CENTRAL GARDEN & PET CO
Form 10-Q
August 03, 2016

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

FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 25, 2016
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. ý 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). ý 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 ý

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 ý No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock Outstanding as of July 26, 2016	11,998,472
Class A Common Stock Outstanding as of July 26, 2016	37,230,889
Class B Stock Outstanding as of July 26, 2016	1,652,262

Table of Contents

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, capital expenditures, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries in which we operate and other information that is not historical information. When used in this Form 10-Q, the words "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes" and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, our 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 recent transition to a new CEO and our dependence upon our key executives;

Table of Contents

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CENTRAL GARDEN & PET COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(Unaudited)

	June 25, 2016	June 27, 2015	September 26, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$40,000	$43,841	$ 47,584
Restricted cash	12,029	12,590	13,157
Accounts receivable (less allowance for doubtful accounts of $25,429, $18,573 and $19,296)	241,954	223,149	207,402
Inventories	361,813	340,233	335,946
Prepaid expenses and other	45,075	54,558	49,731
Total current assets	700,871	674,371	653,820
Land, buildings, improvements and equipment—net	159,430	162,969	162,809
Goodwill	233,011	209,089	209,089
Other intangible assets—net	95,070	83,841	75,460
Other assets	28,525	25,467	30,419
Total	$1,216,907	$1,155,737	$ 1,131,597
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	$96,906	$90,423	$ 88,889
Accrued expenses	102,953	110,070	87,724
Current portion of long-term debt	530	290	291
Total current liabilities	200,389	200,783	176,904
Long-term debt	394,603	396,395	396,691
Other long-term obligations	63,975	47,147	51,622
Equity:			
Common stock, $0.01 par value: 11,998,472, 11,908,317, and 11,908,317 shares outstanding at June 25, 2016, June 27, 2015 and September 26, 2015	120	119	119
Class A common stock, $0.01 par value: 37,197,569, 35,970,174 and 36,462,299 shares outstanding at June 25, 2016, June 27, 2015 and September 26, 2015	371	360	364
Class B stock, $0.01 par value: 1,652,262 shares outstanding	16	16	16
Additional paid-in capital	390,270	388,762	388,636
Accumulated earnings	166,112	120,356	115,987
Accumulated other comprehensive income (loss)	(805)	679	164
Total Central Garden & Pet Company shareholders’ equity	556,084	510,292	505,286
Noncontrolling interest	1,856	1,120	1,094
Total equity	557,940	511,412	506,380
Total	$1,216,907	$1,155,737	$ 1,131,597

See notes to condensed consolidated financial statements.

4

Table of Contents

CENTRAL GARDEN & PET COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Net sales	$514,544	$459,446	$1,415,605	$1,264,368
Cost of goods sold and occupancy	350,799	317,409	982,735	884,288
Gross profit	163,745	142,037	432,870	380,080
Selling, general and administrative expenses	115,560	103,044	316,509	289,978
Income from operations	48,185	38,993	116,361	90,102
Interest expense	(6,964)	(8,978)	(36,205)	(31,357)
Interest income	43	7	74	96
Other income (expense)	318	585	(243)	96
Income before income taxes and noncontrolling interest	41,582	30,607	79,987	58,937
Income tax expense	14,916	11,484	28,509	21,527
Income including noncontrolling interest	26,666	19,123	51,478	37,410
Net income attributable to noncontrolling interest	636	323	1,353	1,070
Net income attributable to Central Garden & Pet Company	$26,030	$18,800	$50,125	$36,340
Net income per share attributable to Central Garden & Pet Company:				
Basic	$0.53	$0.39	$1.03	$0.75
Diluted	$0.51	$0.38	$0.99	$0.73
Weighted average shares used in the computation of net income per share:				
Basic	49,120	48,167	48,801	48,642
Diluted	51,063	49,290	50,743	49,496

See notes to condensed consolidated financial statements.

CENTRAL GARDEN & PET COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Net income	$26,666	$19,123	$51,478	$37,410
Other comprehensive income (loss):				
Unrealized loss on securities	—	—	—	(10)
Reclassification of realized loss on securities included in net income	—	—	—	20
Foreign currency translation	(277)	615	(969)	(563)
Total comprehensive income	26,389	19,738	50,509	36,857
Comprehensive income attributable to noncontrolling interest	636	323	1,353	1,070
Comprehensive income attributable to Central Garden & Pet Company	$25,753	$19,415	$49,156	$35,787

See notes to condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended June 25, 2016	June 27, 2015
Cash flows from operating activities:		
Net income	$51,478	$37,410
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,286	25,076
Amortization of deferred financing costs	1,164	2,005
Stock-based compensation	6,069	5,970
Excess tax benefits from stock-based awards	(4,726)	(685)
Deferred income taxes	12,305	6,416
Write-off of deferred financing costs	3,337	537
Loss on sale of property and equipment	788	662
Gain on sale of manufacturing plant	(2,544)	—
Other	190	(51)
Change in assets and liabilities (excluding businesses acquired):		
Accounts receivable	(13,236)	(29,468)
Inventories	(5,928)	(13,791)
Prepaid expenses and other assets	6,493	(4,824)
Accounts payable	(8,027)	1,694
Accrued expenses	14,812	25,733
Other long-term obligations	(1,878)	(87)
Net cash provided by operating activities	89,583	56,597
Cash flows from investing activities:		
Additions to property and equipment	(19,486)	(18,160)
Payments to acquire companies, net of cash acquired	(68,901)	(16,000)
Proceeds from the sale of facility	3,899	
Change in restricted cash	1,129	1,693
Proceeds from short-term investments	—	9,997
Investment in short-term investments	—	(17)
Other investing activities	(550)	(489)
Net cash used in investing activities	(83,909)	(22,976)
Cash flows from financing activities:		
Repayments of long-term debt	(400,230)	(50,216)
Proceeds from issuance of long-term debt	400,000	—
Borrowings under revolving line of credit	419,000	312,000
Repayments under revolving line of credit	(419,000)	(312,000)
Proceeds from issuance of common stock	280	2,148
Repurchase of common stock, including shares surrendered for tax withholding	(9,429)	(19,021)
Distribution to noncontrolling interest	(592)	(1,680)
Payment of financing costs	(7,560)	—
Excess tax benefits from stock-based awards	4,726	685
Net cash used in financing activities	(12,805)	(68,084)
Effect of exchange rate changes on cash and cash equivalents	(453)	(372)

Net decrease in cash and cash equivalents	(7,584)	(34,835)
Cash and equivalents at beginning of period	47,584	78,676
Cash and equivalents at end of period	$40,000	$43,841
Supplemental information:		
Cash paid for interest	$32,440	$22,470

See notes to condensed consolidated financial statements.

CENTRAL GARDEN & PET COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Nine Months Ended June 25, 2016
(Unaudited)

1. Basis of Presentation

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the "Company" or "Central") as of June 25, 2016 and June 27, 2015, the condensed consolidated statements of operations for the three and nine months ended June 25, 2016 and June 27, 2015, the condensed consolidated statements of comprehensive income for the three and nine months ended June 25, 2016 and June 27, 2015 and the condensed consolidated statements of cash flows for the nine months ended June 25, 2016 and June 27, 2015 have been prepared by the Company, without audit. In the opinion of management, the interim financial statements include all normal recurring adjustments necessary for a fair statement of the results for the interim periods presented.

For the Company's foreign business in the UK, the local currency is the functional currency. Assets and liabilities are translated using the exchange rate in effect at the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Deferred taxes are not provided on translation gains and losses because the Company expects earnings of its foreign subsidiary to be permanently reinvested. Transaction gains and losses are included in results of operations. See Note 8, Supplemental Equity Information, for further detail.

Due to the seasonal nature of the Company's garden business, the results of operations for the three and nine months ended June 25, 2016 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 June 25, 2016 and June 27, 2015, 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

8

Table of Contents

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 became effective for annual periods and interim periods beginning 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.

In March 2016, the FASB issued ASU 2016-08 (ASU 2016-08), Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations.

In April 2016, the FASB issued ASU 2016-10 (ASU 2016-10), Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. ASU 2016-10 clarifies the implementation guidance on identifying performance obligations. These ASUs apply to all companies that enter into contracts with customers to transfer goods or services.

In May 2016, the FASB issued ASU No. 2016-12 (ASU 2016-12), Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients. ASU 2016-12 is intended to clarify two aspects of Topic 606: first, assessing the collectability criterion, options for the presentation of sales and similar taxes, noncash consideration, transition contract modifications, transition contract completion and secondly, technical corrections.

Early adoption is permitted, but not before interim and annual reporting periods beginning after December 15, 2016. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

Table of Contents

Leases

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

Stock 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.

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

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.

Table of Contents

Balance Sheet Classification of Deferred Taxes.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. This ASU eliminates the current requirement for entities to present deferred tax liabilities and assets as current and noncurrent in a classified statement of financial position and instead requires that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, or the Company's first quarter of fiscal 2018, and interim periods within those annual periods. 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 June 27, 2015	Reclassifications	As Adjusted June 27, 2015
Other assets	$ 28,951	$ (3,484)	$ 25,467
Total assets	1,159,221	(3,484)	1,155,737
Long term debt	399,879	(3,484)	396,395
Total liabilities and equity	1,159,221	(3,484)	1,155,737

2. Fair Value Measurements

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis based upon the level within the fair value hierarchy in which the fair value measurements fall, as of June 27, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for contingent consideration (a)	$ 0	$ 0	$4,343	$4,343
Total liabilities	$ 0	$ 0	$4,343	$4,343

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 (a)	$ 0	$ 0	$3,625	$3,625
Total liabilities	$ 0	$ 0	$3,625	$3,625

(a) 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 condensed consolidated balance sheets.

The following table provides a summary of the changes in fair value of our Level 3 financial instruments for the periods ended June 25, 2016 and June 27, 2015 (in thousands):

	Amount
Balance as of September 26, 2015	$3,625
Estimated contingent performance-based consideration established at the time of acquisition	2,590
Changes in the fair value of contingent performance-based payments established at the time of acquisition	140
Balance as of June 25, 2016	$6,355

	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	(71)
Balance as of June 27, 2015	$4,343

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

The Company measures certain non-financial assets and liabilities, including long-lived assets, goodwill and intangible assets, at fair value on a non-recurring basis. Fair value measurements of non-financial assets and non-financial liabilities are used primarily in the impairment analyses of long-lived assets, goodwill and other intangible assets. During the periods ended June 25, 2016 and June 27, 2015, the Company was not required to measure any significant non-financial assets and liabilities at fair value.

Fair Value of Other Financial Instruments

In November 2015, the Company issued $400 million aggregate principal amount of 6.125% senior notes due November 2023 (the “2023 Notes”). The estimated fair value of the Company’s 2023 Notes as of June 25, 2016 was $417.0 million, compared to a carrying value of $394.2 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 $400 million principal amount of 2018 Notes as of June 27, 2015 was $406.0 million, compared to a carrying value of $396.2 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.

3. Acquisitions

IMS Trading Corp

On July 31, 2015, the Company purchased substantially all of the assets of IMS Trading Corp. for 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 and intangible assets acquired by approximately $1.4 million, which is included in goodwill in our consolidated balance sheet as of June 25, 2016. Financial results for IMS Trading Corp. have been included in the results of operations within the Pet segment since the date of acquisition. This acquisition is expected to complement the Company's existing dog and cat business.

During the second fiscal quarter of 2016, the Company finalized the allocation of the purchase price to the fair value of the tangible and intangible assets acquired. The following table summarizes the preliminary recording of the fair values of the assets acquired and liabilities assumed as of the acquisition date and subsequent adjustments:

In thousands	Amounts Previously Recognized as of Acquisition Date (1)	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date (as Adjusted)
Current assets, net of cash and cash equivalents acquired	$ 20,458	$ 315	$ 20,773
Fixed assets	1,670	—	1,670
Goodwill	—	1,365	1,365
Other assets	5,356	(5,356)	—
Other intangible assets, net	—	4,510	4,510
Current liabilities	(5,100)	—	(5,100)
Net assets acquired, less cash and cash equivalents	$ 22,384	$ 834	$ 23,218

(1) As previously reported in our Form 10-K for the period ended September 26, 2015 and our Form 10-Q for the period ended December 26, 2015.

Hydro-Organics Wholesale Inc.

On September 30, 2015, the Company purchased Hydro-Organics Wholesale, Inc., an organic fertilizer business, for approximately $7.8 million cash and approximately $2.6 million of estimated contingent future performance-based payments. During the second fiscal quarter of 2016, the Company finalized the allocation of the purchase price to the fair value of the net tangible and intangible assets acquired. The purchase price exceeded the estimated fair value of the net tangible assets acquired by approximately $8.5 million, of which $5.2 million was allocated to identified intangible assets and $3.3 million is included in goodwill in the Company’s condensed consolidated balance sheet as of June 25, 2016. Financial results for Hydro-Organics Wholesale Inc. have been included in the results of operations within the Garden segment since the date of acquisition. This acquisition is expected to complement the Company's existing garden fertilizer business.

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 approximately $61 million. The purchase price exceeded the estimated fair value of the net tangible and intangible assets acquired by approximately $18.9 million, which is included in goodwill in the Company’s condensed consolidated balance sheet as of June 25, 2016. 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.

Proforma financial information has not been presented as the IMS Trading Corp, Hydro-Organics Wholesale Inc. and DMC acquisitions were not considered individually or collectively material to the Company's overall consolidated financial statements during the periods presented.

14

4. Inventories, net

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

	June 25, 2016	June 27, 2015	September 26, 2015
Raw materials	$110,095	$98,293	$94,969
Work in progress	16,604	16,624	15,268
Finished goods	225,814	216,668	215,673
Supplies	9,300	8,648	10,036
Total inventories, net	$361,813	$340,233	$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. Acquisitions finalized by the Company during fiscal 2016 increased goodwill by approximately $23.9 million. See Note 3, Acquisitions and Note 11, Segment Information for more detail.

6. Other Intangible Assets

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

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
		(in millions)		
June 25, 2016				
Marketing-related intangible assets – amortizable	$14.9	$ (11.1)	$ —	$ 3.8
Marketing-related intangible assets – nonamortizable	63.0	—	(24.2)	38.8
Total	77.9	(11.1)	(24.2)	42.6
Customer-related intangible assets – amortizable	62.1	(25.8)	—	36.3
Other acquired intangible assets – amortizable	20.8	(11.2)	—	9.6
Other acquired intangible assets – nonamortizable	7.8	—	(1.2)	6.6
Total	28.6	(11.2)	(1.2)	16.2
Total other intangible assets	$168.6	$ (48.1)	$ (25.4)	$ 95.1

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
		(in millions)		
June 27, 2015				
Marketing-related intangible assets – amortizable	$14.1	$ (10.4)	$ —	$ 3.7
Marketing-related intangible assets – nonamortizable	59.6	—	(16.9)	42.7
Total	73.7	(10.4)	(16.9)	46.4
Customer-related intangible assets – amortizable	43.3	(21.8)	—	21.5
Other acquired intangible assets – amortizable	19.3	(10.0)	—	9.3
Other acquired intangible assets – nonamortizable	7.8	—	(1.2)	6.6
Total	27.1	(10.0)	(1.2)	15.9
Total other intangible assets	$144.1	$ (42.2)	$ (18.1)	$ 83.8

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
		(in millions)		
September 26, 2015				
Marketing-related intangible assets – amortizable	$14.1	$ (10.4)	$ —	$ 3.7
Marketing-related intangible assets – nonamortizable	59.6	—	(24.2)	35.4
Total	73.7	(10.4)	(24.2)	39.1
Customer-related intangible assets – amortizable	43.3	(22.3)	—	21.0
Other acquired intangible assets – amortizable	19.3	(10.5)	—	8.8
Other acquired intangible assets – nonamortizable	7.8	—	(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.
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 nine months ended June 25, 2016, 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, 12 years for customer-related intangibles and 13 years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately $2.7 million and $1.4 million for the three month periods ended June 25, 2016 and June 27, 2015, respectively, and $4.9 million and $3.3 million for the nine months ended June 25, 2016 and June 27, 2015, and is classified within operating expenses in the condensed consolidated statements of operations. Estimated annual amortization expense related to acquired intangible assets in each of the succeeding five years is estimated to be approximately $5 million per year from fiscal 2016 through fiscal 2020.

7. Long-Term Debt

Long-term debt consists of the following:

	June 25, 2016	June 27, 2015	September 26, 2015
	(in thousands)		
Senior notes, interest at 6.125%, payable semi-annually, principal due May 2023	$400,000	$—	$—
Senior subordinated notes, interest at 8.25%, payable semi-annually, repaid in December 2015	—	400,000	400,000
Unamortized discount	—	(336)	(309)
Unamortized debt issuance costs	(5,834)	(3,484)	(3,157)
Net carrying value	394,166	396,180	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	—	—	—
Asset-based revolving credit facility, interest at LIBOR plus a margin of 1.25% to 1.50% or Base Rate plus a margin of 0.25% to 0.50%, final maturity April 2021	—	—	—
Other notes payable	967	505	448
Total	395,133	396,685	396,982
Less current portion	(530)	(290)	(291)
Long-term portion	$394,603	$396,395	$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.

17

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 commenced 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 June 25, 2016.

Asset-Based Loan Facility Amendment

On April 22, 2016, the Company entered into an amended and restated credit agreement which provides up to a $400 million principal amount senior secured asset-based revolving credit facility, with up to an additional $200 million principal amount available with the consent of the Lenders if the Company exercises the accordion feature set forth therein (collectively, the "Amended Credit Facility"). The Amended Credit Facility matures on April 22, 2021. The Company may borrow, repay and reborrow amounts under the Amended Credit Facility until its maturity date, at which time all amounts outstanding under the Amended Credit Facility must be repaid in full. As of June 25, 2016, there were no borrowings outstanding and no letters of credit outstanding under the Credit Facility. There were other letters of credit of $6.0 million outstanding as of June 25, 2016.

The Amended Credit Facility is subject to a borrowing base, calculated using a formula based upon eligible receivables and inventory, minus certain reserves and subject to restrictions. As of June 25, 2016, the borrowing base and remaining borrowing availability was $400.0 million. Borrowings under the Amended Credit Facility bear interest at an index based on LIBOR or, at the option of the Company, the Base Rate (defined as the highest of (a) the SunTrust prime rate, (b) the Federal Funds Rate plus 0.5% and (c) one-month LIBOR plus 1.00%), plus, in either case, an applicable margin based on the Company's consolidated senior leverage ratio. Such applicable margin for LIBOR-based borrowings fluctuates between 1.25% - 1.50% and was 1.25% as of June 25, 2016, and such applicable margin for Base Rate borrowings fluctuates between 0.25%-0.5% and was 0.25% as of June 25, 2016. As of June 25, 2016, the applicable interest rate related to Base Rate borrowings was 3.75%, and the applicable interest rate related to LIBOR-based borrowings was 1.69%.

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

The Amended Credit Facility contains customary covenants, including financial covenants which require the Company to maintain a minimum fixed charge coverage ratio of 1.00 :1.00 upon reaching certain borrowing levels. The Amended Credit Facility is secured by substantially all assets of the Company. The Company was in compliance with all financial covenants under the Amended Credit Facility during the period ended June 25, 2016.

18

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 June 25, 2016 and June 27, 2015

	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 26, 2015	$119	$ 364	$ 16	$388,636	$115,987	$ 164	$505,286	$ 1,094	$506,380
Comprehensive income					50,125	(969)	49,156	1,353	50,509
Amortization of share-based awards				4,796			4,796		4,796
Restricted share activity		1		(1,230)			(1,229)		(1,229)
Issuance of common stock, including net share settlement of stock options	1	6		(6,654)			(6,647)		(6,647)
Tax benefit on stock option exercise, net of tax deficiency				4,722			4,722		4,722
Distribution to Noncontrolling interest								(592)	(592)
Other								1	1
Balance June 25, 2016	$120	$ 371	$ 16	$390,270	$166,112	$ (805)	$556,084	$ 1,856	$557,940

	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 income					36,340	(553)	35,787	1,070	36,857
Amortization of share-based awards				4,513			4,513		4,513
Restricted share activity		—		(1,200)			(1,200)		(1,200)
Issuance of common stock, including net share settlement of stock options		3		904			907		907
Repurchase of common stock	(5)	(12)		(12,726)	(2,380)		(15,123)		(15,123)
Tax benefit on stock option exercise, net of tax deficiency				685			685		685
Distribution to Noncontrolling interest								(1,680)	(1,680)
Balance June 27, 2015	$119	$ 360	$ 16	$388,762	$120,356	$ 679	$510,292	$ 1,120	$511,412

9. Stock-Based Compensation

The Company recognized share-based compensation expense of $6.1 million and $6.0 million for the nine month periods ended June 25, 2016 and June 27, 2015, respectively, as a component of selling, general and administrative expenses. The tax benefit associated with share-based compensation expense for the nine month periods ended June 25, 2016 and June 27, 2015 was $2.2 million and $2.1 million, respectively.

10. Earnings Per Share

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

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

	Three Months Ended June 27, 2015			Nine Months Ended June 27, 2015		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic EPS:						
Net income available to common shareholders	$18,800	48,167	$0.39	$36,340	48,642	$0.75
Effect of dilutive securities:						
Options to purchase common stock		538	—		309	(0.01)
Restricted shares		585	(0.01)		545	(0.01)
Diluted EPS:						
Net income available to common shareholders	$18,800	49,290	$0.38	$36,340	49,496	$0.73

Options to purchase 4.5 million shares of common stock at prices ranging from $6.43 to $15.56 per share were outstanding at June 25, 2016, and options to purchase 7.4 million shares of common stock at prices ranging from $6.43 to $15.00 per share were outstanding at June 27, 2015.

For the three month period ended June 25, 2016 all options outstanding were included in the computation of diluted earnings per share. For the three month period ended June 27, 2015, options to purchase 3.2 million shares of common stock, were outstanding but were not included in the computation of diluted earnings per share, because the option exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

For the nine month period ended June 25, 2016 all options outstanding were included in the computation of diluted earnings per share. For the nine month period ended June 27, 2015, options to purchase 4.8 million shares of common stock were outstanding but were not included in the computation of diluted earnings per share, because the option exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

11. Segment Information

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

	Three Months Ended		Nine Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Net sales:				
Pet segment	$287,213	$238,126	$811,203	$658,931
Garden segment	227,331	221,320	604,402	605,437
Total net sales	$514,544	$459,446	$1,415,605	$1,264,368
Income (loss) from operations:				
Pet segment	38,759	32,939	97,363	80,565
Garden segment	26,452	23,458	67,605	59,248
Corporate	(17,026)	(17,404)	(48,607)	(49,711)
Total income from operations	48,185	38,993	116,361	90,102
Interest expense - net	(6,921)	(8,971)	(36,131)	(31,261)
Other income (expense)	318	585	(243)	96
Income tax expense	14,916	11,484	28,509	21,527
Income including noncontrolling interest	26,666	19,123	51,478	37,410
Net income attributable to noncontrolling interest	636	323	1,353	1,070
Net income attributable to Central Garden & Pet Company	$26,030	$18,800	$50,125	$36,340
Depreciation and amortization:				
Pet segment	$6,700	3,891	$16,120	$11,710
Garden segment	1,542	1,465	4,586	4,514
Corporate	2,842	2,906	8,580	8,852
Total depreciation and amortization	$11,084	$8,262	$29,286	$25,076

	June 25, 2016	June 27, 2015	September 26, 2015
Assets:			
Pet segment	$523,281	$450,198	$ 465,171
Garden segment	327,768	352,147	310,981
Corporate	365,858	353,392	355,445
Total assets	$1,216,907	$1,155,737	$ 1,131,597
Goodwill (included in corporate assets above):			
Pet segment	$229,713	$209,089	$ 209,089
Garden segment	3,298	—	—
Total goodwill	$233,011	$209,089	$ 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 2023 Notes. Those subsidiaries that are guarantors and co-obligors of the 2023 Notes are as follows:
Farnam Companies, Inc.
Four Paws Products Ltd.
Gulfstream Home & Garden, Inc.
Hydro-Organics Wholesale, Inc.
IMS Trading, LLC
IMS Southern, LLC
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.
During the second quarter of fiscal 2016, the Company added Hydro-Organics Wholesale, Inc., IMS Trading, LLC and IMS Southern, LLC as guarantors of the 2023 Notes. Fiscal year ended September 26, 2015 financial results previously reflected IMS Trading, LLC and IMS Southern, LLC as part of the Parent. In accordance with Rule 3-10 of the Securities and Exchange Commissions Regulation S-X, financial results presented herein for the fiscal year ended September 26, 2015 have been adjusted to reflect the current Guarantor status.

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

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

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
Three Months Ended June 27, 2015
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 133,886	$ 31,291	$ 319,470	$ (25,201)	$ 459,446
Cost of goods sold and occupancy	104,121	22,399	214,110	(23,221)	317,409
Gross profit	29,765	8,892	105,360	(1,980)	142,037
Selling, general and administrative expenses	31,223	5,461	68,340	(1,980)	103,044
Income (loss) from operations	(1,458)	3,431	37,020	—	38,993
Interest expense	(8,924)	(52)	(2)	—	(8,978)
Interest income	6	1	—	—	7
Other income	318	—	267	—	585
Income (loss) before taxes and equity in earnings of affiliates	(10,058)	3,380	37,285	—	30,607
Income tax expense (benefit)	(3,982)	1,265	14,201	—	11,484
Equity in earnings of affiliates	24,876	—	1,780	(26,656)	—
Net income including noncontrolling interest	18,800	2,115	24,864	(26,656)	19,123
Net income attributable to noncontrolling interest	—	323	—	—	323
	$ 18,800	$ 1,792	$ 24,864	$ (26,656)	$ 18,800

Net income attributable to Central
Garden & Pet Company

23

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

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 456,568	$ 73,324	$ 953,925	$ (68,212)	$ 1,415,605
Cost of goods sold and occupancy	360,745	54,319	631,251	(63,580)	982,735
Gross profit	95,823	19,005	322,674	(4,632)	432,870
Selling, general and administrative expenses	102,990	14,283	203,868	(4,632)	316,509
Income (loss) from operations	(7,167)	4,722	118,806	—	116,361
Interest expense	(36,065)	(133)	(7)	—	(36,205)
Interest income	71	3	—	—	74
Other income (expense)	(286)	(409)	452	—	(243)
Income (loss) before taxes and equity in earnings of affiliates	(43,447)	4,183	119,251	—	79,987
Income tax expense (benefit)	(15,437)	1,749	42,197	—	28,509
Equity in earnings of affiliates	78,135	—	1,971	(80,106)	—
Net income including noncontrolling interest	50,125	2,434	79,025	(80,106)	51,478
Net income attributable to noncontrolling interest	—	1,353	—	—	1,353
Net income attributable to Central Garden & Pet Company	$ 50,125	$ 1,081	$ 79,025	$ (80,106)	$ 50,125

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
Nine Months Ended June 27, 2015
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 380,862	$ 86,048	$ 865,589	$ (68,131)	$ 1,264,368
Cost of goods sold and occupancy	296,568	66,522	584,604	(63,406)	884,288
Gross profit	84,294	19,526	280,985	(4,725)	380,080
Selling, general and administrative expenses	89,917	14,799	189,987	(4,725)	289,978
Income (loss) from operations	(5,623)	4,727	90,998	—	90,102
Interest expense	(31,226)	(128)	(3)	—	(31,357)
Interest income	94	2	—	—	96
Other income (expense)	(359)	—	455	—	96
Income (loss) before taxes and equity in earnings of affiliates	(37,114)	4,601	91,450	—	58,937
Income tax expense (benefit)	(13,562)	1,773	33,316	—	21,527
Equity in earnings of affiliates	59,892	—	1,989	(61,881)	—
Net income including noncontrolling interest	36,340	2,828	60,123	(61,881)	37,410
Net income attributable to noncontrolling interest	—	1,070	—	—	1,070

Net income attributable to Central Garden & Pet Company	$ 36,340	$ 1,758	$ 60,123	$ (61,881)	$ 36,340

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE IN
Three Months Ended June 25, 2016
(in thousands)

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

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE
Three Months Ended June 27, 2015
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 18,800	$ 2,115	$ 24,864	$ (26,656)	$ 19,123
Other comprehensive income:					
Foreign currency translation	615	456	24	(480)	615
Total comprehensive income	19,415	2,571	24,888	(27,136)	19,738
Comprehensive income attributable to noncontrolling interests	—	323	—	—	323
Comprehensive income attributable to Central Garden & Pet Company	$ 19,415	$ 2,248	$ 24,888	$ (27,136)	$ 19,415

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

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

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE IN
Nine Months Ended June 27, 2015
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 36,340	$ 2,828	$ 60,123	$ (61,881)	$ 37,410
Other comprehensive loss:					
Unrealized loss on securities	(10)	—	—	—	(10)
Reclassification of realized loss on securities included in net income	20	—	—	—	20
Foreign currency translation	(563)	(244)	(244)	488	(563)
Total comprehensive income	35,787	2,584	59,879	(61,393)	36,857
Comprehensive income attributable to noncontrolling interests	—	1,070	—	—	1,070
Comprehensive income attributable to Central Garden & Pet Company	$ 35,787	$ 1,514	$ 59,879	$ (61,393)	$ 35,787

CONSOLIDATING CONDENSED BALANCE SHEET
June 25, 2016
(in thousands)

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

CONSOLIDATING CONDENSED BALANCE SHEET
June 27, 2015
(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$30,640	$ 10,606	$2,595	$—	$ 43,841
Restricted cash	12,590	—	—	—	12,590
Short term investments	—	—	—	—	—
Accounts receivable, net	56,528	11,152	155,469	—	223,149
Inventories	86,211	14,409	239,613	—	340,233
Prepaid expenses and other	25,727	1,260	27,571	—	54,558
Total current assets	211,696	37,427	425,248	—	674,371
Land, buildings, improvements and equipment, net	54,176	3,540	105,253	—	162,969
Goodwill	—	—	209,089	—	209,089
Other long-term assets	28,255	3,877	80,193	(3,017)	109,308
Intercompany receivable	36,989	—	386,955	(423,944)	—
Investment in subsidiaries	1,042,817	—	—	(1,042,817)	—
Total	$1,373,933	$ 44,844	$1,206,738	$(1,469,778)	$ 1,155,737
LIABILITIES AND EQUITY					
Accounts payable	$28,927	$ 6,501	$54,995	$—	$ 90,423
Accrued expenses	59,275	2,928	47,867	—	110,070
Current portion of long-term debt	260	—	30	—	290
Total current liabilities	88,462	9,429	102,892	—	200,783
Long-term debt	396,322	—	73	—	396,395
Intercompany payable	377,284	46,660	—	(423,944)	—
Losses in excess of investment in subsidiaries	—	—	12,324	(12,324)	—
Other long-term obligations	1,573	—	48,591	(3,017)	47,147
Total Central Garden & Pet shareholders' equity (deficit)	510,292	(12,365)	1,042,858	(1,030,493)	510,292
Noncontrolling interest	—	1,120	—	—	1,120
Total equity (deficit)	510,292	(11,245)	1,042,858	(1,030,493)	511,412
Total	$1,373,933	$ 44,844	$1,206,738	$(1,469,778)	$ 1,155,737

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

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$36,280	$ 10,022	$1,282	$—	$ 47,584
Restricted cash	13,157	—	—	—	13,157
Accounts receivable, net	46,326	6,775	154,301	—	207,402
Inventories	86,109	11,690	238,147	—	335,946
Prepaid expenses and other assets	22,926	848	25,957	—	49,731
Total current assets	204,798	29,335	419,687	—	653,820
Land, buildings, improvements and equipment, net	51,409	3,663	107,737	—	162,809
Goodwill	—	—	209,089	—	209,089
Other long-term assets	25,881	3,662	82,436	(6,100)	105,879
Intercompany receivable	32,695	—	415,001	(447,696)	—
Investment in subsidiaries	1,052,644	—	—	(1,052,644)	—
Total	$1,367,427	$ 36,660	$1,233,950	$(1,506,440)	$ 1,131,597
LIABILITIES AND EQUITY					
Accounts payable	$20,506	$ 2,543	$65,840	$—	$ 88,889
Accrued expenses and other liabilities	38,723	1,789	47,212	—	87,724
Current portion of long term debt	261	—	30	—	291
Total current liabilities	59,490	4,332	113,082	—	176,904
Long-term debt	396,626	—	65	—	396,691
Intercompany payable	404,255	43,441	—	(447,696)	—
Losses in excess of investment in subsidiaries	—	—	11,867	(11,867)	—
Other long-term obligations	1,770	—	55,952	(6,100)	51,622
Total Central Garden & Pet shareholders' equity (deficit)	505,286	(12,207)	1,052,984	(1,040,777)	505,286
Noncontrolling interest					