371	374
Class B stock, \$0.01 par value: 1,652,262 shares outstanding	16	16	16
Additional paid-in capital	392,995	390,270	393,297
Accumulated earnings	235,070	166,112	160,501
Accumulated other comprehensive income (loss)	(1,487) (805) (1,294
Total Central Garden & Pet Company shareholders' equity	627,095	556,084	553,014
Noncontrolling interest	1,912	1,856	1,573
Total equity	629,007	557,940	554,587
Total	\$ 1,351,747	\$ 1,216,907	\$ 1,212,193

See notes to condensed consolidated financial statements.

Table of ContentsCENTRAL GARDEN & PET COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 24, 2017	June 25, 2016	June 24, 2017	June 25, 2016
Net sales	\$574,592	\$514,544	\$1,564,014	\$1,415,605
Cost of goods sold and occupancy	391,319	350,799	1,076,534	982,735
Gross profit	183,273	163,745	487,480	432,870
Selling, general and administrative expenses	125,340	115,560	345,749	316,509
Operating income	57,933	48,185	141,731	116,361
Interest expense	(7,273)	(6,964)	(20,976)	(36,205)
Interest income	53	43	99	74
Other income (expense)	1,626	318	(306)	(243)
Income before income taxes and noncontrolling interest	52,339	41,582	120,548	79,987
Income tax expense	19,450	14,916	44,621	28,509
Income including noncontrolling interest	32,889	26,666	75,927	51,478
Net income attributable to noncontrolling interest	641	636	1,358	1,353
Net income attributable to Central Garden & Pet Company	\$32,248	\$26,030	\$74,569	\$50,125
Net income per share attributable to Central Garden & Pet Company:				
Basic	\$0.64	\$0.53	\$1.49	\$1.03
Diluted	\$0.62	\$0.51	\$1.44	\$0.99
Weighted average shares used in the computation of net income per share:				
Basic	50,507	49,120	50,084	48,801
Diluted	51,825	51,063	51,769	50,743
See notes to condensed consolidated financial statements.				

CENTRAL GARDEN & PET COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 24, 2017	June 25, 2016	June 24, 2017	June 25, 2016
Income including noncontrolling interest	\$32,889	\$26,666	\$75,927	\$51,478
Other comprehensive income (loss):				
Foreign currency translation	172	(277)	(193)	(969)
Total comprehensive income	33,061	26,389	75,734	50,509
Comprehensive income attributable to noncontrolling interest	641	636	1,358	1,353
Comprehensive income attributable to Central Garden & Pet Company	\$32,420	\$25,753	\$74,376	\$49,156

See notes to condensed consolidated financial statements.

Table of Contents

CENTRAL GARDEN & PET COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands, unaudited)

	Nine Months Ended	
	June 24, 2017	June 25, 2016
Cash flows from operating activities:		
Net income	\$75,927	\$51,478
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	31,374	29,286
Amortization of deferred financing costs	1,021	1,164
Stock-based compensation	8,189	6,069
Excess tax benefits from stock-based awards	(17,205)	(4,726)
Deferred income taxes	10,420	12,305
Write-off of deferred financing costs	—	3,337
Loss on sale of property and equipment	96	788
Gain on sale of facility	(2,050)	(2,544)
Other	1,241	190
Change in assets and liabilities (excluding businesses acquired):		
Accounts receivable	(74,234)	(13,236)
Inventories	(17,347)	(5,928)
Prepaid expenses and other assets	11,774	6,493
Accounts payable	2,901	(8,027)
Accrued expenses	10,629	14,812
Other long-term obligations	(88)	(1,878)
Net cash provided by operating activities	42,648	89,583
Cash flows from investing activities:		
Additions to property and equipment	(37,087)	(19,486)
Payments to acquire companies, net of cash acquired	(106,821)	(68,901)
Proceeds from the sale of business, facility and other assets	8,301	3,899
Change in restricted cash	(89)	1,129
Investment in equity method investee	(11,495)	—
Other investing activities	(2,735)	(550)
Net cash used in investing activities	(149,926)	(83,909)
Cash flows from financing activities:		
Repayments of long-term debt	(456)	(400,230)
Proceeds from issuance of long-term debt	—	400,000
Borrowings under revolving line of credit	456,000	419,000
Repayments under revolving line of credit	(416,000)	(419,000)
Proceeds from issuance of common stock	—	280
Repurchase of common stock, including shares surrendered for tax withholding	(25,654)	(9,429)
Payment of contingent consideration liability	(1,222)	—
Distribution to noncontrolling interest	(1,019)	(592)
Payment of financing costs	—	(7,560)
Excess tax benefits from stock-based awards	17,205	4,726
Net cash provided (used) by financing activities	28,854	(12,805)
Effect of exchange rate changes on cash and cash equivalents	(85)	(453)

Edgar Filing: CENTRAL GARDEN & PET CO - Form 10-Q

Net decrease in cash and cash equivalents	(78,509)	(7,584)
Cash and equivalents at beginning of period	92,982	47,584
Cash and equivalents at end of period	\$ 14,473	\$ 40,000
Supplemental information:		
Cash paid for interest	\$27,075	\$ 32,440
See notes to condensed consolidated financial statements.		

7

CENTRAL GARDEN & PET COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Nine Months Ended June 24, 2017
(Unaudited)

1. Basis of Presentation

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the “Company” or “Central”) as of June 24, 2017 and June 25, 2016, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive income for the three and nine months ended June 24, 2017 and June 25, 2016, and the condensed consolidated statements of cash flows for the nine months ended June 24, 2017 and June 25, 2016 have been prepared by the Company, without audit. In the opinion of management, the interim financial statements include all normal recurring adjustments necessary for a fair statement of the results for the interim periods presented.

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 8, Supplemental Equity Information, for further detail.

Due to the seasonal nature of the Company’s garden business, the results of operations for the three and nine months ended June 24, 2017 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 2016 Annual Report on Form 10-K, which has previously been filed with the Securities and Exchange Commission. The September 24, 2016 balance sheet presented herein was derived from the audited financial 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 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 8, Supplemental Equity Information, for additional information.

Restricted Cash

Restricted cash includes cash and highly liquid instruments that are used as collateral for stand-alone letter of credit agreements related to normal business transactions. These agreements require the Company to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash the Company has available for other uses. The amount of cash collateral in these segregated accounts was approximately \$11.0 million, \$12.0 million and \$10.9 million as of June 24, 2017, June 25, 2016 and September 24, 2016, respectively, and is reflected in Restricted cash on the condensed consolidated balance sheets.

Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

Consolidation

In February 2015, the FASB issued ASU 2015-02 (ASU 2015-02), Amendments to the Consolidation Analysis to ASC Topic 810, Consolidation. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 became effective during the Company’s first quarter of fiscal 2017, and the adoption of the standard had no impact on the Company’s condensed consolidated financial statements.

Table of Contents

Stock Based Compensation

In June 2014, the FASB issued ASU No. 2014-12 (ASU 2014-12), Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 became effective during the Company's first quarter of fiscal 2017, and the adoption of the standard had no impact on the Company's condensed consolidated financial statements.

Accounting Standards Not Yet Adopted

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers. This update was issued as Accounting Standards Codification Topic 606. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB deferred the effective date of ASU 2014-09 for one year. ASU 2014-09 is now effective for the Company beginning in the first quarter of its fiscal year ending September 28, 2019. Early adoption is permitted, but not before interim and annual reporting periods beginning after December 15, 2016. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02 (ASU 2016-02), Leases (Topic 842). ASU 2016-02 requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. ASU 2016-02 is effective for the Company in our first quarter of fiscal 2020 on a modified retrospective basis and earlier adoption is permitted. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02 on its consolidated financial statements, and it currently expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon the adoption of ASU 2016-02.

Stock Compensation

In March 2016, the FASB issued ASU 2016-09 (ASU 2016-09), Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies the accounting for share-based payment award transactions including: income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, or the Company's first quarter of fiscal 2018. Early adoption is permitted. The Company is currently evaluating the requirements of ASU 2016-09 and has not yet determined the impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09 (ASU 2017-09), Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which provides clarity on which changes to the terms or conditions of share-based payment awards require an entity to apply the modification accounting provisions required in Topic 718. The standard is effective for all entities for annual periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

Inventory Measurement

In July 2015, the FASB issued ASU 2015-11 (ASU 2015-11), Simplifying the Measurement of Inventory. Under ASU 2015-11, inventory will be measured at the "lower of cost and net realizable value" and options that currently exist for "market value" will be eliminated. The standard defines net realizable value as the "estimated selling prices in the

ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.” No other changes were made to the current guidance on inventory measurement. ASU 2015-11 is effective for interim and annual periods beginning after

9

Table of Contents

December 15, 2016, or the Company's first quarter of fiscal 2018. Early application is permitted and should be applied prospectively. The Company does not expect the adoption of ASU 2015-11 will have a material impact on its condensed consolidated financial statements and related disclosures.

Balance Sheet Classification of Deferred Taxes.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. This ASU eliminates the current requirement for entities to present deferred tax liabilities and assets as current and noncurrent in a classified statement of financial position and instead requires that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, or the Company's first quarter of fiscal 2018, and interim periods within those annual periods. The standard allows for either a retrospective or prospective transition method and is not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows. As of June 24, 2017, June 25, 2016 and September 24, 2016, net current deferred tax assets classified within deferred taxes, prepaid expenses and other current assets were \$30.4 million, \$29.7 million and \$31.5 million, respectively.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). The ASU provides additional clarification guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, or the Company's first quarter of fiscal 2019, with early adoption permitted. The Company is currently evaluating the impact the adoption of ASU 2016-15 will have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force) (ASU 2016-18). This ASU clarifies the presentation of restricted cash on the statement of cash flows. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending cash balances on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, or the Company's first quarter of fiscal 2019, with early adoption permitted. The Company does not expect that ASU 2016-18 will have a material impact on its condensed consolidated financial statements and related disclosures.

Business Combinations

In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business (ASU 2017-01), which requires an evaluation of whether substantially all of the fair value of assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If so, the transaction does not qualify as a business. The guidance also requires an acquired business to include at least one substantive process and narrows the definition of outputs. The Company is required to apply this guidance to annual periods beginning after December 15, 2017, including interim periods within those periods, or the Company's first quarter of fiscal 2019. The Company is currently evaluating the impact the adoption of ASU 2017-01 will have on its consolidated financial statements.

Goodwill

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment. The new guidance simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new guidance will be effective for annual periods or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, or the Company's first quarter of fiscal 2021. The amendment should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on

testing dates after January 1, 2017. The Company will adopt this guidance in its fourth quarter of fiscal 2017 as part of its annual goodwill impairment testing.

2. Fair Value Measurements

ASC 820 establishes 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).

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis based upon the level within the fair value hierarchy in which the fair value measurements fall, as of June 24, 2017 (in thousands):

	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for contingent consideration (a)	\$ 0	\$ 0	\$4,095	\$4,095
Total liabilities	\$ 0	\$ 0	\$4,095	\$4,095

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis based upon the level within the fair value hierarchy in which the fair value measurements fall, as of June 25, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for contingent consideration (a)	\$ 0	\$ 0	\$6,355	\$6,355
Total liabilities	\$ 0	\$ 0	\$6,355	\$6,355

The following table presents our financial assets and liabilities at fair value on a recurring basis based upon the level within the fair value hierarchy in which the fair value measurements fall, as of September 24, 2016:

	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for contingent consideration (a)	\$ 0	\$ 0	\$5,113	\$5,113
Total liabilities	\$ 0	\$ 0	\$5,113	\$5,113

The liability for contingent consideration relates to an earn-out for B2E, acquired in December 2012, and future performance-based contingent payments for Hydro-Organics Wholesale, Inc., acquired in October 2015. The fair value of the estimated contingent consideration arrangement is determined based on the Company's evaluation as to the probability and amount of any earn-out that will be achieved based on expected future performance by the acquired entity. This is presented as part of long-term liabilities in the Company's condensed consolidated balance sheets.

The following table provides a summary of the changes in fair value of the Company's Level 3 financial instruments for the periods ended June 24, 2017 and June 25, 2016 (in thousands):

	Amount
Balance September 24, 2016	\$5,113
Estimated contingent performance-based consideration established at the time of acquisition	—
Changes in the fair value of contingent performance-based payments established at the time of acquisition	204
Performance-based payments	(1,222)
Balance June 24, 2017	\$4,095
	Amount
Balance September 26, 2015	\$3,625
Estimated contingent performance-based consideration established at the time of acquisition	2,590
Changes in the fair value of contingent performance-based payments established at the time of acquisition	140
Balance June 25, 2016	\$6,355

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 periods ended June 24, 2017 and June 25, 2016, the Company was not required to measure any significant non-financial assets and liabilities at fair value.

Fair Value of Other Financial Instruments

In November 2015, the Company issued \$400 million aggregate principal amount of 6.125% senior notes due November 2023 (the "2023 Notes"). The estimated fair value of the Company's 2023 Notes as of June 24, 2017, June 25, 2016 and September 24, 2016 was \$430.5 million, \$417 million and \$430.3 million, respectively, compared to a carrying value of \$395.0 million, \$394.2 million and \$394.4 million, respectively.

3. Acquisitions

K&H Manufacturing

On April 28, 2017, the Company purchased K&H Manufacturing, a producer of premium pet supplies and the largest marketer of heated pet products in the country, for a purchase price of approximately \$48.0 million. The purchase price exceeded the estimated fair value of the net tangible assets acquired by approximately \$41.8 million, which is included in other assets in the Company's condensed consolidated balance sheet as of June 24, 2017. The Company has not yet finalized the allocation of the purchase price to the fair value of the intangible assets acquired. K&H sells branded pet products under the K&H and K&H Pet brands. The acquisition is expected to complement the Company's existing dog and cat business.

Segrest Inc.

On October 24, 2016, the Company acquired Segrest, Inc., a wholesaler of aquarium fish, for a purchase price of approximately \$60.0 million, of which \$6.0 million is in an escrow account managed by an independent trustee and is payable contingent upon future events. The purchase price exceeded the estimated fair value of the net tangible assets acquired by approximately \$47.7 million, which is included in other assets in the Company's condensed consolidated balance sheet as of June 24, 2017. The Company has not yet finalized the allocation of the purchase price to the fair value of the intangible assets acquired. This acquisition is expected to strengthen the Company's position in the aquatics category and provide the opportunity for synergies with the Company's existing aquatics business. Proforma financial information has not been presented as the Segrest and K&H acquisitions were not considered material to the Company's overall consolidated financial statements during the periods presented.

4. Inventories, net

Inventories, net of allowance for obsolescence, consist of the following (in thousands):

	June 24, 2017	June 25, 2016	September 24, 2016
Raw materials	\$ 118,097	\$ 110,095	\$ 120,786
Work in progress	16,573	16,604	17,378
Finished goods	243,053	225,814	217,788
Supplies	5,726	9,300	6,052
Total inventories, net	\$ 383,449	\$ 361,813	\$ 362,004

5. Goodwill

The Company 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 its reporting units to the Company's total market capitalization.

6. Other Intangible Assets

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

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
	(in millions)			
June 24, 2017				
Marketing-related intangible assets – amortizable	\$ 14.9	\$ (11.9)	\$ —	\$ 3.0
Marketing-related intangible assets – nonamortizable	62.7	—	(26.0)	36.7
Total	77.6	(11.9)	(26.0)	39.7
Customer-related intangible assets – amortizable	64.3	(29.0)	—	35.3
Other acquired intangible assets – amortizable	20.8	(12.4)	—	8.4
Other acquired intangible assets – nonamortizable	7.8	—	(1.2)	6.6
Total	28.6	(12.4)	(1.2)	15.0
Total other intangible assets	\$ 170.5	\$ (53.3)	\$ (27.2)	\$ 90.0
	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
	(in millions)			
June 25, 2016				
Marketing-related intangible assets – amortizable	\$ 14.9	\$ (11.1)	\$ —	\$ 3.8
Marketing-related intangible assets – nonamortizable	63.0	—	(24.2)	38.8
Total	77.9	(11.1)	(24.2)	42.6
Customer-related intangible assets – amortizable	62.1	(25.8)	—	36.3
Other acquired intangible assets – amortizable	20.8	(11.2)	—	9.6
Other acquired intangible assets – nonamortizable	7.8	—	(1.2)	6.6
Total	28.6	(11.2)	(1.2)	16.2
Total other intangible assets	\$ 168.6	\$ (48.1)	\$ (25.4)	\$ 95.1
	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
	(in millions)			
September 24, 2016				
Marketing-related intangible assets – amortizable	\$ 14.9	\$ (11.3)	\$ —	\$ 3.6
Marketing-related intangible assets – nonamortizable	63.0	—	(26.0)	37.0
Total	77.9	(11.3)	(26.0)	40.6
Customer-related intangible assets – amortizable	65.6	(26.1)	—	39.5
Other acquired intangible assets – amortizable	20.8	(11.6)	—	9.2
Other acquired intangible assets – nonamortizable	7.8	—	(1.2)	6.6
Total	28.6	(11.6)	(1.2)	15.8
Total other intangible assets	\$ 172.1	\$ (49.0)	\$ (27.2)	\$ 95.9

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

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 the fourth quarter of fiscal 2016, the Company recognized a non-cash \$1.8 million impairment charge to certain indefinite-lived intangible assets as a result of increased competition in the marketplace and declining volume of sales. Other factors indicating the carrying value of the Company's amortizable intangible assets may not be recoverable were not present in fiscal 2016 or during the nine months ended June 24, 2017, and accordingly, no impairment testing was performed on these assets.

The Company amortizes its acquired intangible assets with definite lives over periods ranging from four years to 25 years; over weighted average remaining lives of six years for marketing-related intangibles, 11 years for customer-related intangibles and 13 years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately \$1.4 million and \$2.7 million for the three months ended June 24, 2017 and June 25, 2016, respectively, and \$4.3 million and \$4.9 million for the nine months ended June 24, 2017 and June 25, 2016, 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 \$5 million per year from fiscal 2017 through fiscal 2021.

7. Long-Term Debt

Long-term debt consists of the following:

	June 24, 2017	June 25, 2016	September 24, 2016
	(in thousands)		
Senior notes, interest at 6.125%, payable semi-annually, principal due November 2023	\$400,000	\$400,000	\$400,000
Unamortized debt issuance costs	(5,039)	(5,834)	(5,635)
Net carrying value	394,961	394,166	394,365
Asset-based revolving credit facility, interest at LIBOR plus a margin of 1.25% to 1.50% or Base Rate plus a margin of 0.25% to 0.50%, final maturity April 2021	40,000	—	—
Other notes payable	488	967	904
Total	435,449	395,133	395,269
Less current portion	(375)	(530)	(463)
Long-term portion	\$435,074	\$394,603	\$394,806

Senior Notes and Redemption of Senior Subordinated Notes

On November 9, 2015, the Company issued \$400 million aggregate principal amount of 6.125% senior notes due November 2023. In December 2015, the Company used the net proceeds from the offering, together with available cash, to redeem its \$400 million aggregate principal amount of 8.25% senior subordinated notes due March 1, 2018 (2018 Notes) at a price of 102.063% of the principal amount and to pay fees and expenses related to the offering. The Company incurred approximately \$6.3 million of debt issuance costs in conjunction with these transactions, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs are being amortized over the term of the 2023 Notes.

As a result of the Company's redemption of the 2018 Notes, the Company incurred a call premium payment of \$8.3 million, overlapping interest expense for 30 days of approximately \$2.7 million and a \$3.3 million non-cash charge for the write off of unamortized deferred financing costs and discount related to the 2018 Notes. These amounts are included in interest expense in the condensed consolidated statements of operations for the nine months ended June 25, 2016.

The 2023 Notes require semiannual interest payments on May 15 and November 15. The 2023 Notes are unconditionally guaranteed on a senior basis by each of the Company's existing and future domestic restricted subsidiaries which are borrowers under or guarantors of Central's senior secured revolving credit facility. The 2023 Notes are unsecured senior obligations and are subordinated to all of the Company's existing and future secured debt, including the Company's Credit Facility, to the extent of the value of the collateral securing such indebtedness. The Company may redeem some or all of the 2023 Notes at any time, at its option, prior to November 15, 2018 at the principal amount plus a "make whole" premium. At any time prior to November 15, 2018, the Company may also redeem, at its option, up to 35% of the original aggregate principal amount of the notes with the proceeds of certain equity offerings at a redemption price of 106.125% of the principal amount of the notes. The Company may redeem some or all of the 2023 Notes, at its option, at any time on or after November 15, 2018 for 104.594%, on or after November 15, 2019 for 103.063%, on or after November 15, 2020 for 101.531% and on or after November 15, 2021 for 100%, plus accrued and unpaid interest.

The holders of the 2023 Notes have the right to require the Company to repurchase all or a portion of the 2023 Notes at a purchase price equal to 101% of the principal amount of the notes repurchased, plus accrued and unpaid interest upon the occurrence of a change of control.

The 2023 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions. The Company was in compliance with all covenants as of June 24, 2017.

Asset-Based Loan Facility Amendment

On April 22, 2016, the Company entered into an amended and restated credit agreement which provides up to a \$400 million principal amount senior secured asset-based revolving credit facility, with up to an additional \$200 million principal amount available with the consent of the Lenders if the Company exercises the accordion feature set forth therein (collectively, the "Amended Credit Facility"). The Amended Credit Facility matures on April 22, 2021. The Company may borrow, repay and reborrow amounts under the Amended Credit Facility until its maturity date, at which time all amounts outstanding under the Amended Credit Facility must be repaid in full. As of June 24, 2017, there were borrowings of \$40.0 million outstanding and no letters of credit outstanding under the Credit Facility. There were other letters of credit of \$2.6 million outstanding as of June 24, 2017.

The Amended Credit Facility is subject to a borrowing base, calculated using a formula based upon eligible receivables and inventory, minus certain reserves and subject to restrictions. As of June 24, 2017, the borrowing base and remaining borrowing availability was \$360.0 million. Borrowings under the Amended Credit Facility bear interest at an index based on LIBOR or, at the option of the Company, the Base Rate (defined as the highest of (a) the SunTrust prime rate, (b) the Federal Funds Rate plus 0.5% and (c) one-month LIBOR plus 1.00%), plus, in either case, an applicable margin based on the Company's consolidated senior leverage ratio. Such applicable margin for LIBOR-based borrowings fluctuates between 1.25% - 1.50%, and was 1.25% as of June 24, 2017, and such applicable margin for Base Rate borrowings fluctuates between 0.25%-0.5%, and was 0.25% as of June 24, 2017. As of June 24, 2017, the applicable interest rate related to Base Rate borrowings was 4.5%, and the applicable interest rate related to LIBOR-based borrowings was 2.3%.

The Company incurred approximately \$1.2 million of debt issuance costs in conjunction with this transaction, which included underwriter fees, legal and accounting expenses. The debt issuance costs will be amortized over the term of the Amended Credit Facility.

The Amended Credit Facility contains customary covenants, including financial covenants which require the Company to maintain a minimum fixed charge coverage ratio of 1.00:1.00 upon reaching certain borrowing levels. The Amended Credit Facility is secured by substantially all assets of the Company. The Company was in compliance with all financial covenants under the Amended Credit Facility during the quarter ended June 24, 2017.

8. Supplemental Equity Information

The following table provides a summary of the changes in the carrying amounts of equity attributable to controlling interest and noncontrolling interest for the nine months ended June 24, 2017 and June 25, 2016

(in thousands)	Controlling Interest					Accumulated		Noncontrolling Interest	Total
	Common Stock	Class A Common Stock	Class B Stock	Additional Paid In Capital	Retained Earnings	Other Comprehensive Income (Loss)	Total		
Balance September 24, 2016	\$ 120	\$ 374	\$ 16	\$ 393,297	\$ 160,501	\$ (1,294)	\$ 553,014	\$ 1,573	\$ 554,587
Comprehensive income					74,569	(193)	74,376	1,358	75,734
Amortization of share-based awards				6,377			6,377		6,377
Restricted share activity, including net share settlement		(1)		(7,491)			(7,492)		(7,492)
Issuance of common stock, including net share settlement of stock options	2	6		(16,358)			(16,350)		(16,350)
Tax benefit on stock option exercise, net of tax deficiency				17,170			17,170		17,170
Distribution to Noncontrolling interest								(1,019)	(1,019)
Balance June 24, 2017	\$ 122	\$ 379	\$ 16	\$ 392,995	\$ 235,070	\$ (1,487)	\$ 627,095	\$ 1,912	\$ 629,007
(in thousands)	Controlling Interest					Accumulated		Noncontrolling Interest	Total
	Common Stock	Class A Common Stock	Class B Stock	Additional Paid In Capital	Retained Earnings	Other Comprehensive Income (Loss)	Total		
Balance September 26, 2015	\$ 119	\$ 364	\$ 16	\$ 388,636	\$ 115,987	\$ 164	\$ 505,286	\$ 1,094	\$ 506,380
Comprehensive income					50,125	(969)	49,156	1,353	50,509
Amortization of share-based awards				4,796			4,796		4,796
Restricted share activity, including net share settlement		1		(1,230)			(1,229)		(1,229)
Issuance of common stock, including net share settlement of stock options	1	6		(6,654)			(6,647)		(6,647)
Tax benefit on stock option exercise, net of tax deficiency				4,722			4,722		4,722
								(592)	(592)

Distribution to Noncontrolling interest Other								1	1
Balance June 25, 2016	\$ 120	\$ 371	\$ 16	\$ 390,270	\$ 166,112	\$ (805)	\$ 556,084	\$ 1,856	\$ 557,940

9. Stock-Based Compensation

The Company recognized share-based compensation expense of \$8.2 million and \$6.1 million for the nine months ended June 24, 2017 and June 25, 2016, respectively, as a component of selling, general and administrative expenses. The tax benefit associated with share-based compensation expense for the nine months ended June 24, 2017 and June 25, 2016 was \$3.0 million and \$2.2 million, respectively.

10. Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted per share computations for income from continuing operations.

	Three Months Ended June 24, 2017			Nine Months Ended June 24, 2017		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic EPS:						
Net income available to common shareholders	\$32,248	50,507	\$0.64	\$74,569	50,084	\$1.49
Effect of dilutive securities:						
Options to purchase common stock		810	(0.01)	—	1,080	(0.03)
Restricted shares		508	(0.01)	—	605	(0.02)
Diluted EPS:						
Net income available to common shareholders	\$32,248	51,825	\$0.62	\$74,569	51,769	\$1.44

	Three Months Ended June 25, 2016			Nine Months Ended June 25, 2016		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic EPS:						
Net income available to common shareholders	\$26,030	49,120	\$0.53	\$50,125	48,801	\$1.03
Effect of dilutive securities:						
Options to purchase common stock		1,211	(0.01)		1,201	(0.03)
Restricted shares		732	(0.01)		741	(0.01)
Diluted EPS:						
Net income available to common shareholders	\$26,030	51,063	\$0.51	\$50,125	50,743	\$0.99

Options to purchase 2.7 million shares of common stock at prices ranging from \$6.43 to \$31.76 per share were outstanding at June 24, 2017, and options to purchase 4.5 million shares of common stock at prices ranging from \$6.43 to \$15.56 per share were outstanding at June 25, 2016.

For the three months ended June 24, 2017, options to purchase 0.6 million shares of common stock were outstanding but were not included in the computation of diluted earnings per share, because the option exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive. For the three months ended June 25, 2016, all options outstanding were included in the computation of diluted earnings per share.

For the nine month period ended June 24, 2017, options to purchase 0.6 million shares of common stock were outstanding but were not included in the computation of diluted earnings per share, because the option exercise prices were greater than

the average market price of the common shares and, therefore, the effect would be anti-dilutive. For the nine month period ended June 25, 2016, all options outstanding were included in the computation of diluted earnings per share.

11. Segment Information

Management has determined that the Company has two operating segments, which are also reportable segments based on the level at which the Chief Operating Decision Maker reviews the results of operations to make decisions regarding performance assessment and resource allocation. These operating segments are Pet segment and Garden segment and are presented in the table below (in thousands).

	Three Months Ended		Nine Months Ended	
	June 24, 2017	June 25, 2016	June 24, 2017	June 25, 2016
Net sales:				
Pet segment	\$313,437	\$287,213	\$915,876	\$811,203
Garden segment	261,155	227,331	648,138	604,402
Total net sales	\$574,592	\$514,544	\$1,564,014	\$1,415,605
Operating income:				
Pet segment	36,092	38,759	104,143	97,363
Garden segment	38,369	26,452	87,050	67,605
Corporate	(16,528)	(17,026)	(49,462)	(48,607)
Total income from operations	57,933	48,185	141,731	116,361
Interest expense - net	(7,220)	(6,921)	(20,877)	(36,131)
Other income (expense)	1,626	318	(306)	(243)
Income tax expense	19,450	14,916	44,621	28,509
Income including noncontrolling interest	32,889	26,666	75,927	51,478
Net income attributable to noncontrolling interest	641	636	1,358	1,353
Net income attributable to Central Garden & Pet Company	\$32,248	\$26,030	\$74,569	\$50,125
Depreciation and amortization:				
Pet segment	\$6,794	6,700	\$18,798	\$16,120
Garden segment	1,651	1,542	4,686	4,586
Corporate	2,585	2,842	7,890	8,580
Total depreciation and amortization	\$11,030	\$11,084	\$31,374	\$29,286
	June 24, 2017	June 25, 2016	September 24, 2016	
Assets:				
Pet segment	\$622,567	\$523,281	\$508,879	
Garden segment	368,365	327,768	304,901	
Corporate	360,815	365,858	398,413	
Total assets	\$1,351,747	\$1,216,907	\$1,212,193	
Goodwill (included in corporate assets above):				
Pet segment	\$224,912	\$229,713	\$225,912	
Garden segment	5,473	3,298	5,473	
Total goodwill	\$230,385	\$233,011	\$231,385	

12. Consolidating Condensed Financial Information of Guarantor Subsidiaries

Certain 100% wholly-owned subsidiaries of the Company (as listed below, collectively the “Guarantor Subsidiaries”) have guaranteed fully and unconditionally, on a joint and several basis, the obligation to pay principal and interest on the Company’s 2023 Notes. Certain subsidiaries and operating divisions are not guarantors of the 2023 Notes. Those subsidiaries that are guarantors and co-obligors of the 2023 Notes are as follows:

Farnam Companies, Inc.

Four Paws Products Ltd.

Gulfstream Home & Garden, Inc.

Hydro-Organics Wholesale, Inc.

IMS Trading, LLC

IMS Southern, LLC

K&H Manufacturing, LLC

Kaytee Products, Inc.

Matson, LLC

New England Pottery, LLC

Pennington Seed, Inc. (including Gro Tec, Inc. and All-Glass Aquarium Co., Inc.)

Pets International, Ltd.

Segrest, Inc. (including Blue Springs Hatchery, Inc., Segrest Farms, Inc., Florida Tropical Distributors International, Inc., Sun Pet, Ltd and Aquatica Tropicals, Inc.)

T.F.H. Publications, Inc.

Wellmark International (including B2E Corporation and B2E Biotech LLC)

In lieu of providing separate audited financial statements for the Guarantor Subsidiaries, the Company has included the accompanying consolidating condensed financial statements based on the Company’s understanding of the Securities and Exchange Commission’s interpretation and application of Rule 3-10 of the Securities and Exchange Commission’s Regulation S-X.

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
Three Months Ended June 24, 2017
(in thousands)

	Parent	Non- Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 184,719	\$ 29,067	\$ 387,333	\$ (26,527)	\$ 574,592
Cost of goods sold and occupancy	142,533	20,636	252,678	(24,528)	391,319
Gross profit	42,186	8,431	134,655	(1,999)	183,273
Selling, general and administrative expenses	39,234	5,476	82,629	(1,999)	125,340
Operating income	2,952	2,955	52,026	—	57,933
Interest expense	(7,213)	(54)	(6)	—	(7,273)
Interest income	53	—	—	—	53
Other income	1,064	86	476	—	1,626
Income (loss) before taxes and equity in earnings of affiliates	(3,144)	2,987	52,496	—	52,339
Income tax expense (benefit)	(1,178)	1,096	19,532	—	19,450
Equity in earnings of affiliates	34,214	—	1,302	(35,516)	—
Net income including noncontrolling interest	32,248	1,891	34,266	(35,516)	32,889
Net income attributable to noncontrolling interest	—	641	—	—	641
Net income attributable to Central Garden & Pet Company	\$ 32,248	\$ 1,250	\$ 34,266	\$ (35,516)	\$ 32,248

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
Three Months Ended June 25, 2016
(in thousands)

	Parent	Non- Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 162,751	\$ 28,052	\$ 350,013	\$ (26,272)	\$ 514,544
Cost of goods sold and occupancy	128,517	18,274	228,343	(24,335)	350,799
Gross profit	34,234	9,778	121,670	(1,937)	163,745
Selling, general and administrative expenses	36,826	5,380	75,291	(1,937)	115,560
Operating income (loss)	(2,592)	4,398	46,379	—	48,185
Interest expense	(6,904)	(53)	(7)	—	(6,964)
Interest income	42	1	—	—	43
Other income (expense)	(108)	(146)	572	—	318
Income (loss) before taxes and equity in earnings of affiliates	(9,562)	4,200	46,944	—	41,582
Income tax expense (benefit)	(3,517)	1,552	16,881	—	14,916
Equity in earnings of affiliates	32,075	—	2,148	(34,223)	—
Net income including noncontrolling interest	26,030	2,648	32,211	(34,223)	26,666
Net income attributable to noncontrolling interest	—	636	—	—	636
Net income attributable to Central Garden & Pet Company	\$ 26,030	\$ 2,012	\$ 32,211	\$ (34,223)	\$ 26,030

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

Nine Months Ended June 24, 2017

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 531,028	\$ 69,183	\$ 1,032,444	\$ (68,641)	\$ 1,564,014
Cost of goods sold and occupancy	409,262	52,442	678,798	(63,968)	1,076,534
Gross profit	121,766	16,741	353,646	(4,673)	487,480
Selling, general and administrative expenses	114,546	14,014	221,862	(4,673)	345,749
Operating income	7,220	2,727	131,784	—	141,731
Interest expense	(20,823)	(136)	(17)	—	(20,976)
Interest income	98	1	—	—	99
Other income (expense)	(276)	(301)	271	—	(306)
Income (loss) before taxes and equity in earnings of affiliates	(13,781)	2,291	132,038	—	120,548
Income tax expense (benefit)	(5,088)	1,133	48,576	—	44,621
Equity in earnings of affiliates	83,262	—	875	(84,137)	—
Net income including noncontrolling interest	74,569	1,158	84,337	(84,137)	75,927
Net income attributable to noncontrolling interest	—	1,358	—	—	1,358
Net income (loss) attributable to Central Garden & Pet Company	\$ 74,569	\$ (200)	\$ 84,337	\$ (84,137)	\$ 74,569

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

Nine Months Ended June 25, 2016

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 456,568	\$ 73,324	\$ 953,925	\$ (68,212)	\$ 1,415,605
Cost of goods sold and occupancy	360,745	54,319	631,251	(63,580)	982,735
Gross profit	95,823	19,005	322,674	(4,632)	432,870
Selling, general and administrative expenses	102,990	14,283	203,868	(4,632)	316,509
Operating income (loss)	(7,167)	4,722	118,806	—	116,361
Interest expense	(36,065)	(133)	(7)	—	(36,205)
Interest income	71	3	—	—	74
Other income (expense)	(286)	(409)	452	—	(243)
Income (loss) before taxes and equity in earnings of affiliates	(43,447)	4,183	119,251	—	79,987
Income tax expense (benefit)	(15,437)	1,749	42,197	—	28,509
Equity in earnings of affiliates	78,135	—	1,971	(80,106)	—
Net income including noncontrolling interest	50,125	2,434	79,025	(80,106)	51,478
	—	1,353	—	—	1,353

Net income attributable to noncontrolling
interest

Net income attributable to Central Garden & Pet Company	\$ 50,125	\$ 1,081	\$ 79,025	\$ (80,106)	\$ 50,125
--	-----------	----------	-----------	--------------	-----------

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE
(LOSS)

Three Months Ended June 24, 2017

(in thousands)

	Parent	Non- Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 32,248	\$ 1,891	\$ 34,266	\$ (35,516)	\$ 32,889
Other comprehensive income:					
Foreign currency translation	172	116	19	(135)	172
Total comprehensive income	32,420	2,007	34,285	(35,651)	33,061
Comprehensive income attributable to noncontrolling interests	—	641	—	—	641
Comprehensive income (loss) attributable to Central Garden & Pet Company	\$ 32,420	\$ 1,366	\$ 34,285	\$ (35,651)	\$ 32,420

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE IN
(LOSS)

Three Months Ended June 25, 2016

(in thousands)

	Parent	Non- Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 26,030	\$ 2,648	\$ 32,211	\$ (34,223)	\$ 26,666
Other comprehensive income (loss):					
Foreign currency translation	(277)	(233)	25	208	(277)
Total comprehensive income	25,753	2,415	32,236	(34,015)	26,389
Comprehensive loss attributable to noncontrolling interests	—	636	—	—	636
Comprehensive income (loss) attributable to Central Garden & Pet Company	\$ 25,753	\$ 1,779	\$ 32,236	\$ (34,015)	\$ 25,753

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE IN
Nine Months Ended June 24, 2017

(in thousands)

	Parent	Non- Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 74,569	\$ 1,158	\$ 84,337	\$ (84,137)	\$ 75,927
Other comprehensive loss:					
Foreign currency translation	(193)	(144)	(11)	155	(193)
Total comprehensive income (loss)	74,376	1,014	84,326	(83,982)	75,734
Comprehensive income attributable to noncontrolling interests	—	1,358	—	—	1,358
Comprehensive income (loss) attributable to Central Garden & Pet Company	\$ 74,376	\$ (344)	\$ 84,326	\$ (83,982)	\$ 74,376

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
 Nine Months Ended June 25, 2016
 (in thousands)

	Parent	Non- Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 50,125	\$ 2,434	\$ 79,025	\$ (80,106)	\$ 51,478
Other comprehensive income (loss):					
Foreign currency translation	(969)	(773)	32	741	(969)
Total comprehensive income (loss)	49,156	1,661	79,057	(79,365)	50,509
Comprehensive income attributable to noncontrolling interests	—	1,353	—	—	1,353
Comprehensive income (loss) attributable to Central Garden & Pet Company	\$ 49,156	\$ 308	\$ 79,057	\$ (79,365)	\$ 49,156

CONSOLIDATING CONDENSED BALANCE SHEET

June 24, 2017

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$929	\$ 10,118	\$ 3,426	\$—	\$ 14,473
Restricted cash	10,999	—	—	—	10,999
Accounts receivable, net	92,703	9,842	176,959	—	279,504
Inventories	127,307	10,567	245,575	—	383,449
Prepaid expenses and other	19,670	1,059	31,235	—	51,964
Total current assets	251,608	31,586	457,195	—	740,389
Land, buildings, improvements and equipment, net	37,823	4,065	135,896	—	177,784
Goodwill	15,058	—	215,327	—	230,385
Other long-term assets	34,273	3,200	167,858	(2,142)	203,189
Intercompany receivable	36,783	—	601,317	(638,100)	—
Investment in subsidiaries	1,369,307	—	—	(1,369,307)	—
Total	\$1,744,852	\$ 38,851	\$ 1,577,593	\$(2,009,549)	\$ 1,351,747
LIABILITIES AND EQUITY					
Accounts payable	\$34,562	\$ 7,832	\$ 64,014	\$—	\$ 106,408
Accrued expenses	57,235	2,632	52,224	—	112,091
Current portion of long-term debt	—	—	375	—	375
Total current liabilities	91,797	10,464	116,613	—	218,874
Long-term debt	434,962	—	112	—	435,074
Intercompany payable	588,378	49,722	—	(638,100)	—
Losses in excess of investment in subsidiaries	—	—	19,327	(19,327)	—
Other long-term obligations	2,620	—	68,314	(2,142)	68,792
Total Central Garden & Pet shareholders' equity (deficit)	627,095	(23,247)	1,373,227	(1,349,980)	627,095
Noncontrolling interest	—	1,912	—	—	1,912
Total equity (deficit)	627,095	(21,335)	1,373,227	(1,349,980)	629,007
Total	\$1,744,852	\$ 38,851	\$ 1,577,593	\$(2,009,549)	\$ 1,351,747

CONSOLIDATING CONDENSED BALANCE SHEET

June 25, 2016

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$30,477	\$ 8,675	\$ 848	\$—	\$ 40,000
Restricted cash	12,029	—	—	—	12,029
Accounts receivable, net	74,162	9,395	158,397	—	241,954
Inventories	105,440	9,037	247,336	—	361,813
Prepaid expenses and other	20,543	1,039	23,493	—	45,075
Total current assets	242,651	28,146	430,074	—	700,871
Land, buildings, improvements and equipment, net	43,475	3,877	112,078	—	159,430
Goodwill	18,858	—	214,153	—	233,011
Other long-term assets	37,139	3,294	84,702	(1,540)	123,595
Intercompany receivable	31,005	—	478,780	(509,785)	—
Investment in subsidiaries	1,130,148	—	—	(1,130,148)	—
Total	\$1,503,276	\$ 35,317	\$ 1,319,787	\$(1,641,473)	\$ 1,216,907
LIABILITIES AND EQUITY					
Accounts payable	\$26,818	\$ 6,210	\$ 63,878	\$—	\$ 96,906
Accrued expenses	48,981	2,290	51,682	—	102,953
Current portion of long-term debt	154	—	376	—	530
Total current liabilities	75,953	8,500	115,936	—	200,389
Long-term debt	394,164	—	439	—	394,603
Intercompany payable	468,039	41,746	—	(509,785)	—
Losses in excess of investment in subsidiaries	—	—	14,780	(14,780)	—
Other long-term obligations	9,036	—	56,479	(1,540)	63,975
Total Central Garden & Pet shareholders' equity (deficit)	556,084	(16,785)	1,132,153	(1,115,368)	556,084
Noncontrolling interest	—	1,856	—	—	1,856
Total equity (deficit)	556,084	(14,929)	1,132,153	(1,115,368)	557,940
Total	\$1,503,276	\$ 35,317	\$ 1,319,787	\$(1,641,473)	\$ 1,216,907

CONSOLIDATING CONDENSED BALANCE SHEET

September 24, 2016

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$82,158	\$ 9,695	\$ 1,129	\$—	\$ 92,982
Restricted cash	10,910	—	—	—	10,910
Accounts receivable, net	59,617	5,156	136,378	—	201,151
Inventories	113,317	11,752	236,935	—	362,004
Prepaid expenses and other assets	20,978	817	25,964	—	47,759
Total current assets	286,980	27,420	400,406	—	714,806
Land, buildings, improvements and equipment, net	41,083	3,897	113,244	—	158,224
Goodwill	15,058	—	216,327	—	231,385
Other long-term assets	30,555	2,980	85,701	(11,458)	107,778
Intercompany receivable	32,778	—	567,374	(600,152)	—
Investment in subsidiaries	1,176,990	—	—	(1,176,990)	—
Total	\$ 1,583,444	\$ 34,297	\$ 1,383,052	\$(1,788,600)	\$ 1,212,193
LIABILITIES AND EQUITY					
Accounts payable	\$34,096	\$ 3,953	\$64,364	\$—	\$ 102,413
Accrued expenses and other liabilities	47,862	1,410	50,071	—	99,343
Current portion of long term debt	88	—	375	—	463
Total current liabilities	82,046	5,363	114,810	—	202,219
Long-term debt	394,364	—	442	—	394,806
Intercompany payable	553,964	46,188	—	(600,152)	—
Losses in excess of investment in subsidiaries	—	—	16,126	(16,126)	—
Other long-term obligations	56	—	71,983	(11,458)	60,581
Total Central Garden & Pet shareholders' equity (deficit)	553,014	(18,827)	1,179,691	(1,160,864)	553,014
Noncontrolling interest	—	1,573	—	—	1,573
Total equity (deficit)	553,014	(17,254)	1,179,691	(1,160,864)	554,587
Total	\$ 1,583,444	\$ 34,297	\$ 1,383,052	\$(1,788,600)	\$ 1,212,193

CONSOLIDATING CONDENSED STATEMENT OF CASH
FLOWS

Nine Months Ended June 24, 2017

(in thousands)

	Parent	Non- Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	\$(14,968)	\$ 2,482	\$ 59,210	\$ (4,076)	\$ 42,648
Additions to property and equipment	(6,811)	(557)	(29,719)		(37,087)
Payments to acquire companies, net of cash acquired	(106,821)	—		—	(106,821)
Proceeds from sale of business, facility and other assets	—	—	8,301	—	8,301
Change in restricted cash and cash equivalents	(89)	—		—	(89)
Investment in equity method investee	(11,495)	—		—	(11,495)
Other investing activities	(2,735)	—	—	—	(2,735)
Intercompany investing activities	(4,005)	—	(33,943)	37,948	—
Net cash used by investing activities	(131,956)	(557)	(55,361)	37,948	(149,926)
Repayments on revolving line of credit	(416,000)	—	—	—	(416,000)
Borrowings under revolving line of credit	456,000	—	—	—	456,000
Repayments under long-term debt	(88)	—	(368)	—	(456)
Excess tax benefits from stock-based awards	17,205	—	—	—	17,205
Repurchase of common stock	(25,654)	—	—	—	(25,654)
Distribution to parent		(4,076)	—	4,076	—
Distribution to noncontrolling interest		(1,019)	—	—	(1,019)
Payment of contingent consideration liability		—	(1,222)	—	(1,222)
Intercompany financing activities	34,414	3,534		(37,948)	—
Net cash provided (used) by financing activities	65,877	(1,561)	(1,590)	(33,872)	28,854
Effect of exchange rate changes on cash and cash equivalents	(182)	59	38	—	(85)
Net decrease in cash and cash equivalents	(81,229)	423	2,297	—	(78,509)
Cash and cash equivalents at beginning of period	82,158	9,695	1,129	—	92,982
Cash and cash equivalents at end of period	\$929	\$ 10,118	\$ 3,426	\$ —	\$ 14,473

CONSOLIDATING CONDENSED STATEMENT OF CASH
FLOWS

Nine Months Ended June 25, 2016

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net cash used by operating activities	\$4,127	\$ 6,082	\$ 84,258	\$ (4,884)	\$ 89,583
Additions to property, plant and equipment	(1,876)	(577)	(17,033)	—	(19,486)
Payments to acquire companies, net of cash acquired	(60,916)	—	(7,985)	—	(68,901)
Change in restricted cash and cash equivalents	1,129	—	—	—	1,129
Proceeds from sale of plant assets			3,899		3,899
Other investing activities	(550)				(550)
Intercompany investing activities	1,689	—	(63,778)	62,089	—
Net cash provided (used) by investing activities	(60,524)	(577)	(84,897)	62,089	(83,909)
Repayments of long-term debt	(400,208)	—	(22)	—	(400,230)
Borrowings under revolving line of credit	419,000	—	—	—	419,000
Repayments under revolving line of credit	(419,000)	—	—	—	(419,000)
Issuance of long-term debt	400,000	—	—	—	400,000
Excess tax benefits from stock-based awards	4,726	—	—	—	4,726
Repurchase of common stock	(9,429)		—		(9,429)
Proceeds from issuance of common stock	280	—	—	—	280
Distribution to parent	—	(4,884)	—	4,884	—
Distribution to noncontrolling interest		(592)	—		(592)
Payment of financing costs	(7,560)	—			(7,560)
Intercompany financing activities	63,786	(1,697)	—	(62,089)	—
Net cash provided (used) by financing activities	51,595	(7,173)	(22)	(57,205)	(12,805)
Effect of exchange rates on cash	(1,001)	321	227	—	(453)
Net increase (decrease) in cash and cash equivalents	(5,803)	(1,347)	(434)	—	(7,584)
Cash and cash equivalents at beginning of year	36,280	10,022	1,282	—	47,584
Cash and cash equivalents at end of year	\$30,477	\$ 8,675	\$ 848	\$ —	\$ 40,000

13. Contingencies

The Company may from time to time become involved in legal proceedings in the ordinary course of business. Currently, the Company is not a party to any legal proceedings that management believes would have a material effect on the Company's financial position or results of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Company

The Company is a leading innovator, marketer and producer, of quality branded products and distributor of third party products in the pet and lawn and garden supplies industries in the United States. The total pet food, treats and supplies industry in 2015 was estimated by Packaged Facts to have been approximately \$50.8 billion in annual retail sales. We estimate the annual retail sales of the pet supplies and consumables and natural pet food markets in the categories in which we participate to be approximately \$30.1 billion. The total lawn and garden consumables and decorative products industry in the United States is estimated to be approximately \$25.0 billion in annual retail sales, including fertilizer, pesticides, growing media, seeds, mulch, other consumables and decorative products. We estimate the annual retail sales of the lawn and garden consumables and decorative products markets in the categories in which we participate to be approximately \$17.6 billion.

Our pet supplies products include products for dogs and cats, including edible bones, premium healthy edible and non-edible chews, super premium dog and cat food and treats, toys, pet carriers, grooming supplies and other accessories; products for birds, small animals and specialty pets, including food, cages and habitats, toys, chews and related accessories; animal and household health and insect control products; live fish and products for fish, reptiles and other aquarium-based pets, including aquariums, furniture and lighting fixtures, pumps, filters, water conditioners, food and supplements, and information and knowledge resources; and products for horses and livestock. These products are sold under the brands including Adams,TMAqueon[®], Avoderm[®], Bio Spot Active Care,TMCadet[®], Farnam[®], Four Paws[®], Kaytee[®], Nylabone[®], Pinnacle[®], TFH,TMZilla[®] as well as a number of other brands including Altosid, Comfort Zone[®], Coralife[®], Interpet, Kent Marine[®], Pet Select[®], Super Pet[®], and Zodiac[®].

Our lawn and garden supplies products include proprietary and non-proprietary grass seed; wild bird feed, bird feeders, bird houses and other birding accessories; weed, grass, ant and other herbicide, insecticide and pesticide products; and decorative outdoor lifestyle products including pottery, trellises and other wood products. These products are sold under the brands AMDRO[®], Ironite[®], Pennington[®], and Sevin[®], as well as a number of other brand names including Lilly Miller[®], Over-N-Out[®], Smart Seed[®] and The Rebels[®].

In fiscal 2016, our consolidated net sales were \$1,829 million, of which our Pet segment, or Pet, accounted for approximately \$1,082 million and our Garden segment, or Garden, accounted for approximately \$747 million. In fiscal 2016, our operating income was \$129 million consisting of income from our Pet segment of \$120 million, income from our Garden segment of \$70 million and corporate expenses of \$61 million.

We were incorporated in Delaware in May 1992 as the successor to a California corporation that was formed in 1955. Our executive offices are located at 1340 Treat Boulevard, Suite 600, Walnut Creek, California 94597, and our telephone number is (925) 948-4000. Our website is www.central.com. The information on our website is not incorporated by reference in this annual report.

Recent Developments

Fiscal 2017 Third Quarter Financial Performance:

Net sales increased \$60.1 million, or 11.7%, to \$574.6 million from the prior year quarter. Pet segment sales increased \$26.2 million, and Garden segment sales increased \$33.9 million.

Organic sales improved 8%; 15% in Garden and 2% in Pet.

Gross margin increased 10 basis points to 31.9% and gross profit increased \$19.5 million.

Selling, general & administrative expense increased \$9.8 million to \$125.3 million, but decreased as a percentage of net sales as compared to the prior year quarter.

Operating income improved \$9.7 million from the prior year quarter, to \$57.9 million in the third quarter of fiscal 2017.

Our net income in the third quarter of fiscal 2017 was \$32.2 million, or \$0.62 per diluted share, compared to \$26.0 million, or \$0.51 per diluted share, in the third quarter of fiscal 2016.

Use of Non-GAAP Financial Measures

We report our financial results in accordance with U.S. generally accepted accounting principles (GAAP). However, to supplement the financial results prepared in accordance with GAAP, we use non-GAAP financial measures including non-GAAP operating income on a consolidated and segment basis and non-GAAP net income and diluted net income per share. Management believes these non-GAAP financial measures that exclude the impact of specific items (described below) may be useful to investors in their assessment of our ongoing operating performance and provide additional meaningful comparisons between current results and results in prior operating periods.

The reconciliations of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are shown in the tables below. We believe that the non-GAAP financial measures provide useful information to investors and other users of our financial statements, by allowing for greater transparency in the review of our financial and operating performance. Management also uses these non-GAAP financial measures in making financial, operating and planning decisions and in evaluating our performance, and we believe these measures similarly may be useful to investors in evaluating our financial and operating performance and the trends in our business from management's point of view. While our management believes that non-GAAP measurements are useful supplemental information, such adjusted results are not intended to replace our GAAP financial results and should be read in conjunction with those GAAP results. We have not provided a reconciliation of non-GAAP guidance measures to the corresponding GAAP measures on a forward-looking basis, because such reconciliation cannot be done without unreasonable efforts due to the potential significant variability and limited visibility of the excluded items discussed below.

Non-GAAP financial measures reflect adjustments based on the following items:

Gains or losses on disposals of significant plant assets: we have excluded the impact of gains or losses on the disposal of facilities as these represent infrequent transactions that impact comparability between operating periods. We believe the adjustment of these gains or losses supplements the GAAP information with a measure that may be used to help assess the sustainability of our continuing operating performance.

Loss on early extinguishment of debt: we have excluded the charges associated with the refinancing of our 2018 Notes as the amount and frequency of such charges are not consistent and are significantly impacted by the timing and size of debt financing transactions.

Tax impact: the adjustment represents the impact of the tax effect of the pre-tax non-GAAP adjustments excluded from non-GAAP net income. The tax impact of the non-GAAP adjustments is calculated based on the consolidated effective tax rate on a GAAP basis, applied to the non-GAAP adjustments, unless the underlying item has a materially different tax treatment.

We have also provided organic net sales, a non-GAAP measure that excludes the impact of businesses purchased or exited in the prior 12 months, because we believe it permits investors to better understand the performance of our historical business without the impact of recent acquisitions or dispositions.

From time to time in the future, there may be other items that we may exclude if we believe that doing so is consistent with the goal of providing useful information to investors and management.

The non-GAAP adjustments reflect the following:

(1) During the first quarter of fiscal 2017, we recorded a \$2.0 million gain in our Garden segment from the sale of a distribution facility resulting from rationalizing our facilities to reduce excess capacity. This adjustment was recorded as part of selling, general and administrative costs in the condensed consolidated statements of operations.

(2) During the first quarter of fiscal 2016, we redeemed our 2018 Notes and issued senior notes due November 2023. As a result of the redemption, we incurred incremental expenses of \$14.3 million, comprised of a call premium payment of \$8.3 million, a \$2.7 million payment of overlapping interest expense for 30 days and a \$3.3 million non-cash charge for the write off of unamortized deferred financing costs and discount related to the 2018 Notes.

These amounts are included in interest expense in the condensed consolidated statements of operations for fiscal 2016.

- (3) During the third quarter of fiscal 2016, we recorded a \$2.4 million gain in our Pet segment from the sale of a manufacturing plant resulting from rationalizing our facilities to reduce excess capacity.

Operating Income Reconciliation	GAAP to Non-GAAP Reconciliation (in thousands) For the Nine Months Ended			
	June 24, 2017		June 25, 2016	
	GAAP operating income	\$ 141,731	\$ 116,361	
Sale of distribution facility	(1) (3) (2,050)	\$(2,363)		
Non-GAAP operating income	\$ 139,681	\$ 113,998		
GAAP operating margin	9.1	% 8.2	%	
Non-GAAP operating margin	8.9	% 8.1	%	

Net Income and Diluted Net Income Per Share Reconciliation	GAAP to Non-GAAP Reconciliation (in thousands, except per share amounts) For the Nine Months Ended	
	June 24, 2017	June 25, 2016
	GAAP net income (loss) attributable to Central Garden & Pet	\$74,569
Sale of distribution facility	(1) (3) (2,050)	(2,363)
2018 notes redemption	(2) —	14,339
Tax effects of non-GAAP adjustments	759	(4,268)
Total net income (loss) impact from non-GAAP adjustments	(1,291)	7,708
Non-GAAP net income attributable to Central Garden & Pet	\$73,278	\$57,833
GAAP diluted net income per share	\$1.44	\$0.99
Non-GAAP diluted net income per share	\$1.42	\$1.14
Shares used in GAAP diluted net earnings per share calculation	51,769	50,743
Shares used in non-GAAP diluted net earnings per share calculation	51,769	50,743

We have provided organic net sales, a non-GAAP measure that excludes the impact of recent acquisitions and dispositions, because we believe it permits investors to better understand the performance of our historical business. We define organic net sales as net sales from our historical business derived by excluding the net sales from businesses acquired or exited in the preceding 12 months. After an acquired business has been part of our consolidated results for 12 months, the change in net sales thereafter is considered part of the increase or decrease in organic net sales.

GAAP to Non-GAAP
Reconciliation
(in millions)
For the Three Months Ended June
24, 2017
Consolidated Pet Segment

Edgar Filing: CENTRAL GARDEN & PET CO - Form 10-Q

	Percentage change			Percentage change		
Reported net sales - Q3 FY17 (GAAP)	\$574.6			\$313.4		
Reported net sales - Q3 FY16 (GAAP)	514.5			287.2		
Increase in net sales	60.1	11.7	%	26.2	9.1	%
Effect of acquisition and divestitures on increase in net sales	21.0	4.0	%	21.3	7.4	%
Increase in organic net sales - Q3 2017	\$39.1	7.6	%	\$4.9	1.7	%

32

GAAP to Non-GAAP Reconciliation

(in millions)

For the Nine Months Ended June 24, 2017

	Consolidated	Pet Segment	Garden Segment
	Percent change	Percent change	Percent change
Reported net sales - Q3 FY17 (GAAP)	\$1,564.0	\$915.9	648.1
Reported net sales - Q3 FY16 (GAAP)	1,415.6	811.2	604.4
Increase in net sales	148.4	10.5 %	104.7
Effect of acquisition and divestitures on increase in net sales	75.5	5.3 %	81.0
Increase in organic net sales	\$73.0	5.2 %	\$23.7
			2.9 %
			49.2
			8.2 %

Results of Operations

Three Months Ended June 24, 2017

Compared with Three Months Ended June 25, 2016

Net Sales

Net sales for the three months ended June 24, 2017 increased \$60.1 million, or 11.7%, to \$574.6 million from \$514.5 million for the three months ended June 25, 2016. Our branded product sales increased \$58.6 million, and sales of other manufacturers' products increased \$1.5 million. Organic net sales, which excludes the impact of acquisitions and divestitures in the last 12 months, increased \$39.1 million, or 7.6%, as compared to the fiscal 2016 quarter.

Pet net sales increased \$26.2 million, or 9.1%, to \$313.4 million for the three months ended June 24, 2017 from \$287.2 million for the three months ended June 25, 2016. The increase in net sales was due primarily to sales from our acquisitions in in fiscal 2017 and, secondarily, to increased sales in our dog & cat category. Pet organic net sales increased 1.7%. Pet branded product sales increased \$26.8 million due primarily to the two recent acquisitions and, to a lesser extent, to the organic net sales growth noted above, partially offset by a \$0.5 million decrease in sales of other manufacturers' products.

Garden net sales increased \$33.9 million, or 14.9%, to \$261.2 million for the three months ended June 24, 2017 from \$227.3 million for the three months ended June 25, 2016. The net sales increase was all organic. Garden branded product sales increased \$31.8 million, and sales of other manufacturers' products increased \$2.1 million. The increase in branded products was due primarily to a \$19.2 million increase in our controls and fertilizer business and a \$16.6 million increase in our grass seed business, both increases volume-based and benefiting from an extended season, increased promotional activity and private label business. These increases were partially offset by a \$5.7 million decrease in wild bird feed. The increase in sales of other manufacturer's products was due primarily to increased distribution.

Gross Profit

Gross profit for the three months ended June 24, 2017 increased \$19.5 million, or 11.9%, to \$183.3 million from \$163.8 million for the three months ended June 25, 2016. Gross margin increased 10 basis points to 31.9% for the three months ended June 24, 2017 from 31.8% for the three months ended June 25, 2016. Both operating segments contributed to the increase in gross profit. The increase in gross margin in our Garden segment was due primarily to an improved gross margin in our grass seed business, which benefited from manufacturing effectiveness aided by increased sales volume, and a favorable product mix. The gross margin improvement in our Garden segment was partially offset by a slight decrease in our Pet segment.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$9.8 million, or 8.5%, to \$125.3 million for the three months ended June 24, 2017 from \$115.5 million for the three months ended June 25, 2016. Increased expense in the Pet

segment in the quarter was partially offset by minor decreases at Corporate and the Garden segment. As a percentage of net sales, selling,

33

general and administrative expenses decreased to 21.8% for the three months ended June 24, 2017, compared to 22.5% in the comparable prior year quarter.

Selling and delivery expense increased \$3.5 million, or 5.4%, to \$68.1 million for the three months ended June 24, 2017 from \$64.6 million for the three months ended June 25, 2016. The increase in selling and delivery was primarily in our Pet segment due primarily to our two recent acquisitions. Selling and delivery expenses in our Garden segment were relatively flat as increased delivery and other costs were offset by lower marketing costs due to the timing of advertising expenses as compared to the prior year quarter.

Warehouse and administrative expense increased \$6.3 million, or 12.4%, to \$57.2 million for the quarter ended June 24, 2017 from \$50.9 million for the three months ended June 25, 2016. Increased expense in the Pet segment, due primarily to the two acquisitions made in fiscal 2017 and a \$2.4 million gain from the sale of a manufacturing plant in the prior year quarter, was partially offset by a slight decrease in the Garden segment and at Corporate. Corporate expenses are included within administrative expense and relate to the costs of unallocated executive, administrative, finance, legal, human resources, and information technology functions.

Operating Income

Operating income increased \$9.7 million to \$57.9 million for the three months ended June 24, 2017 from \$48.2 million for the three months ended June 25, 2016. Increased sales of \$60.1 million and an improved gross margin were partially offset by a \$9.8 million increase in selling, general and administrative costs. Operating margin improved to 10.1% for the three months ended June 24, 2017 from 9.4% for the three months ended June 25, 2016 due to a 10 basis point improvement in gross margin and a 70 basis point decrease in selling, general and administrative expenses as a percentage of net sales.

Pet operating income decreased \$2.7 million, or 6.9%, to \$36.1 million for the three months ended June 24, 2017 from \$38.8 million for the three months ended June 25, 2016. The decrease was due to a slightly lower gross margin and increased selling, general and administrative expenses compared to the prior year quarter which was favorably impacted by a \$2.4 million gain from the sale of a manufacturing plant, partially offset by increased net sales. Pet operating margin decreased to 11.5% for the three months ended June 24, 2017 from 13.5% for the three months ended June 25, 2016 due to higher selling, general and administrative costs as a percentage of net sales and a lower gross margin. The Pet segment operating income and operating margin also continue to be negatively impacted by expenses to expand, move and consolidate facilities.

Garden operating income increased \$11.9 million to \$38.3 million for the three months ended June 24, 2017 from \$26.5 million for the three months ended June 25, 2016. Garden operating margin increased to 14.7% for the three months ended June 24, 2017 from 11.6% for the three months ended June 25, 2016. The increases in operating income and operating margin were due to increased sales, an improved gross margin and relatively flat selling, general and administrative expenses.

Corporate operating expense decreased \$0.5 million to \$16.5 million in the current year quarter from \$17.0 million in the fiscal 2016 quarter due primarily to lower legal and insurance related expenses, partially offset by increased equity compensation expense.

Net Interest Expense

Net interest expense for the three months ended June 24, 2017 increased \$0.3 million, or 4.3%, to \$7.2 million from \$6.9 million for the three months ended June 25, 2016. The increase in interest expense was due to higher average borrowings under our asset-based loan facility.

Debt outstanding on June 24, 2017 was \$435.4 million compared to \$395.1 million as of June 25, 2016.

Other Income

Other income is comprised of income or losses from investments accounted for under the equity method of accounting and foreign currency exchange gains and losses. Other income increased \$1.3 million to \$1.6 million for the quarter ended June 24, 2017, from \$0.3 million for the quarter ended June 25, 2016 due to income from an investment made during the quarter. While this investment is expected to contribute to earnings over a full fiscal year, it is seasonal in nature and is expected to have a loss in our fiscal fourth quarter.

Income Taxes

Our effective income tax rate was 37.2% for the quarter ended June 24, 2017 and 35.9% for the quarter ended June 25, 2016. The increase in the income tax rate was due primarily to reduced projected tax incentives in the current year.

Nine Months Ended June 24, 2017

Compared with Nine Months Ended June 25, 2016

Net Sales

Net sales for the nine months ended June 24, 2017 increased \$148.4 million, or 10.5%, to \$1,564.0 million from \$1,415.6 million for the nine months ended June 25, 2016. Our branded product sales increased \$139.4 million, and sales of other manufacturers' products increased \$9.0 million. Organic net sales increased \$73.0 million, or 5.2%, as compared to the prior year nine month period.

Pet net sales increased \$104.7 million, or 12.9%, to \$915.9 million for the nine months ended June 24, 2017 from \$811.2 million for the nine months ended June 25, 2016. Acquisitions and divestitures completed in the last 12 months added \$81.0 million, and organic sales growth was \$23.7 million. Pet organic net sales increased 2.9%, primarily in our dog & cat category. Pet branded product sales increased \$108.3 million, due primarily to the two acquisitions made in the prior 12 months, and, to a lesser extent, to the organic net sales growth which was primarily in our dog & cat category. Sales of other manufacturer's products decreased \$3.6 million due primarily to lost dog food distribution. Garden net sales increased \$43.7 million, or 7.2%, to \$648.1 million for the nine months ended June 24, 2017 from \$604.4 million for the nine months ended June 25, 2016. Garden branded product sales increased \$31.1 million, and sales of other manufacturers' products increased \$12.6 million. The sales increase in branded products was due primarily to a \$28.5 million increase in controls and fertilizers and a \$14.2 million increase in our grass seed business aided by increased private label activity and increased promotional activity. Both businesses were favorably impacted by an extended season. These increases were partially offset by a \$10.3 million decrease in our wild bird feed business. The increase in sales of other manufacturer's products was due primarily to increased distribution.

Gross Profit

Gross profit for the nine months ended June 24, 2017 increased \$54.6 million, or 12.6%, to \$487.5 million from \$432.9 million for the nine months ended June 25, 2016. Both segments contributed to the increased gross profit with the Pet segment the primary contributor. Gross margin increased 60 basis points to 31.2% for the nine months ended June 24, 2017 from 30.6% for the nine months ended June 25, 2016. Both segments contributed to the increased gross margin with the Garden segment the primary contributor.

The Pet segment gross profit and gross margin improvements were due primarily to the two most recent acquisitions and growth in the dog & cat category. The Segrest acquisition generally has higher gross margins than our segment average. DMC, which has lower margins than our segment average, had an improved gross margin.

The Garden segment gross profit and gross margin improvements resulted from increases in most of our Garden categories. The improvements were due primarily to our controls and fertilizer and our grass seed categories which were favorably impacted by increased manufacturing efficiencies, aided by increased sales volume and favorable changes in product mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$29.2 million, or 9.2%, to \$345.7 million for the nine months ended June 24, 2017 from \$316.5 million for the nine months ended June 25, 2016. As a percentage of net sales, selling, general and administrative expenses declined to 22.1% for the nine months ended June 24, 2017 from the comparable prior year nine month period. Increased expense in the Pet segment and, to a much lesser extent, at Corporate was partially offset by a minor decrease in the Garden segment.

Selling and delivery expense increased \$13.5 million, or 8.0%, to \$182.7 million for the nine months ended June 24, 2017 from \$169.2 million for the nine months ended June 25, 2016. The increase was primarily in our Pet segment although the Garden segment also increased. The increase was due to increased sales volume, the addition of the two recent acquisitions and our investment in marketing activities.

Warehouse and administrative expense increased \$15.7 million, or 10.6%, to \$163.0 million for the nine months ended June 24, 2017 from \$147.3 million for the nine months ended June 25, 2016. Excluding a \$2.0 million gain from the sale of a distribution facility in fiscal 2017, warehouse and administrative expense increased \$17.7 million. Increased expense in the Pet segment and at Corporate, was partially offset by a decrease in the Garden segment.

The increase in our Pet segment was driven primarily by the two newly acquired businesses and increased facility and administrative spending to support growth and facility transition costs. Additionally, the Pet segment had a \$2.4 million gain on the sale of a facility in the prior fiscal year. The decline in Garden segment was due primarily to a \$2.0 million gain related to the sale of a distribution facility in fiscal 2017 and to the lack of expense incurred for a business exited during the prior year. Corporate expenses are included within administrative expense and relate to the costs of unallocated executive, administrative, finance, legal, human resource, and information technology functions.

Operating Income

Operating income increased \$25.3 million to \$141.7 million for the nine months ended June 24, 2017 from \$116.4 million for the nine months ended June 25, 2016. Our operating margin improved to 9.1% for the nine months ended June 24, 2017 from 8.2% for the nine months ended June 25, 2016. Increased sales of \$148.4 million, a 60 basis point gross margin improvement and a decreased selling, general and administrative expense as a percent of net sales all contributed to our improved operating income and operating margin.

Pet operating income increased \$6.7 million, or 7.0%, to \$104.1 million for the nine months ended June 24, 2017 from \$97.4 million for the nine months ended June 25, 2016. The increase was due primarily to increased sales and an improved gross margin partially offset by increased selling, general and administrative expenses. Our Pet operating margin decreased to 11.4% for the nine months ended June 24, 2017 from 12.0% for the nine months ended June 25, 2016 as an improved gross margin was partially offset by increased selling general and administrative expense as a percent of net sales. These changes were due primarily to acquisitions made in fiscal 2017 and 2016 and investments made to consolidate facilities in our dog and cat category.

Garden operating income increased \$19.5 million, or 28.8%, to \$87.1 million for the nine months ended June 24, 2017 from \$67.6 million in the nine months ended June 25, 2016. Increased sales, an improved gross margin and lower selling, general and administrative expenses, aided by a \$2.0 million gain from the sale of a distribution facility, all contributed to the improved operating margin.

Corporate operating expenses increased \$0.9 million to \$49.5 million in the current nine month period from \$48.6 million in the comparable fiscal 2016 period primarily due to an increase in variable compensation and equity compensation amounts, partially offset by lower legal costs.

Net Interest Expense

Net interest expense for the nine months ended June 24, 2017 decreased \$15.3 million, or 42.2%, to \$20.9 million from \$36.1 million for the nine months ended June 25, 2016. In November 2015, we issued \$400 million aggregate principal amount of 2023 Notes and replaced our outstanding 2018 Notes. As a result of our redemption of the 2018 Notes, we recognized incremental interest expense of approximately \$14.3 million. Excluding the \$14.3 million of incremental expense related to the issuance and redemption of our fixed rate debt in the fiscal 2016 quarter, interest expense decreased \$1.0 million to \$20.9 million from \$21.8 million in the comparable prior year period. The decrease was due principally to the lower interest rate on our 2023 Notes.

Debt outstanding on June 24, 2017 was \$435.4 million compared to \$395.1 million as of June 25, 2016. Our average borrowing rate for the current nine month period decreased to 5.9% from 6.3% for the prior year nine month period.

Other Expense

Other expense increased \$0.1 million to \$0.3 million for the nine months ended June 24, 2017, from \$0.2 million for the nine months ended June 25, 2016. Other expense is comprised of income or losses from investments accounted for under the equity method of accounting and foreign currency exchange gains and losses. Other expense increased due primarily to an investment in a start-up made earlier in fiscal 2017, partially offset by income from an investment made in our fiscal third quarter of 2017.

Income Taxes

Our effective income tax rate was 37.0% for the nine months ended June 24, 2017 and 35.6% for the nine months ended June 25, 2016. The increase in the tax rate is due primarily to reduced projected tax incentives available in the current year compared to the previous year.

Inflation

Our revenues and margins are dependent on various economic factors, including rates of inflation, energy costs, consumer attitudes toward discretionary spending, currency fluctuations, and other macro-economic factors which may impact levels of consumer spending. In certain fiscal periods, we have been adversely impacted by rising input costs related to inflation, particularly relating to grain and seed prices, fuel prices and the ingredients used in our garden controls and fertilizer. Rising costs in those periods have made it difficult for us to increase prices to our retail customers at a pace sufficient to enable us to maintain margins.

During fiscal years 2015 and 2016 and the first nine months of fiscal 2017, commodity costs generally declined, but in past years we have been impacted by volatility in a number of commodities, including grass seed and wild bird feed grains. We continue to monitor commodity prices in order to be in a position to take action to mitigate the impact of increasing raw material costs.

Weather and Seasonality

Our sales of lawn and garden products are influenced by weather and climate conditions in the different markets we serve. Additionally, our Garden segment's business is highly seasonal. In fiscal 2016, approximately 66% of our Garden segment's net sales and 58% of our total net sales occurred during our second and third fiscal quarters.

Substantially all of the Garden segment's operating income is typically generated in this period, which has historically offset the operating loss incurred during the first fiscal quarter of the year.

Liquidity and Capital Resources

We have financed our growth through a combination of internally generated funds, bank borrowings, supplier credit, and sales of equity and debt securities to the public.

Our business is seasonal and our working capital requirements and capital resources track closely to this seasonal pattern. Generally, during the first fiscal quarter, accounts receivable reach their lowest level while inventory, accounts payable and short-term borrowings begin to increase. During the second fiscal quarter, receivables, accounts payable and short-term borrowings increase, reflecting the build-up of inventory and related payables in anticipation of the peak lawn and garden selling season. During the third fiscal quarter, inventory levels remain relatively constant while accounts receivable peak and short-term borrowings start to decline as cash collections are received during the peak selling season. During the fourth fiscal quarter, inventory levels are at their lowest, and accounts receivable and payables are substantially reduced through conversion of receivables to cash.

We service two broad markets: pet supplies and lawn and garden supplies. Our pet supplies businesses primarily involve products that have a year round selling cycle with a slight degree of seasonality. As a result, it is not necessary to maintain large quantities of inventory to meet peak demands. Our lawn and garden businesses are highly seasonal with approximately 66% of our Garden segment's net sales occurring during the second and third fiscal quarters. This seasonality requires the shipment of large quantities of product well ahead of the peak consumer buying periods. To encourage retailers and distributors to stock large quantities of inventory, industry practice has been for manufacturers to give extended credit terms and/or promotional discounts.

Operating Activities

Net cash provided by operating activities decreased by \$46.9 million, from \$89.6 million for the nine months ended June 25, 2016, to \$42.6 million for the nine months ended June 24, 2017. The decrease in cash provided was due primarily to an increase in our working capital accounts for the period ended June 24, 2017, mainly receivables and inventory, as compared to the prior year period, to support growth. We remain focused on maintaining high fill rates and service levels to our customers.

Investing Activities

Net cash used in investing activities increased \$66.0 million, from \$83.9 million for the nine months ended June 25, 2016 to \$149.9 million during the nine months ended June 24, 2017. The increase in cash used in investing activities was due primarily to increased acquisition and investment activity in the current year compared to the prior year and an increase in capital expenditures during the current year, partially offset by an increase in proceeds from the sale of a small veterinary division and a distribution facility in our Garden segment during the first fiscal quarter of 2017. During the nine months ended June 24, 2017, we acquired Segrest Inc., a wholesaler of aquarium fish, and K&H Manufacturing, a producer of premium pet supplies and the largest marketer of heated pet products in the country, for total aggregate consideration of \$106.8 million. During 2017, we also made investments in two strategic joint ventures. During the nine months ended June 25, 2016, we acquired Hydro-Organics Wholesale Inc., an organic fertilizer company, as well as the pet bedding business and certain other assets of DMC for total aggregate consideration of \$68.9 million. We had an increase in capital expenditures of approximately \$18.0 million in the current year period compared to the prior year period, as we continue to invest in upgrading and expanding our facilities.

Financing Activities

Net cash provided by financing activities increased \$41.7 million, from \$12.8 million of cash used by financing activities for the nine months ended June 25, 2016, to \$28.9 million of cash provided by financing activities for the nine months ended June 24, 2017. The increase in cash provided by financing activities was due primarily to an increase in net borrowings under our revolving line of credit during the current year and an increase in cash flows from the excess tax benefits associated with the increase in stock option exercise activity during the current year period, partially offset by taxes paid for shares withheld in connection with the net share settlement of vested restricted stock and exercised options during the current year, as well as the payment of financing costs associated with the issuance of our 2023 Notes and amendment of our asset backed loan facility during the prior year period. We expect that our principal sources of funds will be cash generated from our operations and, if necessary, borrowings under our \$400 million asset backed loan facility. Based on our anticipated cash needs, availability under our asset backed loan facility and the scheduled maturity of our debt, we believe that our sources of liquidity should be adequate to meet our working capital, capital spending and other cash needs for at least the next 12 months. However, we cannot assure you that these sources will continue to provide us with sufficient liquidity and, should we require it, that we will be able to obtain financing on terms satisfactory to us, or at all.

We believe that cash flows from operating activities, funds available under our asset backed loan facility, and arrangements with suppliers will be adequate to fund our presently anticipated working capital and capital expenditure requirements for the foreseeable future. We anticipate that our capital expenditures, which are related primarily to replacements and expansion of and upgrades to plant and equipment and also investment in our continued implementation of a scalable enterprise-wide information technology platform, will be approximately \$40 million to \$45 million in fiscal 2017.

As part of our growth strategy, we have acquired a number of companies in the past, and we anticipate that we will continue to evaluate potential acquisition candidates in the future. If one or more potential acquisition opportunities, including those that would be material, become available in the near future, we may require additional external capital. In addition, such acquisitions would subject us to the general risks associated with acquiring companies, particularly if the acquisitions are relatively large.

At June 24, 2017, our total debt outstanding was \$435.4 million, as compared with \$395.1 million at June 25, 2016.

Senior Notes and Redemption of Senior Subordinated Notes

In November 2015, we issued \$400 million aggregate principal amount of 6.125% senior notes due November 2023. In December 2015, we used the net proceeds from the offering, together with available cash, to redeem our \$400 million aggregate principal amount of 8.25% senior subordinated notes due March 1, 2018 at a price of 102.063% of the principal amount and to pay fees and expenses related to the offering.

We incurred approximately \$6.3 million of debt issuance costs in conjunction with these transactions, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs will be amortized over the

term of the 2023 Notes.

As a result of our redemption of the 2018 Notes, we incurred a call premium payment of \$8.3 million, overlapping interest expense for 30 days of approximately \$2.7 million and a \$3.3 million non-cash charge for the write off of unamortized deferred financing costs and discount related to the 2018 Notes. These amounts are included in interest expense in the consolidated statements of operations.

39

The 2023 Notes require semiannual interest payments on May 15 and November 15. The 2023 Notes are unconditionally guaranteed on a senior basis by each of our existing and future domestic restricted subsidiaries which are borrowers under or guarantors of our senior secured revolving credit facility. The 2023 Notes are unsecured senior obligations and are subordinated to all of our existing and future secured debt, including our Credit Facility, to the extent of the value of the collateral securing such indebtedness.

We may redeem some or all of the 2023 Notes at any time, at our option, prior to November 15, 2018 at the principal amount plus a “make whole” premium. At any time prior to November 15, 2018, we may also redeem, at our option, up to 35% of the original aggregate principal amount of the notes with the proceeds of certain equity offerings at a redemption price of 106.125% of the principal amount of the notes. We may redeem some or all of the 2023 Notes, at our option, at any time on or after November 15, 2018 for 104.594%, on or after November 15, 2019 for 103.063%, on or after November 15, 2020 for 101.531% and on or after November 15, 2021 for 100%, plus accrued and unpaid interest.

The holders of the 2023 Notes have the right to require us to repurchase all or a portion of the 2023 Notes at a purchase price equal to 101% of the principal amount of the notes repurchased, plus accrued and unpaid interest upon the occurrence of a change of control.

The 2023 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions. We were in compliance with all covenants as of June 24, 2017.

Asset-Based Loan Facility Amendment

In April 2016, we entered into an amended and restated credit agreement which provides up to a \$400 million principal amount senior secured asset-based revolving credit facility, with up to an additional \$200 million principal amount available with the consent of the Lenders if we exercise the accordion feature set forth therein (collectively, the “Amended Credit Facility”). The Amended Credit Facility matures on April 22, 2021. We may borrow, repay and reborrow amounts under the Amended Credit Facility until its maturity date, at which time all amounts outstanding under the Amended Credit Facility must be repaid in full. As of June 24, 2017, there were borrowings outstanding of \$40.0 million and no letters of credit outstanding under the Amended Credit Facility. There were other letters of credit of \$2.6 million outstanding as of June 24, 2017.

The Amended Credit Facility is subject to a borrowing base, calculated using a formula based upon eligible receivables and inventory, minus certain reserves and subject to restrictions. As of June 24, 2017, the borrowing base and remaining borrowing availability was \$360.0 million. Borrowings under the Amended Credit Facility bear interest at an index based on LIBOR or, at the option of the Company, the Base Rate (defined as the highest of (a) the SunTrust prime rate, (b) the Federal Funds Rate plus 0.5% and (c) one-month LIBOR plus 1.00%), plus, in either case, an applicable margin based on our consolidated senior leverage ratio. Such applicable margin for LIBOR-based borrowings fluctuates between 1.25% - 1.5%, and was 1.25% as of June 24, 2017, and such applicable margin for Base Rate borrowings fluctuates between 0.25% - 0.5%, and was 0.25% as of June 24, 2017. As of June 24, 2017, the applicable interest rate related to Base Rate borrowings was 4.5%, and the applicable interest rate related to LIBOR-based borrowings was 2.3%.

We incurred approximately \$1.2 million of debt issuance costs in conjunction with this transaction, which included underwriter fees, legal and accounting expenses. The debt issuance costs will be amortized over the term of the Amended Credit Facility.

The Amended Credit Facility contains customary covenants, including financial covenants which require us to maintain a minimum fixed charge coverage ratio of 1.00:1.00 upon reaching certain borrowing levels. The Amended Credit Facility is secured by substantially all of our assets. We were in compliance with all financial covenants under the Amended Credit Facility during the period ended June 24, 2017.

Off-Balance Sheet Arrangements

There have been no material changes to the information provided in our Annual Report on Form 10-K for the fiscal year ended September 24, 2016 regarding off-balance sheet arrangements.

Contractual Obligations

There have been no material changes outside the ordinary course of business in our contractual obligations set forth in the Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources in our Annual Report on Form 10-K for the fiscal year ended September 24, 2016.

New Accounting Pronouncements

Refer to Footnote 1 in the notes to the condensed consolidated financial statements for new accounting pronouncements.

Critical Accounting Policies, Estimates and Judgments

There have been no material changes to our critical accounting policies, estimates and assumptions or the judgments affecting the application of those accounting policies since our Annual Report on Form 10-K for the fiscal year ended September 24, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in our exposure to market risk from that discussed in our Annual Report on Form 10 K for the fiscal year ended September 24, 2016.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and principal financial officer have reviewed, as of the end of the period covered by this report, the "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) that ensure that information relating to the Company required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported in a timely and proper manner and that such information is accumulated and communicated to our management, including our Chief Executive Officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based upon this review, such officers concluded that our disclosure controls and procedures were effective as of June 24, 2017.

(b) Changes in Internal Control Over Financial Reporting. Our management, with the participation of our Chief Executive Officer and our principal financial officer have evaluated whether any change in our internal control over financial reporting occurred during the third quarter of fiscal 2017. Based on that evaluation, management concluded that there has been no change in our internal control over financial reporting during the third quarter of fiscal 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in certain legal proceedings in the ordinary course of business. Currently, we are not a party to any legal proceedings that management believes would have a material effect on our financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Item 1A to Part I of our Form 10-K for the fiscal year ended September 24, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth the repurchases of any equity securities during the fiscal quarter ended June 24, 2017 and the dollar amount of authorized share repurchases remaining under our stock repurchase program.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
March 26, 2017 - April 29, 2017	51,171	(2) \$ 35.36	—	\$ 34,968,000
April 30, 2017 - May 27, 2017	1,700	(2) \$ 33.07	—	\$ 34,968,000
May 28, 2017 - June 24, 2017	4,184	(2) \$ 29.66	—	\$ 34,968,000
Total	57,055	\$ 34.87	—	\$ 34,968,000

During the third quarter of fiscal 2011, our Board of Directors authorized a \$100 million share repurchase program.

(1) The program has no expiration date and expires when the amount authorized has been used or the Board withdraws its authorization. The repurchase of shares may be limited by certain financial covenants in our credit facility and indenture that restrict our ability to repurchase our stock.

(2) Shares purchased during the period indicated represent withholding of a portion of shares to cover taxes in connection with the vesting of restricted stock.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

- 4.1 Sixth Supplemental Indenture, dated as of June 24, 2017, by and among the Company, certain guarantors named therein and Wells Fargo Bank, National Association, as trustee, relating to the 6.125% Senior Notes due 2023.
- 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunder duly authorized.

CENTRAL GARDEN & PET
COMPANY
Registrant

Dated: August 3, 2017

/s/ GEORGE C. ROETH
George C. Roeth
President and Chief Executive
Officer
(Principal Executive Officer)

/s/ NICHOLAS LAHANAS
Nicholas Lahanas
Chief Financial Officer
(Principal Financial Officer)