CENTRAL GARDEN & PET CO
Form 10-Q
February 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 26, 2015

or

¨ **TRANSITION REPORT PURSUANT OF SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File Number: 001-33268

CENTRAL GARDEN & PET COMPANY

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

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

(Address of 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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock Outstanding as of January 29, 2016	11,908,317
Class A Common Stock Outstanding as of January 29, 2016	36,592,397
Class B Stock Outstanding as of January 29, 2016	1,652,262

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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This Form 10-Q includes forward-looking statements. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, projected cost savings, capital expenditures, financing needs, 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 examination of historical operating trends, 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 26, 2015, 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;
- the impending retirement of our CEO, dependence upon him and our other key executives and the ability to execute on our succession plan;

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risks associated with new product introductions, including the risk that our new products will not produce sufficient sales to recoup our investment;

declines in consumer spending during economic downturns;

inflation, deflation and other adverse macro-economic conditions;

supply shortages in small animals and pet birds;

adverse weather conditions;

risks associated with our acquisition strategy;

fluctuations in energy prices, fuel and related petrochemical costs;

access to and cost of additional capital;

dependence on a small number of customers for a significant portion of our business;

consolidation 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.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CENTRAL GARDEN & PET COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(Unaudited)

	December 26, 2015	December 27, 2014	September 26, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$ 9,006	$ 79,588	$ 47,584
Restricted cash	11,939	19,690	13,157
Short term investments	0	9,992	0
Accounts receivable (less allowance for doubtful accounts of $21,213, $24,184 and $19,296)	195,357	142,877	207,402
Inventories	416,458	399,936	335,946
Prepaid expenses and other	59,873	64,280	49,731
Total current assets	692,633	716,363	653,820
Land, buildings, improvements and equipment net	163,948	163,546	162,809
Goodwill	209,089	208,233	209,089
Other intangible assets net	74,552	87,061	75,460
Other assets	70,987	9,104	30,419
Total	$ 1,211,209	$ 1,184,307	$ 1,131,597
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	$ 129,091	$ 128,485	$ 88,889
Accrued expenses	89,047	93,208	87,724
Current portion of long-term debt	292	50,289	291
Total current liabilities	218,430	271,982	176,904
Long-term debt	435,893	395,257	396,691
Other long-term obligations	58,005	42,212	51,622
Equity:			
Common stock, $.01 par value: 11,908,317, 12,220,627, and 11,908,317 shares outstanding at December 26, 2015, December 27, 2014 and September 26, 2015	119	122	119

Class A common stock, $.01 par value: 36,591,487, 36,445,726 and 36,462,299 shares outstanding at December 26, 2015, December 27, 2014 and September 26, 2015	366	364	364
Class B stock, $.01 par value: 1,652,262 shares outstanding	16	16	16
Additional paid-in capital	390,583	393,494	388,636
Accumulated earnings	107,385	80,136	115,987
Accumulated other comprehensive income (loss)	(69)	670	164
Total Central Garden & Pet Company shareholders equity	498,400	474,802	505,286
Noncontrolling interest	481	54	1,094
Total equity	498,881	474,856	506,380
Total	$ 1,211,209	$ 1,184,307	$ 1,131,597

See notes to condensed consolidated financial statements.

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CENTRAL GARDEN & PET COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended December 26, 2015	Three Months Ended December 27 2014
Net sales	$ 359,812	$ 307,320
Cost of goods sold and occupancy	260,026	219,339
Gross profit	99,786	87,981
Selling, general and administrative expenses	91,013	86,843
Income from operations	8,773	1,138
Interest expense	(22,145)	(10,503)
Interest income	22	71
Other expense	(473)	(368)
Loss before income taxes and noncontrolling interest	(13,823)	(9,662)
Income tax benefit	(5,200)	(3,969)
Loss including noncontrolling interest	(8,623)	(5,693)
Net income (loss) attributable to noncontrolling interest	(21)	4
Net loss attributable to Central Garden & Pet Company	$ (8,602)	$ (5,697)
Net loss per share attributable to Central Garden & Pet Company:		
Basic	$ (0.18)	$ (0.12)
Diluted	$ (0.18)	$ (0.12)
Weighted average shares used in the computation of net income per share:		
Basic	48,566	49,379
Diluted	48,566	49,379

See notes to condensed consolidated financial statements.

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CENTRAL GARDEN & PET COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended	
	December 26, 2015	December 27, 2014
Net loss	$ (8,623)	$ (5,693)
Other comprehensive loss:		
Unrealized loss on securities	0	(10)
Foreign currency translation	(233)	(552)
Total comprehensive loss	(8,856)	(6,255)
Comprehensive income (loss) attributable to noncontrolling interest	(21)	4
Comprehensive loss attributable to Central Garden & Pet Company	$ (8,835)	$ (6,259)

See notes to condensed consolidated financial statements.

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CENTRAL GARDEN & PET COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended	
	December 26, 2015	December 27, 2014
Cash flows from operating activities:		
Net loss	$ (8,623)	$ (5,693)
Adjustments to reconcile net loss to net cash (used) provided by operating activities:		
Depreciation and amortization	9,032	8,464
Amortization of deferred financing costs	417	524
Stock-based compensation	2,218	1,592
Excess tax benefits from stock-based awards	(900)	(40)
Deferred income taxes	3,997	2,500
Write-off of deferred financing costs	3,337	0
Loss (Gain) on sale of property and equipment	(14)	44
Change in assets and liabilities (excluding businesses acquired):		
Accounts receivable	33,736	50,650
Inventories	(61,101)	(73,868)
Prepaid expenses and other assets	(6,921)	(15,622)
Accounts payable	23,404	40,090
Accrued expenses	622	7,124
Other long-term obligations	315	87
Net cash (used) provided by operating activities	(481)	15,852
Cash flows from investing activities:		
Additions to property and equipment	(5,256)	(4,069)
Payments to acquire companies, net of cash acquired	(68,529)	0
Change in restricted cash	1,218	(5,407)
Investment in short-term investments	(0)	(12)
Other investing activities	(200)	0
Net cash used in investing activities	(72,767)	(9,488)
Cash flows from financing activities:		
Repayments of long-term debt	(400,072)	(72)
Proceeds from issuance of long-term debt	400,000	0
Borrowings under revolving line of credit	79,000	0
Repayments under revolving line of credit	(37,000)	(0)

Proceeds from issuance of common stock		0		188
Repurchase of common stock, including shares surrendered for tax withholding		(1,167)		(3,742)
Distribution to noncontrolling interest		(592)		(1,680)
Payment of financing costs		(6,324)		0
Excess tax benefits from stock-based awards		900		40
Net cash provided (used) by financing activities		34,745		(5,266)
Effect of exchange rate changes on cash and cash equivalents		(75)		(186)
Net increase (decrease) in cash and cash equivalents		(38,578)		912
Cash and equivalents at beginning of period		47,584		78,676
Cash and equivalents at end of period	$	9,006	$	79,588
Supplemental information:				
Cash paid for interest	$	17,844	$	848

See notes to condensed consolidated financial statements.

CENTRAL GARDEN & PET COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended December 26, 2015

(Unaudited)

1. Basis of Presentation

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the Company or Central) as of December 26, 2015 and December 27, 2014, the condensed consolidated statements of operations for the three months ended December 26, 2015 and December 27, 2014, the condensed consolidated statements of comprehensive income for the three months ended December 26, 2015 and December 27, 2014 and the condensed consolidated statements of cash flows for the three months ended December 26, 2015 and December 27, 2014 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 month periods ended December 26, 2015 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 2015 Annual Report on Form 10-K, which has previously been filed with the Securities and Exchange Commission. The September 26, 2015 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.

Derivative Instruments

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

The Company does not perform the assessments required to achieve hedge accounting for commodity derivative positions. Accordingly, the changes in the values of these derivatives are recorded currently in other income (expense) in its condensed consolidated statements of operations. As of December 26, 2015 and December 27, 2014, the Company had no outstanding derivative instruments.

Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

Discontinued Operations

In April 2014, the FASB issued Accounting Standards Update No. 2014-08 (ASU 2014-08), *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. ASU 2014-08 provides amended guidance for reporting discontinued operations and disclosures of disposals of components. The amended guidance raises the threshold for disposals to qualify as discontinued operations and permits significant continuing involvement and continuing cash flows with the discontinued operation. In addition, the amended guidance requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. The amended guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014 and became effective for the Company September 27, 2015. The adoption of the applicable sections of this ASC will have an impact on the presentation of any future discontinued operations the Company may have.

Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03(ASU 2015-03*), Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* This standard amends the existing guidance to require that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the related debt liability instead of as a deferred charge. In August 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-15, *Interest Imputation of Interest (Subtopic 835-30).* This ASU provides additional guidance on ASU 2015-03 with respect to line of credit arrangements, whereby specify debt issuance costs as part of line-of-credit arrangements may continue to be deferred and presented as an asset on the balance sheet. Recognition and measurement guidance for debt issuance costs are not affected. The Company adopted the guidance in ASU s 2015-03 and 2015-15 as of September 27, 2015. See Change in Accounting Principle below.

Business Combinations

In September 2015, the FASB issued ASU No. 2015-16 (ASU 2015-16), *Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period after an acquisition within the reporting period they are determined. This is a change from the previous requirement that the adjustments be recorded retrospectively. The ASU also requires disclosure of the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the adjustment to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-16 is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2015; early adoption is permitted. The Company has early adopted the guidance prospectively as of September 27, 2015. The adoption of this standard will impact the Company s presentation of measurement period adjustments for any future business combinations.

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 in the first quarter of its fiscal year ending September 28, 2019. Early adoption is not permitted before the original effective date. 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.

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 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, or the Company s first quarter of fiscal 2017. Earlier adoption is permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

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 is effective for fiscal years that begin after December 15, 2015, or the Company s first quarter of fiscal 2017. The Company is currently evaluating the impact the adoption of ASU 2015-02 will have on its consolidated financial statements.

Cloud Computing Costs

In April 2015, the FASB issued ASU No. 2015-05(ASU 2015-05), *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement*. This standard clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. ASU 2015-05 is effective for public entities for annual and interim periods therein beginning after December 15, 2015, or the Company s first quarter of fiscal 2017. Early adoption is permitted. Entities may adopt the guidance either retrospectively or prospectively to arrangements entered into, or materially modified after the effective date. The Company is currently evaluating the impact the adoption of ASU 2015-05 will have 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 December 15, 2016, or the Company s first quarter of fiscal 2018. Early application is permitted and should be applied prospectively. The Company is currently evaluating the impact the adoption of ASU 2015-11 will have on its consolidated financial statements.

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, and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact the adoption of ASU 2015-17 will have on its consolidated financial statements.

Change in Accounting Principle

Prior to its early adoption of ASU 2015-03, the Company recorded issuance costs associated with its long term debt as a long-term asset on its consolidated balance sheet. The guidance in ASU 2015-03 requires the Company to present debt issuance costs in the consolidated balance sheet as a direct deduction from the carrying amount of the related debt liability. Changes in accounting principles are to be reported through retrospective application of the new principle to all prior financial statement periods presented. Accordingly, the condensed consolidated balance sheets have been adjusted to reflect the effects of reclassifying debt issuance costs from long-term assets to a direct deduction from the carrying amount of the related debt liability as follows.

Financial Statement Line Item	**Previously Reported September 26, 2015**	**Reclassifications**	**As Adjusted September 26, 2015**
Other assets	$ 33,576	$ (3,157)	$ 30,419

Total assets	1,134,754	(3,157)	1,131,597
Long term debt	399,848	(3,157)	396,691
Total liabilities and equity	1,134,754	(3,157)	1,131,597

Financial Statement Line Item	**Previously Reported December 27, 2014**	**Reclassifications**	**As Adjusted December 27, 2014**
Other assets	$ 13,760	$ (4,656)	$ 9,104
Total assets	1,188,963	(4,656)	1,184,307
Long term debt	399,913	(4,656)	395,257
Total liabilities and equity	1,188,963	(4,656)	1,184,307

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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 December 26, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for contingent consideration [b]	$ 0	$ 0	$ 5,625	$ 5,625
Total liabilities	$ 0	$ 0	$ 5,625	$ 5,625

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 December 27, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Short term investments [a]	$ 9,992	$ 0	$ 0	$ 9,992
Total assets	$ 9,992	$ 0	$ 0	$ 9,992
Liabilities:				
Liability for contingent consideration [b]	$ 0	$ 0	$ 4,414	$ 4,414
Total liabilities	$ 0	$ 0	$ 4,414	$ 4,414

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 26, 2015:

	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for contingent consideration [b]	$ 0	$ 0	$ 3,625	$ 3,625
Total liabilities	$ 0	$ 0	$ 3,625	$ 3,625

(a) The fair value of short-term investments is based on quoted prices in active markets for identical assets.

(b) 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 our consolidated balance sheets.

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The following table provides a summary of changes in fair value of our Level 3 financial instruments for the periods ended December 26, 2015 and December 27, 2014 (in thousands):

	Amount
Balance as of September 26, 2015	$ 3,625
Estimated contingent performance-based consideration established at the time of acquisition	2,000
Changes in the fair value of contingent performance-based payments established at the time of acquisition	0
Balance as of December 26, 2015	$ 5,625

	Amount
Balance as of September 27, 2014	$ 4,414
Changes in the fair value of contingent performance-based payments established at the time of acquisition	0
Balance as of December 27, 2014	$ 4,414

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 December 26, 2015 and December 27, 2014, 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 December 26, 2015 was $404.0 million, compared to a carrying value of $393.8 million.

In January 2015, the Company called $50 million aggregate principal amount of the Company s senior subordinated notes due 2018 (the 2018 Notes) for redemption on March 1, 2015 at a price of 102.063%. In December 2015, the Company redeemed the remaining $400 million aggregate principal amount of the 2018 Notes at a price of 102.063%. The estimated fair value of the Company s $450 million principal amount of 2018 Notes as of December 27, 2014 was $461.9 million, compared to a carrying value of $444.9 million. The estimated fair value of the Company s $400 million aggregate principal amount of 2018 Notes as of September 26, 2015 was $410.5 million, compared to a carrying value of $396.5 million. The estimated fair value is based on quoted market prices for these notes, which are Level 1 inputs within the fair value hierarchy.

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3. Acquisitions

IMS Trading Corp

On July 31, 2015, the Company purchased substantially all of the assets of IMS Trading Corp. for a purchase price of approximately $23 million. IMS Trading Corp was a manufacturer, importer and distributor of rawhide, natural dog treats and pet products throughout the United States and internationally. The purchase price exceeded the fair value of the net tangible assets acquired by approximately $4.9 million, which is included in other assets in our consolidated balance sheet as of December 26, 2015, as 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 complement the Company s existing dog and cat business.

Hydro-Organics Wholesale Inc.

On October 1, 2015, the Company purchased Hydro-Organics Wholesale, Inc., an organic fertilizer business, for a purchase price of approximately $7.8 million cash and approximately $2.0 million of estimated contingent future performance-based payments. The purchase price exceeded the estimated fair value of the tangible net assets acquired by approximately $6.0 million and is included in other assets in the Company s condensed consolidated balance sheet as of December 26, 2015, as 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 complement the Company s existing garden fertilizer category.

DMC

On December 1, 2015, the Company purchased the pet bedding business and certain other assets of National Consumers Outdoors Corp., formerly known as Dallas Manufacturing Company (DMC), for a cash purchase price of approximately $61 million. The purchase price exceeded the estimated fair value of the tangible net assets acquired by approximately $34.0 million and is included in other assets in the Company s condensed consolidated balance sheet as of December 26, 2015, as 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 complement the Company s existing dog and cat business.

4. Inventories, net

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

	December 26, 2015	December 27, 2014	September 26, 2015
Raw materials	$ 118,827	$ 111,012	$ 94,969
Work in progress	15,086	13,006	15,268
Finished goods	271,134	260,314	215,673
Supplies	11,411	15,604	10,036
Total inventories, net	$ 416,458	$ 399,936	$ 335,946

5. Goodwill

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

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6. Other Intangible Assets

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

		Gross	Accumulated Amortization (in millions)	Accumulated Impairment	Net Carrying Value
December 26, 2015					
Marketing-related intangible assets	amortizable	$ 14.1	$ (10.7)	$ 0	$ 3.4
Marketing-related intangible assets	nonamortizable	59.6	0	(24.2)	35.4
Total		73.7	(10.7)	(24.2)	38.8
Customer-related intangible assets	amortizable	43.3	(22.8)	0	20.5
Other acquired intangible assets	amortizable	19.3	(10.7)	0	8.6
Other acquired intangible assets	nonamortizable	7.8	0	(1.2)	6.6
Total		27.1	(10.7)	(1.2)	15.2
Total other intangible assets		$ 144.1	$ (44.2)	$ (25.4)	$ 74.5

		Gross	Accumulated Amortization (in millions)	Accumulated Impairment	Net Carrying Value
December 27, 2014					
Marketing-related intangible assets	amortizable	$ 15.5	$ (10.1)	$ 0	$ 5.4
Marketing-related intangible assets	nonamortizable	59.6	0	(16.9)	42.7
Total		75.1	(10.1)	(16.9)	48.1
Customer-related intangible assets	amortizable	42.8	(20.7)	0	22.1
Other acquired intangible assets	amortizable	19.4	(9.0)	0	10.4
Other acquired intangible assets	nonamortizable	7.7	0	(1.2)	6.5
Total		27.1	(9.0)	(1.2)	16.9
Total other intangible assets		$ 145.0	$ (39.8)	$ (18.1)	$ 87.1

Gross

			Accumulated Amortization	Accumulated Impairment	Net Carrying Value
			(in millions)		
September 26, 2015					
Marketing-related intangible assets	amortizable	$ 14.1	$ (10.4)	$ 0	$ 3.7
Marketing-related intangible assets	nonamortizable	59.6	0	(24.2)	35.4
Total		73.7	(10.4)	(24.2)	39.1
Customer-related intangible assets	amortizable	43.3	(22.3)	0	21.0
Other acquired intangible assets	amortizable	19.3	(10.5)	0	8.8
Other acquired intangible assets	nonamortizable	7.8	0	(1.2)	6.6
Total		27.1	(10.5)	(1.2)	15.4
Total other intangible assets		$ 144.1	$ (43.2)	$ (25.4)	$ 75.5

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 fiscal 2015, the Company recognized a non-cash $7.3 million impairment charge to certain indefinite-lived intangible assets as a result of increased competition in the marketplace and declining volume of sales. The fair value of the remaining $15.0 million of indefinite-lived intangible assets that were impaired exceeded their carrying value at September 26, 2015.

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Other factors indicating the carrying value of the Company s amortizable intangible assets may not be recoverable were not present in fiscal 2015 or during the three months ended December 26, 2015, and accordingly, no impairment testing was performed on these assets.

The Company amortizes its acquired intangible assets with definite lives over periods ranging from 1 to 25 years; over weighted average remaining lives of six years for marketing-related intangibles, 14 years for customer-related intangibles and 14 years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately $1.0 million and $0.9 million for the three month periods ended December 26, 2015 and December 27, 2014, respectively, and is classified within operating expenses in the condensed consolidated statements of operations. Estimated annual amortization expense related to acquired intangible assets in each of the succeeding five years is estimated to be approximately $4 million per year from fiscal 2016 through fiscal 2020.

7. Long-Term Debt

Long-term debt consists of the following:

	December 26, 2015	December 27, 2014 (in thousands)	September 26, 2015
Senior notes, interest at 6.125%, payable semi-annually, principal due May 2023	$ 400,000	$ 0	$ 0
Senior subordinated notes, interest at 8.25%, payable semi-annually, repaid in December 2015	0	450,000	400,000
Unamortized discount	0	(440)	(309)
Unamortized debt issuance costs	(6,194)	(4,656)	(3,157)
Net carrying value	393,806	444,904	396,534
Asset-based revolving credit facility, interest at LIBOR plus a margin of 1.25% to 1.75% or Base Rate plus a margin of 0.25% to 0.75%, final maturity December 2018	42,000	0	0
Other notes payable	379	642	448
Total	436,185	445,546	396,982
Less current portion	(292)	(50,289)	(291)
Long-term portion	$ 435,893	$ 395,257	$ 396,691

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 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 will be 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.

The 2023 Notes require semiannual interest payments, which commence on May 15, 2016. 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 December 26, 2015.

Asset Backed Loan Facility

On December 5, 2013, the Company entered into a credit agreement which provides up to a $390 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 Credit Facility). The Credit Facility matures on December 5, 2018 and replaced the Company s prior revolving credit facility. The Company may borrow, repay and reborrow amounts under the Credit Facility until its maturity date, at which time all amounts outstanding under the Credit Facility must be repaid in full. As of December 26, 2015, there were borrowings of $42.0 million outstanding and no letters of credit outstanding under the Credit Facility. There were other letters of credit of $6.0 million outstanding as of December 26, 2015.

The 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 December 26, 2015, the borrowing availability was $293.0 million and the remaining borrowing availability, after taking into consideration $42.0 million of outstanding borrowings, was $251.0 million. Borrowings under the 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 total outstanding borrowings. Such applicable margin for LIBOR-based borrowings fluctuates between 1.25%-1.75% (and was 1.25% at December 26, 2015) and such applicable margin for Base Rate borrowings fluctuates between 0.25%-0.75% (and was 0.25% at December 26, 2015). As of December 26, 2015, the applicable interest rate related to Base Rate borrowings was 3.75%, and the applicable interest rate related to LIBOR-based borrowings was 1.49%.

The 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 Credit Facility is secured by substantially all assets of the Company. The Company was in compliance with all financial covenants under the Credit Facility during the period ended December 26, 2015.

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 three months ended December 26, 2015 and December 27, 2014:

	Controlling Interest								
(in thousands)	**Common Stock**	**Class A Common Stock**	**Class B Stock**	**Additional Paid In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive**	**Total**	**Noncontrolling Interest**	**Total**

						Income			
Balance September 26, 2015	$ 119	$ 364	$ 16	$ 388,636	$ 115,987	$ 164	$ 505,286	$ 1,094	$ 506,380
Comprehensive loss					(8,602)	(233)	(8,835)	(21)	(8,856)
Amortization of share-based awards				1,625			1,625		1,625
Restricted share activity				(216)			(216)		(216)
Issuance of common stock		2		(360)			(358)		(358)
Tax benefit on stock option exercise, net of tax deficiency				898			898		898
Distribution to Noncontrolling interest								(592)	(592)
Balance December 26, 2015	$ 119	$ 366	$ 16	$ 390,583	$ 107,385	$ (69)	$ 498,400	$ 481	$ 498,881

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	Controlling Interest								
(in thousands)	Common Stock	Class A Common Stock	Class B Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total	Noncontrolling Interest	Total
Balance September 27, 2014	$ 124	$ 369	$ 16	$ 396,586	$ 86,396	$ 1,232	$ 484,723	$ 1,730	$ 486,453
Comprehensive loss					(5,697)	(562)	(6,259)	4	(6,255)
Amortization of share-based awards				1,080			1,080		1,080
Restricted share activity		(1)		(144)			(145)		(145)
Issuance of common stock				470			470		470
Repurchase of common stock	(2)	(4)		(4,538)	(563)		(5,107)		(5,107)
Tax benefit on stock option exercise, net of tax deficiency				40			40		40
Distribution to Noncontrolling interest								(1,680)	(1,680)
Balance December 27, 2014	$ 122	$ 364	$ 16	$ 393,494	$ 80,136	$ 670	$ 474,802	$ 54	$ 474,856

9. Stock-Based Compensation

The Company recognized share-based compensation expense of $2.2 million and $1.6 million for the three month periods ended December 26, 2015 and December 27, 2014, respectively, as a component of selling, general and administrative expenses. The tax benefit associated with share-based compensation expense for the three month periods ended December 26, 2015 and December 27, 2014 was $0.8 million and $0.6 million, respectively.

10. Earnings Per Share

The potential effects of stock awards were excluded from the diluted earnings per share calculation for the three month periods ended December 26, 2015 and December 27, 2014 because their inclusion in a net loss period would be anti-dilutive to the earnings per share calculation.

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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 December 26, 2015	Three Months Ended December 27, 2014
Net sales:		
Pet segment	$ 248,662	$ 199,320
Garden segment	111,150	108,000
Total net sales	$ 359,812	$ 307,320
Income (loss) from operations:		
Pet segment	26,195	20,575
Garden segment	(3,254)	(3,535)
Corporate	(14,168)	(15,902)
Total income from operations	8,773	1,138
Interest expense - net	(22,123)	(10,432)
Other expense	(473)	(368)
Income tax benefit	(5,200)	(3,969)
Loss including noncontrolling interest	(8,623)	(5,693)
Net income (loss) attributable to noncontrolling interest	(21)	4
Net loss attributable to Central Garden & Pet Company	$ (8,602)	$ (5,697)
Depreciation and amortization:		
Pet segment	$ 4,464	3,941
Garden segment	1,685	1,566
Corporate	2,883	2,957
Total depreciation and amortization	$ 9,032	$ 8,464

	December 26, 2015	December 27, 2014	September 26, 2015
Assets:			
Pet segment	$ 540,218	$ 425,528	$ 465,171
Garden segment	342,811	350,835	310,981
Corporate	328,180	407,944	355,445

Total assets	$	1,211,209	$	1,184,307	$	1,131,597
Goodwill (included in corporate assets above):						
Pet segment	$	209,089	$	208,233	$	209,089

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 Notes. Those subsidiaries that are guarantors and co-obligors of the Notes are as follows:

Farnam Companies, Inc.

Four Paws Products Ltd.

Gulfstream Home & Garden, Inc.

Kaytee Products, Incorporated

Matson, LLC

New England Pottery, LLC

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

Pets International, Ltd.

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 December 26, 2015
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 137,027	$ 15,270	$ 222,164	$ (14,649)	$ 359,812
Cost of goods sold and occupancy	110,259	12,946	150,489	(13,668)	260,026
Gross profit	26,768	2,324	71,675	(981)	99,786
Selling, general and administrative expenses	32,954	3,779	55,261	(981)	91,013
Income (loss) from operations	(6,186)	(1,455)	16,414	0	8,773
Interest expense	(22,508)	(12)	375	0	(22,145)

Interest income		21		1		0		0		22
Other income (expense)		(835)		(66)		428		0		(473)
Income (loss) before taxes and equity in earnings (loss) of affiliates		(29,508)		(1,532)		17,217		0		(13,823)
Income tax expense (benefit)		(11,145)		(497)		6,442		0		(5,200)
Equity in earnings (loss) of affiliates		9,761		0		(762)		(8,999)		0
Net income (loss) including noncontrolling interest		(8,602)		(1,035)		10,013		(8,999)		(8,623)
Net loss attributable to noncontrolling interest		0		(21)		0		0		(21)
Net income (loss) attributable to Central Garden & Pet Company	$	(8,602)	$	(1,014)	$	10,013	$	(8,999)	$	(8,602)

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CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
Three Months Ended December 27, 2014
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 96,962	$ 17,323	$ 207,125	$ (14,090)	$ 307,320
Cost of goods sold and occupancy	78,779	14,578	139,091	(13,109)	219,339
Gross profit	18,183	2,745	68,034	(981)	87,981
Selling, general and administrative expenses	27,851	3,999	55,974	(981)	86,843
Income (loss) from operations	(9,668)	(1,254)	12,060	0	1,138
Interest expense	(10,487)	(15)	(1)	0	(10,503)
Interest income	70	1	0	0	71
Other expense	(330)	0	(38)	0	(368)
Income (loss) before taxes and equity in earnings (loss) of affiliates	(20,415)	(1,268)	12,021	0	(9,662)
Income tax expense (benefit)	(8,457)	(444)	4,932	0	(3,969)
Equity in earnings (loss) of affiliates	6,261	0	(587)	(5,674)	0
Net income (loss) including noncontrolling interest	(5,697)	(824)	6,502	(5,674)	(5,693)
Net income attributable to noncontrolling interest	0	4	0	0	4
Net income (loss) attributable to Central Garden & Pet Company	$ (5,697)	$ (828)	$ 6,502	$ (5,674)	$ (5,697)

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Three Months Ended December 26, 2015
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (8,602)	$ (1,035)	$ 10,013	$ (8,999)	$ (8,623)
Other comprehensive loss:					
Foreign currency translation	(233)	(142)	(51)	193	(233)
Total comprehensive income (loss)	(8,835)	(1,177)	9,962	(8,806)	(8,856)
Comprehensive loss attributable to noncontrolling interests	0	(21)	0	0	(21)

Comprehensive income (loss) attributable to Central Garden & Pet Company	$ (8,835)	$ (1,156)	$ 9,962	$ (8,806)	$ (8,835)

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CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Three Months Ended December 27, 2014
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (5,697)	$ (824)	$ 6,502	$ (5,674)	$ (5,693)
Other comprehensive loss:					
Foreign currency translation	(552)	(345)	(104)	449	(552)
Unrealized loss on securities	(10)	(0)	(0)	(0)	(10)
Total comprehensive income (loss)	(6,259)	(1,169)	6,398	(5,225)	(6,255)
Comprehensive income attributable to noncontrolling interests	0	4	0	0	4
Comprehensive income (loss) attributable to Central Garden & Pet Company	$ (6,259)	$ (1,173)	$ 6,398	$ (5,225)	$ (6,259)

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CONSOLIDATING CONDENSED BALANCE SHEET
December 26, 2015
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$ 3,162	$ 5,034	$ 810	$ 0	$ 9,006
Restricted cash	11,939	0	0	0	11,939
Accounts receivable, net	74,855	7,398	113,104	0	195,357
Inventories	142,215	17,252	256,991	0	416,458
Prepaid expenses and other	35,478	957	23,438	0	59,873
Total current assets	267,649	30,641	394,343	0	692,633
Land, buildings, improvements and equipment, net	51,182	3,787	108,979	0	163,948
Goodwill	0	0	209,089	0	209,089
Other long-term assets	68,077	3,539	75,988	(2,065)	145,539
Intercompany receivable	33,184	0	459,209	(492,393)	0
Investment in subsidiaries	1,062,324	0	0	(1,062,324)	0
Total	$ 1,482,416	$ 37,967	$ 1,247,608	$ (1,556,782)	$ 1,211,209
LIABILITIES AND EQUITY					
Accounts payable	$ 54,043	$ 9,084	$ 65,964	$ 0	$ 129,091
Accrued expenses	42,452	1,520	45,075	0	89,047
Current portion of long-term debt	262	0	30	0	292
Total current liabilities	96,757	10,604	111,069	0	218,430
Long-term debt	435,835	0	58	0	435,893
Intercompany payable	447,265	45,128	0	(492,393)	0
Losses in excess of investment in subsidiaries	0	0	17,513	(17,513)	0
Other long-term obligations	4,159	0	55,911	(2,065)	58,005
Total Central Garden & Pet shareholders equity	498,400	(18,246)	1,063,057	(1,044,811)	498,400
Noncontrolling interest	0	481	0	0	481
Total equity	498,400	(17,765)	1,063,057	(1,044,811)	498,881
Total	$ 1,482,416	$ 37,967	$ 1,247,608	$ (1,556,782)	$ 1,211,209

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CONSOLIDATING CONDENSED BALANCE SHEET
December 27, 2014
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$ 71,579	$ 5,505	$ 2,504	$ 0	$ 79,588
Restricted cash	19,690	0	0	0	19,690
Short term investments	9,992	0	0	0	9,992
Accounts receivable, net	38,580	7,573	96,724	0	142,877
Inventories	101,870	22,481	275,585	0	399,936
Prepaid expenses and other	33,095	962	30,223	0	64,280
Total current assets	274,806	36,521	405,036	0	716,363
Land, buildings, improvements and equipment, net	59,829	3,607	100,110	0	163,546
Goodwill	0	0	208,233	0	208,233
Other long-term assets	17,153	4,121	83,088	(8,197)	96,165
Intercompany receivable	37,337	0	378,847	(416,184)	0
Investment in subsidiaries	989,226	0	0	(989,226)	0
Total	$ 1,378,351	$ 44,249	$ 1,175,314	$ (1,413,607)	$ 1,184,307
LIABILITIES AND EQUITY					
Accounts payable	$ 39,847	$ 10,077	$ 78,561	$ 0	$ 128,485
Accrued expenses	47,888	1,751	43,569	0	93,208
Current portion of long-term debt	50,259	0	30		50,289
Total current liabilities	137,994	11,828	122,160	0	271,982
Long-term debt	395,170	0	87	0	395,257
Intercompany payable	368,765	47,419	0	(416,184)	0
Losses in excess of investment in subsidiaries	0	0	14,900	(14,900)	0
Other long-term obligations	1,620	0	48,789	(8,197)	42,212
Central Garden & Pet shareholders equity	474,802	(15,052)	989,378	(974,326)	474,802
Noncontrolling interest	0	54	0	0	54
Total equity	474,802	(14,998)	989,378	(974,326)	474,856
Total	$ 1,378,351	$ 44,249	$ 1,175,314	$ (1,413,607)	$ 1,184,307

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CONSOLIDATING CONDENSED BALANCE SHEET
September 26, 2015
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$ 37,131	$ 10,022	$ 431	$ 0	$ 47,584
Restricted cash	13,157	0	0	0	13,157
Accounts receivable, net	51,376	6,775	149,251	0	207,402
Inventories	101,952	11,690	222,304	0	335,946
Prepaid expenses and other assets	23,807	848	25,076	0	49,731
Total current assets	227,423	29,335	397,062	0	653,820
Land, buildings, improvements and equipment, net	53,044	3,663	106,102	0	162,809
Goodwill	0	0	209,089	0	209,089
Other long-term assets	30,831	3,662	77,519	(6,133)	105,879
Intercompany receivable	10,311	0	440,327	(450,638)	0
Investment in subsidiaries	1,052,755	0	0	(1,052,755)	0
Total	$ 1,374,364	$ 36,660	$ 1,230,099	$ (1,509,526)	$ 1,131,597
LIABILITIES AND EQUITY					
Accounts payable	$ 23,544	$ 2,543	$ 62,802	$ 0	$ 88,889
Accrued expenses and other liabilities	39,680	1,789	46,255	0	87,724
Current portion of long term debt	261	0	30	0	291
Total current liabilities	63,485	4,332	109,087	0	176,904
Long-term debt	396,626	0	65	0	396,691
Intercompany payable	407,197	43,441	0	(450,638)	0
Losses in excess of investment in subsidiaries	0	0	11,867	(11,867)	0
Other long-term obligations	1,770	0	55,985	(6,133)	51,622
Shareholders equity attributable to Central Garden & Pet	505,286	(12,207)	1,053,095	(1,040,888)	505,286
Noncontrolling interest	0	1,094	0	0	1,094
Total equity	505,286	(11,113)	1,053,095	(1,040,888)	506,380
Total	$ 1,374,364	$ 36,660	$ 1,230,099	$ (1,509,526)	$ 1,131,597

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CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Three Months Ended December 26, 2015
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	$ (18,211)	$ (1,039)	$ 23,653	$ (4,884)	$ (481)
Additions to property, plant and equipment	(606)	(226)	(4,424)	0	(5,256)
Payments to acquire companies, net of cash acquired	(68,529)	0	0	0	(68,529)
Change in restricted cash and cash equivalents	1,218	(0)	(0)	(0)	1,218
Other investing activities	(200)				(200)
Intercompany investing activities	(22,874)	(0)	(18,881)	41,755	0
Net cash used by investing activities	(90,991)	(226)	(23,305)	41,755	(72,767)
Repayments on revolving line of credit	(37,000)	0	0	0	(37,000)
Borrowings on revolving line of credit	79,000	0	0	0	79,000
Repayments of long-term debt	(400,064)	(0)	(8)	(0)	(400,072)
Issuance of long-term debt	400,000				400,000
Excess tax benefits from stock-based awards	900	0	0	0	900
Repurchase of common stock	(1,167)	(0)	(0)	(0)	(1,167)
Distribution to parent	0	(4,884)	0	4,884	0
Distribution to noncontrolling interest	0	(592)	0	0	(592)
Payment of financing costs	(6,324)				(6,324)
Intercompany financing activities	40,069	1,686	0	(41,755)	0
Net cash (used) provided by financing activities	75,414	(3,790)	(8)	(36,871)	34,745
Effect of exchange rates on cash	(181)	67	39	(0)	(75)
Net increase (decrease) in cash and cash equivalents	(33,969)	(4,988)	379	0	(38,578)
Cash and cash equivalents at beginning of period	37,131	10,022	431	0	47,584
Cash and cash equivalents at end of period	$ 3,162	$ 5,034	$ 810	$ 0	$ 9,006

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CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Three Months Ended December 27, 2014
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used) provided by operating activities	$ (6,874)	$ (1,400)	$ 30,845	$ (6,719)	$ 15,852
Additions to property, plant and equipment	(589)	(64)	(3,416)	0	(4,069)
Change in restricted cash and cash equivalents	(5,407)	0	0	0	(5,407)
Investment in short term investments	(12)	0	0	0	(12)
Intercompany investing activities	(20,431)	0	(27,423)	47,854	0
Net cash (used) provided by investing activities	(26,439)	(64)	(30,839)	47,854	(9,488)
Repayments of long-term debt	(67)	0	(5)	0	(72)
Proceeds from issuance of common stock	188	0	0	0	188
Excess tax benefits from stock-based awards	40	0	0	0	40
Repurchase of common stock	(3,742)	0	0	0	(3,742)
Distribution to parent	0	(6,719)	0	6,719	0
Distribution to noncontrolling interest	0	(1,680)	0	0	(1,680)
Intercompany financing activities	45,450	2,404	0	(47,854)	0
Net cash provided (used) by financing activities	41,869	(5,995)	(5)	(41,135)	(5,266)
Effect of exchange rates on cash	(448)	158	104	0	(186)
Net increase (decrease) in cash and cash equivalents	8,108	(7,301)	105	0	912
Cash and cash equivalents at beginning of year	63,471	12,806	2,399	0	78,676
Cash and cash equivalents at end of year	$ 71,579	$ 5,505	$ 2,504	$ 0	$ 79,588

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.

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

Central Garden & Pet Company (Central) 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 2014 was estimated by Packaged Facts to have been approximately $49.2 billion in annual retail sales. We estimate the annual retail sales of the pet supplies and consumables and super premium pet food markets in the categories in which we participate to be approximately $28.1 billion. The total lawn and garden consumables and decorative products industry in the United States is estimated to be approximately $22.0 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 $12.0 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; 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™, Aqueon®, Avoderm®, Bio Spot Active Care™, Cadet®, Farnam®, Four Paws®, Kaytee®, Nylabone®, Pinnacle®, TFH™, Zilla® 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 and lighting products including pottery, trellises and other wood products and holiday lighting. 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 2015, our consolidated net sales were $1.7 billion, of which our pet segment, or Pet, accounted for approximately $895 million and our garden segment, or Garden, accounted for approximately $756 million. In fiscal 2015, our income from operations before corporate expenses and eliminations of $67.5 million was $158.9 million, of which the Pet segment accounted for $98.8 million and the Garden segment accounted for $60.1 million. See Note 11 to our consolidated financial statements for financial information about our two operating segments.

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 2016 First Quarter Financial Performance:

Our net sales increased $52.5 million, or 17.1%, to $359.8 million from the prior year quarter. The increase was primarily in the Pet segment, with approximately half the growth from two recent acquisitions and half from organic growth.

Gross margin decreased 90 basis points to 27.7% while gross profit increased $11.8 million; both changes were primarily in the Pet segment.

Selling, general & administrative expense increased $4.2 million to $91.0 million, but decreased as a percentage of net sales to 25.3% from 28.3% in the prior year quarter.

Operating income improved by $7.6 million from the prior year quarter, to $8.8 million in the first quarter of fiscal 2016.

Our net loss in the first quarter of fiscal 2016 was $8.6 million, or $0.18 per diluted share, compared to a loss of $5.7 million, or $0.12 per diluted share, in the first quarter of fiscal 2015. Adjusting for the incremental expenses incurred during the quarter for the refinancing of our $400 million of 8.25% senior subordinated notes due March 1, 2018 (the 2018 Notes), our net income was $0.01 for the quarter.

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Redemption of 2018 Notes

In November 2015, we issued $400 million aggregate principal amount of 6.125% senior notes due November 2023 (the 2023 Notes). We used the net proceeds from the offering, together with available cash, to redeem our 2018 Notes and pay fees and expenses related to the offering. As a result of our redemption of the 2018 Notes, we recognized incremental expenses in our fiscal 2016 first quarter of approximately $14.3 million related to the payment of the call premium, the payment of overlapping interest expense for 30 days and a non-cash charge for the write-off of unamortized financing costs in interest expense.

Acquisitions

On December 1, 2015, we acquired the pet bedding business and certain other assets of National Consumers Outdoors Corp., formerly known as Dallas Manufacturing Company (DMC), for a cash purchase price of approximately $61 million. This acquisition is expected to complement our existing dog and cat business.

On October 1, 2015, we purchased Hydro-Organics Wholesale Inc., an organic fertilizer business, for a purchase price of approximately $7.8 million and contingent future performance-based payments. This acquisition is expected to complement our existing garden fertilizer business.

Seasonal Decor Business

In January 2016, we exited our seasonal décor business after concluding it was not a strategic business for our Garden segment. The business consisted of lighting, artificial Christmas trees and other holiday décor products, and represented approximately $35 million in revenue in fiscal 2015.

Use of Non-GAAP Financial Measures

We report our financial results in accordance with U.S. generally accepted accounting principles (GAAP). However, management believes that certain non-GAAP financial measures that exclude the $14.3 million impact of the redemption of our 2018 Notes and the issuance of our 2023 Notes recognized during the quarter ended December 26, 2015 may be useful in certain instances to provide additional meaningful comparisons between current results and results in prior operating periods that should be considered when assessing our ongoing performance and providing consistency with our prior year disclosure. The amount is included in interest expense in the condensed consolidated statements of operations. We believe that the non-GAAP financial measures provide useful information to investors and other users of our financial statements, such as lenders. Management also uses these non-GAAP financial measures in making financial, operating and planning decisions and in evaluating our performance. 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.

GAAP to Non-GAAP Reconciliation
(unaudited, in thousands, except per share amounts)

	For the Three Months Ended			
	December 26, 2015 GAAP	**2018 Notes Redemption (A)**	**December 26, 2105 As Adjusted**	**December 27, 2014 GAAP**
Interest expense	$ (22,145)	$ 14,339	$ (7,806)	$ (10,503)
	(13,823)	14,339	516	(9,662)

Loss before income taxes and noncontrolling interest								
Income tax expense (benefit)		(5,200)		(5,394)		194		(3,969)
Net income (loss)	$	(8,602)	$	8,945	$	343	$	(5,697)
Earnings (loss) per share - Diluted	$	(0.18)	$	0.18	$	0.01	$	(0.12)

(A) The Non-GAAP financial information excludes the impact of the redemption of our 2018 Notes and issuance of our 2023 Notes. As a result of the bond 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.

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Results of Operations

Three Months Ended December 26, 2015

Compared with Three Months Ended December 27, 2014

Net Sales

Net sales for the three months ended December 26, 2015 increased $52.5 million, or 17.1%, to $359.8 million from $307.3 million for the three months ended December 27, 2014. Our branded product sales increased $39.5 million, and sales of other manufacturers products increased $13.0 million.

Pet net sales increased $49.4 million, or 24.8%, to $248.7 million for the three months ended December 26, 2015 from $199.3 million for the three months ended December 27, 2014. $28.1 million of the increase in net sales came from two recently acquired businesses, and the remaining $21.3 million came from organic growth. Pet branded product sales increased $41.9 million, due primarily to a $33.9 million increase in our dog and cat category, $28.1 million of which was from two recent acquisitions. Additionally, net sales increased $4.2 million in aquatics, due to distribution gains, and $2.4 million in our equine category due in part to timing. Sales of other manufacturers products increased $7.5 million due primarily to increased sales in the e-commerce channel and gaining distribution for a new vendor partner.

Garden net sales increased $3.1 million, or 2.9%, to $111.1 million for the three months ended December 26, 2015 from $108.0 million for the three months ended December 26, 2014. Garden branded product sales decreased $2.4 million, and sales of other manufacturers products increased $5.5 million. The sales decrease in branded products was due primarily to a $5.5 million decrease in our décor category and a $2.4 million decrease in wild bird feed, partially offset by an increase of $4.7 million in grass seed. These changes were volume related. Our décor category net sales were impacted by our decision to exit the seasonal décor business which consists of lighting, artificial Christmas trees and other holiday products, after concluding it was not a strategic business for our Garden segment.

Gross Profit

Gross profit for the three months ended December 26, 2015 increased $11.8 million, or 13.4%, to $99.8 million from $88.0 million for the three months ended December 27, 2014. The increase in gross profit was primarily in the Pet segment due to increased sales principally in our dog and cat category. Gross margin decreased 90 basis points to 27.7% for the three months ended December 26, 2015 from 28.6% for the three months ended December 27, 2014. The decline in gross margin was primarily in our Pet segment.

Although increased sales in our dog and cat category favorably impacted our gross profit, as expected, they had a negative impact on our gross margin. Our recent acquisitions, IMS and DMC, generally have lower gross margins than our historical dog and cat category products. Excluding the impact of our recent acquisitions, gross margin would not have declined in the quarter.

Gross profit in our garden segment was relatively flat as a slight increase in net sales was partially offset by a small decrease in gross margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $4.2 million, or 4.8%, to $91.0 million for the three months ended December 26, 2015 from $86.8 million for the three months ended December 27, 2014. As a percentage of net sales, selling, general and administrative expenses decreased to 25.3% for the three months ended December 26, 2015, compared to 28.3% in the comparable prior year quarter. Although selling, general and administrative expenses increased, they decreased as a percentage of sales as we leverage our existing infrastructure. Additionally, recent acquisitions in our Pet segment have had lower selling, general and administrative expenses as a percentage of revenue as compared to our existing business.

Selling and delivery expense increased $2.4 million, or 5.4%, to $46.9 million for the three months ended December 26, 2015 from $44.5 million for the three months ended December 27, 2014. The increase was primarily in our Pet segment due to increased net sales and the addition of two recent acquisitions. The increase of 5.4% was less than the increase in our net sales primarily due to our ability to leverage our existing infrastructure.

Warehouse and administrative expense increased $1.8 million, or 4.3%, to $44.1 million for the quarter ended December 26, 2015 from $42.3 million in the quarter ended December 27, 2014. The increase was due primarily to a $3.8 million increase in our Pet segment due to two recent acquisitions and increased administrative and warehouse spending to support growth in our business units. The increase in the Pet segment was partially offset by a $1.7 million decrease in corporate expenses due primarily to reduced spend for legal and corporate matters and for third party provider and payroll related costs in our information technology department. 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 $7.6 million to $8.8 million for the three months ended December 26, 2015 from $1.1 million for the three months ended December 27, 2014. Increased sales of $52.5 million were only partially offset by a lower gross margin and a $4.2 million increase in selling, general and administrative costs. Operating margin improved to 2.4% for the three months ended December 26, 2015 from 0.4% for the three months ended December 27, 2014 as selling, general and administrative expenses as a percent of net sales declined to 25.3% from 28.3% in the prior year quarter.

Pet operating income increased $5.6 million, or 27.2%, to $26.2 million for the three months ended December 26, 2015 from $20.6 million for the three months ended December 27, 2014. The increase was due primarily to increased sales which were partially offset by a lower gross margin and increased selling, general and administrative expenses. Pet operating margin increased to 10.5% for the three months ended December 26, 2015 from 10.3% for the three months ended December 27, 2014 as lower selling general and administrative expense as a percent of net sales was partially offset by a lower gross margin. These changes were due primarily to the changes in our dog and cat category which now includes two acquisitions made since the end of our 2015 third fiscal quarter.

Garden operating loss decreased $0.2 million to an operating loss of $3.3 million from $3.5 million in the fiscal 2015 quarter. Corporate operating loss decreased $1.8 million to $14.1 million in the current year quarter from $15.8 million in the fiscal 2015 quarter primarily due to reduced expenses for legal and corporate matters and within our information technology department.

Net Interest Expense

Net interest expense for the three months ended December 26, 2015 increased $11.7 million, or 112%, to $22.1 million from $10.4 million for the three months ended December 27, 2014. In November 2015, we issued $400 million aggregate principal amount of 6.125% senior notes due November 2023. We used the net proceeds from the offering, together with available cash, to redeem our outstanding 8.25% senior subordinated notes due March 1, 2018 and pay fees and expenses related to the offering. As a result of our redemption of the 2018 Notes, we recognized incremental interest expense of approximately $14.3 million comprised of an $8.3 million call premium, $2.7 million related to the 30 days of overlapping interest expense and a $3.3 million non-cash charge for the write-off of unamortized financing costs in interest expense. We expect our annual interest expense on the 2023 Notes going forward to be approximately $8.5 million less than under the 2018 Notes.

Excluding the $14.3 million of incremental expense related to the issuance and redemption of our fixed rate debt, interest expense decreased $2.7 million due primarily to lower average debt outstanding during the three months ended December 26, 2015 largely as a result of the redemption of $50 million of our 2018 Notes in March 2015. Debt outstanding on December 26, 2015 was $436.2 million compared to $445.5 million as of December 27, 2014.

Other Expense

Other expense is comprised of income from investments accounted for under the equity method of accounting and foreign currency exchange gains and losses. Other expense increased $0.1 million to $0.5 million for the quarter ended December 26, 2015, from $0.4 million for the quarter ended December 27, 2014. The increase was due primarily to equity method losses from the two newly formed entities we invested in during our second quarter of fiscal 2015.

Income Taxes

Our effective income tax benefit rate was 37.6% for the quarter ended December 26, 2015 and 41.1% for the quarter ended December 27, 2014. The less favorable income tax benefit rate was due primarily to a larger discrete tax credit in the prior year quarter.

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Inflation

Our revenues and margins are dependent on various economic factors, including, but not limited to, 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 fertilizers. 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.

In recent years, our business was negatively impacted by low consumer confidence, as well as other macro-economic factors. In fiscal 2014, commodity costs declined overall, although we were impacted by increases in our grass seed costs. In fiscal 2015, commodity costs further declined from fiscal 2014 levels. 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 2015, 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 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. On the other hand, 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 peak consumer buying periods. To encourage retailers and distributors to stock large quantities of inventory, industry practice has been for manufacturers to provide extended credit terms and/or promotional discounts.

Operating Activities

Net cash used by operating activities increased by $16.4 million, from $15.9 million of cash provided by operating activities for the three months ended December 27, 2014, to $0.5 million of cash used by operating activities for the three months ended December 26, 2015. The increase in cash used by operating activities was due primarily to a decrease in cash flow from working capital accounts for the period ended December 26, 2015, primarily receivables, inventory and accounts payable, as compared to the prior year period. While we have begun our seasonal inventory build for the upcoming garden season, our investment in inventory was not as large in the current year period as the prior year period. We remain focused on managing our investment in inventory, while maintaining high fill rates and service levels to our customers.

Investing Activities

Net cash used in investing activities increased $63.3 million, from $9.5 million for the three months ended December 26, 2014 to $72.8 million during the three months ended December 26, 2015. The increase in cash used in investing activities was due primarily to two acquisitions during the quarter. In October 2015, we acquired Hydro-Organics Wholesale Inc., an organic fertilizer company for a purchase price of approximately $7.8 million cash and approximately $2.0 million of estimated contingent future performance-based payments. This acquisition is expected to complement our existing garden fertilizer business. On December 1, 2015, we purchased the pet bedding business and certain other assets of National Consumers Outdoors Corp., formerly known as Dallas Manufacturing Company (DMC), for a cash purchase price of $61 million. This acquisition is expected to complement our existing dog and cat business.

Financing Activities

Net cash provided by financing activities increased $40 million, from $5.3 million of cash used by financing activities for the three months ended December 27, 2014, to $34.7 million of cash provided by financing activities for the three months ended December 26, 2015. The increase in cash provided by financing activities was due primarily to increased net borrowings under our asset backed revolving credit facility, partially offset by the payment of financing costs associated with our issuance of our 2023 Notes and subsequent redemption of our 2018 Notes for the period ended December 26, 2015.

We expect that our principal sources of funds will be cash generated from our operations and, if necessary, borrowings under our $390 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 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 investment in our implementation of a scalable enterprise-wide information technology platform, will not exceed $40 million for fiscal 2016. We are investing in this information technology platform to improve existing operations, support future growth and enable us to take advantage of new applications and technologies.

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 December 26, 2015, our total debt outstanding was $436.2 million, as compared with $445.5 million at December 27, 2014.

Senior Notes and Redemption of Senior Subordinated Notes

On November 9, 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 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 incremental interest expense of $14.3 million, comprised of the 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.

The 2023 Notes require semiannual interest payments, which commence on May 15, 2016. 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.

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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 December 26, 2015.

Asset Backed Loan Facility

On December 5, 2013, we entered into a credit agreement which provides up to a $390 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 Credit Facility). The Credit Facility matures on December 5, 2018. We may borrow, repay and reborrow amounts under the Credit Facility until its maturity date, at which time all amounts outstanding under the Credit Facility must be repaid in full. As of December 26, 2015, there were borrowings of $42.0 million outstanding and no letters of credit outstanding under the Credit Facility. There were other letters of credit of $6.0 million outstanding as of December 26, 2015.

The 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 December 26, 2015, the borrowing availability was $293.0 million and the remaining borrowing availability, after taking into consideration $42.0 million of outstanding borrowings, was $251.0 million. Borrowings under the 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 total outstanding borrowings. Such applicable margin for LIBOR-based borrowings fluctuates between 1.25%-1.75% (and was 1.25% at December 26, 2015) and such applicable margin for Base Rate borrowings fluctuates between 0.25%-0.75% (and was 0.25% at December 26, 2015). As of December 26, 2015, the applicable interest rate related to Base Rate borrowings was 3.75%, and the applicable interest rate related to LIBOR-based borrowings was 1.49%.

The 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 Credit Facility is secured by substantially all assets of the Company. We were in compliance with all financial covenants under the Credit Facility during the period ended December 26, 2015.

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 26, 2015 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 26, 2015.

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 26, 2015.

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 26, 2015.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*. Our Chief Executive Officer and Chief 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 Chief 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 December 26, 2015.

(b) *Changes in Internal Control Over Financial Reporting*. Our management, with the participation of our Chief Executive Officer and Acting Chief Financial Officer, has evaluated whether any change in our internal control over financial reporting occurred during the first quarter of fiscal 2016. Based on that evaluation, management concluded that there has been no change in our internal control over financial reporting during the first quarter of fiscal 2016 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 26, 2015.

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 December 26, 2015 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	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)

				or Programs		
September 27, 2015	October 31, 2015	7,633[(2)]	$ 16.78	0	$	34,968,000
November 1, 2015	November 28, 2015	0	$ 0	0	$	34,968,000
November 29, 2015	December 26, 2015	5,801[(2)]	$ 15.29	0	$	34,968,000
Total		13,434	$ 16.14	0	$	34,968,000

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

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Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

4.1	Third Supplemental Indenture, dated as of November 9, 2015, by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, relating to 6.125% Senior Notes due 2023 (incorporated by reference from Exhibit 4.6 to the Company s Annual Report for the fiscal year ended September 26, 2015).
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

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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: February 4, 2016

/s/ JOHN R. RANELLI
John R. Ranelli
President and Chief Executive Officer
(Principal Executive Officer)

/s/ DAVID N. CHICHESTER
David N. Chichester
Acting Chief Financial Officer
(Principal Financial Officer)