CENTRAL GARDEN & PET CO
Form 10-Q
February 02, 2017

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 December 24, 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 January 25, 2017	12,084,647
Class A Common Stock Outstanding as of January 25, 2017	37,592,411
Class B Stock Outstanding as of January 25, 2017	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, 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 suc 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 24, 2016, including the factors described in the section entitled "Item 1A – Risk Factors." If any of these risks or uncertainties materializes, or if any of our underlying assumptions are incorrect, our actual results may differ significantly from the results that we express in, or imply by, any of our forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances, except as required by law. Presently known risk factors include, but are not limited to, the following factors:

- seasonality and fluctuations in our operating results and cash flow;
- fluctuations in market prices for seeds and grains and other raw materials;
- our inability to pass through cost increases in a timely manner;
- the recent transition to a new CEO, and our dependence upon him and our other key executives;

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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;
- fluctuations in energy prices, fuel and related petrochemical costs;
- declines in consumer spending during economic downturns;
- inflation, deflation and other adverse macro-economic conditions;
- supply shortages in pet birds, small animals and fish;
- adverse weather conditions;
- risks associated with our acquisition strategy;
- access to and cost of additional capital;
- dependence on a small number of customers for a significant portion of our business;
- increasing consolidation and other trends in the retail industry;
- competition in our industries;
- potential goodwill or intangible asset impairment;
- continuing implementation of an enterprise resource planning information technology system;
- our ability to protect our intellectual property rights;
- potential environmental liabilities;
- risk associated with international sourcing;
- litigation and product liability claims;
- regulatory issues;
- the impact of product recalls;
- potential costs and risks associated with actual or anticipated cyber attacks;
- the voting power associated with our Class B stock; and
- potential dilution from issuance of authorized shares.

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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 24, 2016	December 26, 2015	September 24, 2016
ASSETS			
Current assets:			
Cash and cash equivalents	$ 6,581	$ 9,006	$ 92,982
Restricted cash	10,981	11,939	10,910
Accounts receivable (less allowance for doubtful accounts of $22,157, $21,213 and $21,069)	192,224	195,357	201,151
Inventories	430,171	416,458	362,004
Prepaid expenses and other	53,346	59,873	47,759
Total current assets	693,303	692,633	714,806
Land, buildings, improvements and equipment—net	169,836	163,948	158,224
Goodwill	230,385	209,089	231,385
Other intangible assets—net	92,851	74,552	95,865
Other assets	61,326	70,987	11,913
Total	$ 1,247,701	$ 1,211,209	$ 1,212,193
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	$ 135,237	$ 129,091	$ 102,413
Accrued expenses	94,494	89,047	99,343
Current portion of long-term debt	397	292	463
Total current liabilities	230,128	218,430	202,219
Long-term debt	395,011	435,893	394,806
Other long-term obligations	62,606	58,005	60,581
Equity:			
Common stock, 11,998,472, 11,908,317, and 11,998,472 shares outstanding at December 24, 2016, December 26, 2015 and September 24, 2016	120	119	120
Class A common stock, $0.01 par value: 37,558,042, 36,591,487 and 37,418,572 shares outstanding at December 24, 2016, December 26, 2015 and September 24, 2016	375	366	374
Class B stock, $0.01 par value: 1,652,262 shares outstanding	16	16	16
Additional paid-in capital	392,402	390,583	393,297
Accumulated earnings	168,138	107,385	160,501
Accumulated other comprehensive income (loss)	(1,802)	(69)	(1,294)
Total Central Garden & Pet Company shareholders' equity	559,249	498,400	553,014
Noncontrolling interest	707	481	1,573
Total equity	559,956	498,881	554,587
Total	$ 1,247,701	$ 1,211,209	$ 1,212,193

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 24, 2016	December 26, 2015
Net sales	$419,498	$ 359,812
Cost of goods sold and occupancy	298,820	260,026
Gross profit	120,678	99,786
Selling, general and administrative expenses	100,740	91,013
Operating income	19,938	8,773
Interest expense	(6,873)	(22,145)
Interest income	38	22
Other expense	(967)	(473)
Income (loss) before income taxes and noncontrolling interest	12,136	(13,823)
Income tax expense (benefit)	4,347	(5,200)
Income (loss) including noncontrolling interest	7,789	(8,623)
Net income (loss) attributable to noncontrolling interest	152	(21)
Net income (loss) attributable to Central Garden & Pet Company	$7,637	$ (8,602)
Net income (loss) per share attributable to Central Garden & Pet Company:		
Basic	$0.15	$ (0.18)
Diluted	$0.15	$ (0.18)
Weighted average shares used in the computation of net income per share:		
Basic	49,665	48,566
Diluted	51,810	48,566

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	December 24, 2016	December 26, 2015
Net income (loss)	$7,789	$ (8,623)
Other comprehensive income (loss):		
Foreign currency translation	(508)	(233)
Total comprehensive income (loss)	7,281	(8,856)
Comprehensive income (loss) attributable to noncontrolling interest	152	(21)
Comprehensive income (loss) attributable to Central Garden & Pet Company	$7,129	$ (8,835)

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 24, 2016	December 26, 2015
Cash flows from operating activities:		
Net income (loss)	$7,789	$ (8,623)
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	10,009	9,032
Amortization of deferred financing costs	341	417
Stock-based compensation	2,687	2,218
Excess tax benefits from stock-based awards	(4,356)	(900)
Deferred income taxes	3,527	3,997
Write-off of deferred financing costs	—	3,337
Gain on sale of property and equipment	(95)	(14)
Gain on sale of facility	(2,050)	—
Other	798	—
Change in assets and liabilities (excluding businesses acquired):		
Accounts receivable	11,590	33,736
Inventories	(67,678)	(61,101)
Prepaid expenses and other assets	(1,238)	(6,921)
Accounts payable	31,863	23,404
Accrued expenses	(6,420)	622
Other long-term obligations	(80)	315
Net cash used by operating activities	(13,313)	(481)
Cash flows from investing activities:		
Additions to property and equipment	(12,968)	(5,256)
Payments to acquire companies, net of cash acquired	(60,042)	(68,529)
Proceeds from the sale of business, facility and other assets	7,960	—
Change in restricted cash	(71)	1,218
Investment in equity method investee	(2,000)	—
Other investing activities	(265)	(200)
Net cash used in investing activities	(67,386)	(72,767)
Cash flows from financing activities:		
Repayments of long-term debt	(74)	(400,072)
Proceeds from issuance of long-term debt	—	400,000
Borrowings under revolving line of credit	1,000	79,000
Repayments under revolving line of credit	(1,000)	(37,000)
Repurchase of common stock, including shares surrendered for tax withholding	(7,913)	(1,167)
Payment of contingent consideration liability	(860)	—
Distribution to noncontrolling interest	(1,018)	(592)
Payment of financing costs	—	(6,324)
Excess tax benefits from stock-based awards	4,356	900
Net cash provided (used) in financing activities	(5,509)	34,745
Effect of exchange rate changes on cash and cash equivalents	(193)	(75)
Net decrease in cash and cash equivalents	(86,401)	(38,578)
Cash and equivalents at beginning of period	92,982	47,584

Cash and equivalents at end of period	$6,581	$ 9,006
Supplemental information:		
Cash paid for interest	$13,034	$ 17,844

See notes to condensed consolidated financial statements.

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CENTRAL GARDEN & PET COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended December 24, 2016
(Unaudited)

1. Basis of Presentation

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the “Company” or “Central”) as of December 24, 2016 and December 26, 2015, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive income and the condensed consolidated statements of cash flows for the three months ended December 24, 2016 and December 26, 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 months ended December 24, 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 2016 Annual Report on Form 10-K, which has previously been filed with the Securities and Exchange Commission. The September 24, 2016 balance sheet presented herein was derived from the audited financial statements.

Noncontrolling Interest

Noncontrolling interest in the Company’s condensed consolidated financial statements represents the 20% interest not owned by Central in a consolidated subsidiary. Since the Company controls this subsidiary, its financial statements are consolidated with those of the Company, and the noncontrolling owner’s 20% share of the subsidiary’s net assets and results of operations is deducted and reported as noncontrolling interest on the consolidated balance sheets and as net income (loss) attributable to noncontrolling interest in the consolidated statements of operations. See Note 8, Supplemental Equity Information, for additional information.

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 24, 2016 and December 26, 2015, the Company had no outstanding derivative instruments.

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Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

Consolidation

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

Stock Based Compensation

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

Accounting Standards Not Yet Adopted

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers. This update was issued as Accounting Standards Codification Topic 606. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB deferred the effective date of ASU 2014-09 for one year. ASU 2014-09 is now effective for the Company beginning in the first quarter of its fiscal year ending September 28, 2019.

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.

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

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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.

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.

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, 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.

Statement of Cash Flows

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

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

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 24, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for contingent consideration (a)	$ 0	$ 0	$4,253	$4,253
Total liabilities	$ 0	$ 0	$4,253	$4,253

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 (a)	$ 0	$ 0	$5,625	$5,625
Total liabilities	$ 0	$ 0	$5,625	$5,625

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

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

(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 the Company's condensed consolidated balance sheets.

The following table provides a summary of the changes in fair value of the Company's Level 3 financial instruments for the periods ended December 24, 2016 and December 26, 2015 (in thousands):

	Amount
Balance as of September 24, 2016	$5,113
Performance-based payments made	(860)
Balance as of December 24, 2016	$4,253

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

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 24, 2016 and December 26, 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 December 24, 2016, December 26, 2015 and September 24, 2016 was $421.4 million, $404.0 million and $430.3 million, respectively, compared to a carrying value of $394.6 million, $393.8 million and $394.4 million, respectively.

3. Acquisitions

Segrest Inc.

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

4. Inventories, net

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

	December 24, 2016	December 26, 2015	September 24, 2016
Raw materials	$125,324	$118,827	$120,786
Work in progress	21,024	15,086	17,378
Finished goods	273,730	271,134	217,788
Supplies	10,093	11,411	6,052
Total inventories, net	$430,171	$416,458	$362,004

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.

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)	
December 24, 2016				
Marketing-related intangible assets – amortizable	$14.9	$ (11.5)	$ —	$ 3.4
Marketing-related intangible assets – nonamortizable	62.8	—	(26.0)	36.8
Total	77.7	(11.5)	(26.0)	40.2
Customer-related intangible assets – amortizable	64.3	(27.0)	—	37.3
Other acquired intangible assets – amortizable	20.8	(11.9)	—	8.9
Other acquired intangible assets – nonamortizable	7.7	—	(1.2)	6.5
Total	28.5	(11.9)	(1.2)	15.4
Total other intangible assets	$170.5	$ (50.4)	$ (27.2)	$ 92.9

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
			(in millions)	
December 26, 2015				
Marketing-related intangible assets – amortizable	$14.1	$ (10.7)	$ —	$ 3.4
Marketing-related intangible assets – nonamortizable	59.6	—	(24.2)	35.4
Total	73.7	(10.7)	(24.2)	38.8
Customer-related intangible assets – amortizable	43.3	(22.8)	—	20.5
Other acquired intangible assets – amortizable	19.3	(10.6)	—	8.7
Other acquired intangible assets – nonamortizable	7.8	—	(1.2)	6.6
Total	27.1	(10.6)	(1.2)	15.3
Total other intangible assets	$144.1	$ (44.1)	$ (25.4)	$ 74.6

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
			(in millions)	
September 24, 2016				
Marketing-related intangible assets – amortizable	$14.9	$ (11.3)	$ —	$ 3.6
Marketing-related intangible assets – nonamortizable	63.0	—	(26.0)	37.0
Total	77.9	(11.3)	(26.0)	40.6
Customer-related intangible assets – amortizable	65.6	(26.1)	—	39.5
Other acquired intangible assets – amortizable	20.8	(11.6)	—	9.2
Other acquired intangible assets – nonamortizable	7.8	—	(1.2)	6.6
Total	28.6	(11.6)	(1.2)	15.8
Total other intangible assets	$172.1	$ (49.0)	$ (27.2)	$ 95.9

Other acquired intangible assets include contract-based and technology-based intangible assets.
The Company evaluates long-lived assets, including amortizable and indefinite-lived intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The Company evaluates indefinite-lived intangible assets on an annual basis. In fiscal 2016, the Company recognized a non-cash $1.8 million impairment charge to certain indefinite-lived intangible assets as a result of increased competition in the marketplace and declining volume of sales. Other factors indicating the carrying value of the Company's amortizable intangible assets may not be recoverable were not present in fiscal 2016 or during the three months ended December 24, 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 four years to 25 years; over weighted average remaining lives of six years for marketing-related intangibles, 11 years for customer-related intangibles and 13 years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately $1.4 million and $1.0 million for the three month periods ended December 24, 2016 and December 26, 2015, respectively, and is classified within operating expenses in the condensed consolidated statements of operations. Estimated annual amortization expense related to acquired intangible assets in each of the succeeding five years is estimated to be approximately $5 million per year from fiscal 2017 through fiscal 2021
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7. Long-Term Debt
Long-term debt consists of the following:

	December 24, 2016	December 26, 2015	September 24, 2016
	(in thousands)		
Senior notes, interest at 6.125%, payable semi-annually, principal due November 2023	$400,000	$400,000	$400,000
Unamortized debt issuance costs	(5,436)	(6,194)	(5,635)
Net carrying value	394,564	393,806	394,365
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	—
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	844	379	904
Total	395,408	436,185	395,269
Less current portion	(397)	(292)	(463)
Long-term portion	$395,011	$435,893	$394,806

Senior Notes and Redemption of Senior Subordinated Notes
On November 9, 2015, the Company issued $400 million aggregate principal amount of 6.125% senior notes due November 2023. In December 2015, the Company used the net proceeds from the offering, together with available cash, to redeem its $400 million aggregate principal amount of 8.25% senior subordinated notes due March 1, 2018 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 for the quarter ended December 26, 2015.

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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 December 24, 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 December 24, 2016, there were no borrowings outstanding and no letters of credit outstanding under the Credit Facility. There were other letters of credit of $2.6 million outstanding as of December 24, 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 December 24, 2016, the borrowing base and remaining borrowing availability was $329.1 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 December 24, 2016, and such applicable margin for Base Rate borrowings fluctuates between 0.25%-0.5% and was 0.25% as of December 24, 2016. As of December 24, 2016, the applicable interest rate related to Base Rate borrowings was 4.0%, and the applicable interest rate related to LIBOR-based borrowings was 2.0%.

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

The Amended Credit Facility contains customary covenants, including financial covenants which require the Company to maintain a minimum fixed charge coverage ratio of 1.00:1.00 upon reaching certain borrowing levels. The Amended Credit Facility is secured by substantially all assets of the Company. The Company was in compliance with all financial covenants under the Amended Credit Facility during the quarter ended December 24, 2016.

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 24, 2016 and December 26, 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 24, 2016	$120	$ 374	$ 16	$393,297	$160,501	$ (1,294)	$553,014	$ 1,573	$554,587
Comprehensive income					7,637	(508)	7,129	152	7,281
Amortization of share-based awards				2,118			2,118		2,118
Restricted share activity		(1)		(3,312)			(3,313)		(3,313)
Issuance of common stock, including net share settlement of stock options	—	2		(4,033)			(4,031)		(4,031)
Tax benefit on stock option exercise, net of tax deficiency				4,332			4,332		4,332
Distribution to Noncontrolling interest								(1,018)	(1,018)
Balance December 24, 2016	$120	$ 375	$ 16	$392,402	$168,138	$ (1,802)	$559,249	$ 707	$559,956

	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					(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, including net share settlement of stock options		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

9. Stock-Based Compensation

The Company recognized share-based compensation expense of $2.7 million and $2.2 million for the three months ended December 24, 2016 and December 26, 2015, respectively, as a component of selling, general and administrative expenses. The tax benefit associated with share-based compensation expense for the three months ended December 24, 2016 and December 26, 2015 was $1.0 million and $0.8 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 December 24, 2016			Three Months Ended December 26, 2015		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic EPS:						
Net income available to common shareholders	$7,637	49,665	$0.15	$(8,602)	48,566	$(0.18)
Effect of dilutive securities:						
Options to purchase common stock		1,356	—		—	—
Restricted shares		789	—		—	—
Diluted EPS:						
Net income available to common shareholders	$7,637	51,810	$0.15	$(8,602)	48,566	$(0.18)

Options to purchase 2.9 million shares of common stock at prices ranging from $6.43 to $15.56 per share were outstanding at December 24, 2016, and options to purchase 4.3 million shares of common stock at prices ranging from $6.43 to $15.56 per share were outstanding at December 26, 2015.

For the three months ended December 24, 2016, all options outstanding were included in the computation of diluted earnings per share. For the three months ended December 26, 2015, the potential effects of stock awards were excluded from the diluted earnings per share calculation because their inclusion in a net loss period would be antidilutive to the earnings per share calculation.

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 24, 2016	December 26, 2015
Net sales:		
Pet segment	$ 304,046	$ 248,662
Garden segment	115,452	111,150