

CENTRAL GARDEN & PET CO

Form 10-Q

May 08, 2014

[Table of Contents](#)

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 29, 2014**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**1340 Treat Blvd., Suite 600, Walnut Creek, California 94597**  
**(Address of principle executive offices)**  
**(925) 948-4000**  
**(Registrant's telephone number, including area code)**  
**(Former name, former address and former fiscal year, if changed since last report)**

**68-0275553**  
**(I.R.S. Employer**  
**Identification No.)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

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  No

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

|   |            |
|---|------------|
| Common Stock Outstanding as of April 30, 2014         | 12,308,802 |
| Class A Common Stock Outstanding as of April 30, 2014 | 36,485,029 |
| Class B Stock Outstanding as of April 30, 2014        | 1,652,262  |



**Table of Contents****PART I. FINANCIAL INFORMATION**

|         |   |    |
|---------|---|----|
| Item 1. | <u>Financial Statements</u>   | 4  |
|         | <u>Condensed Consolidated Balance Sheets as of March 29, 2014, March 30, 2013, and September 28, 2013</u>                     | 4  |
|         | <u>Condensed Consolidated Statements of Operations Three and Six Months Ended March 29, 2014 and March 30, 2013</u>           | 5  |
|         | <u>Condensed Consolidated Statements of Comprehensive Income Three and Six Months Ended March 29, 2014 and March 30, 2013</u> | 6  |
|         | <u>Condensed Consolidated Statements of Cash Flows Six Months Ended March 29, 2014 and March 30, 2013</u>                     | 7  |
|         | <u>Notes to Condensed Consolidated Financial Statements</u>   | 8  |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                  | 27 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 33 |
| Item 4. | <u>Controls and Procedures</u>  | 34 |

**PART II. OTHER INFORMATION**

|          |  |    |
|----------|--|----|
| Item 1.  | <u>Legal Proceedings</u>   | 34 |
| Item 1A. | <u>Risk Factors</u>  | 34 |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 34 |
| Item 3.  | <u>Defaults Upon Senior Securities</u>                             | 34 |
| Item 4.  | <u>Mine Safety Disclosures</u>                                     | 35 |
| Item 5.  | <u>Other Information</u>   | 35 |
| Item 6.  | <u>Exhibits</u>  | 35 |

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

This Form 10-Q includes forward-looking statements. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, projected cost savings, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries in which we operate and other information that is not historical information. When used in this Form 10-Q, the words estimates, expects, anticipates, projects, 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 our Form 10-K for the fiscal year ended September 28, 2013, including the factors described in the section entitled Item 1A Risk Factors. If any of these risks or uncertainties materialize, or if any of our underlying assumptions are incorrect, our actual results may differ significantly from the results that we express in or imply by any of our forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances. Presently known risk factors include, but are not limited to, the following factors:

seasonality and fluctuations in our operating results and cash flow;

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

our inability to pass through cost increases in a timely manner;

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

declines in consumer spending during economic downturns;

**Table of Contents**

inflation, deflation and other adverse macro-economic conditions;

supply shortages in small animals and pet birds;

adverse weather conditions;

fluctuations in energy prices, fuel and related petrochemical costs;

access to and cost of additional capital;

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

disruptions in our business arising from the implementation of our change initiatives and the resulting consequences to our business and results of operations;

increased costs and expenses associated with our change initiatives;

consolidation trends in the retail industry;

competition in our industries;

risks associated with our acquisition strategy;

potential goodwill or intangible asset impairment;

dependence upon our key executives;

implementation of a new 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**

|   | <b>March 29,<br/>2014</b> | <b>March 30,<br/>2013</b> | <b>September 28,<br/>2013</b> |
|---|---------------------------|---------------------------|-------------------------------|
| <b>ASSETS</b>   |                           |                           |                               |
| Current assets:   |                           |                           |                               |
| Cash and cash equivalents   | \$ 16,748                 | \$ 11,284                 | \$ 15,156                     |
| Short term investments  | 14,220                    | 17,820                    | 17,820                        |
| Accounts receivable (less allowance for doubtful accounts of \$24,771, \$21,201 and \$21,158)   | 323,183                   | 322,190                   | 194,260                       |
| Inventories   | 402,720                   | 435,883                   | 391,934                       |
| Prepaid expenses and other  | 55,882                    | 59,408                    | 53,484                        |
| Total current assets  | 812,753                   | 846,585                   | 672,654                       |
| Land, buildings, improvements and equipment net   | 185,354                   | 193,673                   | 188,913                       |
| Goodwill  | 205,756                   | 210,223                   | 205,756                       |
| Other intangible assets net   | 77,895                    | 76,762                    | 79,868                        |
| Deferred income taxes and other assets  | 12,589                    | 19,338                    | 13,969                        |
| Total   | \$ 1,294,347              | \$ 1,346,581              | \$ 1,161,160                  |
| <b>LIABILITIES AND EQUITY</b>   |                           |                           |                               |
| Current liabilities:  |                           |                           |                               |
| Accounts payable  | \$ 142,152                | \$ 165,691                | \$ 103,569                    |
| Accrued expenses  | 80,886                    | 76,915                    | 78,618                        |
| Current portion of long-term debt   | 303                       | 271                       | 142                           |
| Total current liabilities   | 223,341                   | 242,877                   | 182,329                       |
| Long-term debt  | 545,032                   | 593,424                   | 472,445                       |
| Other long-term obligations   | 40,470                    | 34,651                    | 36,362                        |
| Equity:   |                           |                           |                               |
| Common stock, \$.01 par value: 12,308,802, 12,246,751, and 12,246,751 shares outstanding at March 29, 2014, March 30, 2013 and September 28, 2013 | 123                       | 122                       | 122                           |
|   | 364                       | 352                       | 353                           |



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Class A common stock, \$.01 par value: 36,417,849, 35,206,896 and 35,291,001 shares outstanding at March 29, 2014, March 30, 2013 and September 28, 2013

|  |              |              |              |
|--|--------------|--------------|--------------|
| Class B stock, \$.01 par value: 1,652,262 shares outstanding | 16           | 16           | 16           |
| Additional paid-in capital                                   | 396,490      | 386,756      | 389,153      |
| Accumulated earnings   | 85,779       | 86,448       | 77,592       |
| Accumulated other comprehensive income                       | 1,529        | 932          | 1,442        |
| Total Central Garden & Pet Company shareholders equity       | 484,301      | 474,626      | 468,678      |
| Noncontrolling interest                                      | 1,203        | 1,003        | 1,346        |
| Total equity   | 485,504      | 475,629      | 470,024      |
| Total  | \$ 1,294,347 | \$ 1,346,581 | \$ 1,161,160 |

See notes to condensed consolidated financial statements.

Table of Contents

**CENTRAL GARDEN & PET COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

(unaudited)

|  | <b>Three Months Ended</b> |                           | <b>Six Months Ended</b>   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <b>March 29,<br/>2014</b> | <b>March 30,<br/>2013</b> | <b>March 29,<br/>2014</b> | <b>March 30,<br/>2013</b> |
| Net sales  | \$ 501,611                | \$ 498,169                | \$ 792,132                | \$ 790,666                |
| Cost of goods sold and occupancy   | 354,015                   | 344,999                   | 564,795                   | 560,537                   |
| Gross profit   | 147,596                   | 153,170                   | 227,337                   | 230,129                   |
| Selling, general and administrative expenses                             | 102,827                   | 106,424                   | 190,923                   | 196,477                   |
| Income from operations   | 44,769                    | 46,746                    | 36,414                    | 33,652                    |
| Interest expense   | (10,405)                  | (10,937)                  | (22,622)                  | (21,252)                  |
| Interest income  | 16                        | 27                        | 29                        | 92                        |
| Other income (expense)   | 108                       | (48)                      | (60)                      | (1,029)                   |
| Income before income taxes and noncontrolling interest                   | 34,488                    | 35,788                    | 13,761                    | 11,463                    |
| Income taxes   | 12,999                    | 12,828                    | 5,084                     | 3,850                     |
| Income including noncontrolling interest                                 | 21,489                    | 22,960                    | 8,677                     | 7,613                     |
| Net income attributable to noncontrolling interest                       | 594                       | 764                       | 490                       | 686                       |
| Net income attributable to Central Garden & Pet Company                  | \$ 20,895                 | \$ 22,196                 | \$ 8,187                  | \$ 6,927                  |
| Net income per share attributable to Central Garden & Pet Company:       |                           |                           |                           |                           |
| Basic  | \$ 0.43                   | \$ 0.46                   | \$ 0.17                   | \$ 0.14                   |
| Diluted  | \$ 0.43                   | \$ 0.46                   | \$ 0.17                   | \$ 0.14                   |
| Weighted average shares used in the computation of net income per share: |                           |                           |                           |                           |
| Basic  | 48,688                    | 48,064                    | 48,523                    | 47,968                    |
| Diluted  | 49,116                    | 48,740                    | 48,963                    | 48,766                    |

See notes to condensed consolidated financial statements.

Table of Contents

**CENTRAL GARDEN & PET COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands, except per share amounts)

(unaudited)

|   | <b>Three Months Ended</b> |                           | <b>Six Months Ended</b>   |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | <b>March 29,<br/>2014</b> | <b>March 30,<br/>2013</b> | <b>March 29,<br/>2014</b> | <b>March 30,<br/>2013</b> |
| Net income  | \$ 21,489                 | \$ 22,960                 | \$ 8,677                  | \$ 7,613                  |
| Other comprehensive income (loss):                                |                           |                           |                           |                           |
| Foreign currency translation                                      | 2                         | (566)                     | 87                        | (607)                     |
| Total comprehensive income  | 21,491                    | 22,394                    | 8,764                     | 7,006                     |
| Comprehensive income attributable to noncontrolling interests     | 594                       | 764                       | 490                       | 686                       |
| Comprehensive income attributable to Central Garden & Pet Company | \$ 20,897                 | \$ 21,630                 | \$ 8,274                  | \$ 6,320                  |

See notes to condensed consolidated financial statements.

Table of Contents

**CENTRAL GARDEN & PET COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

|  | <b>Six Months Ended</b>   |                           |
|--|---------------------------|---------------------------|
|  | <b>March 29,<br/>2014</b> | <b>March 30,<br/>2013</b> |
| <b>Cash flows from operating activities:</b>   |                           |                           |
| Net income   | \$ 8,677                  | \$ 7,613                  |
| <b>Adjustments to reconcile net loss to net cash provided by operating activities:</b> |                           |                           |
| Depreciation and amortization  | 17,512                    | 16,347                    |
| Stock-based compensation   | 4,578                     | 7,774                     |
| Excess tax benefits from stock-based awards  | (321)                     | (289)                     |
| Deferred income taxes  | 5,064                     | 6,152                     |
| Write-off of deferred financing costs  | 1,731                     | 0                         |
| Unrealized losses on derivative financial instruments                                  | 0                         | 581                       |
| Loss on sale of property and equipment   | 74                        | 417                       |
| <b>Change in assets and liabilities:</b>   |                           |                           |
| Accounts receivable  | (128,803)                 | (120,065)                 |
| Inventories  | (10,587)                  | (106,081)                 |
| Prepaid expenses and other assets  | 406                       | (6,100)                   |
| Accounts payable   | 38,334                    | 38,404                    |
| Accrued expenses   | 5,163                     | (4,843)                   |
| Other long-term obligations  | (1,871)                   | (2,074)                   |
| <b>Net cash used in operating activities</b>   | <b>(60,043)</b>           | <b>(162,164)</b>          |
| <b>Cash flows from investing activities:</b>   |                           |                           |
| Additions to property and equipment  | (10,024)                  | (16,164)                  |
| Payments to acquire companies, net of cash acquired                                    | 0                         | (4,835)                   |
| Proceeds from short term investments   | 3,600                     | 4,885                     |
| <b>Net cash used in investing activities</b>   | <b>(6,424)</b>            | <b>(16,114)</b>           |
| <b>Cash flows from financing activities:</b>   |                           |                           |
| Repayments of long-term debt   | (203)                     | (170)                     |
| Proceeds from issuance of common stock   | 461                       | 475                       |
| Borrowings under revolving line of credit  | 188,000                   | 186,000                   |
| Repayments under revolving line of credit  | (116,000)                 | (42,000)                  |
| Repurchase of common stock   | (924)                     | (2,454)                   |
| Distribution to noncontrolling interest  | (633)                     | (629)                     |
| Payment of financing costs   | (3,087)                   | 0                         |

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|  |           |           |
|--|-----------|-----------|
| Excess tax benefits from stock-based awards                  | 321       | 289       |
| Net cash provided by financing activities                    | 67,935    | 141,511   |
| Effect of exchange rate changes on cash and cash equivalents | 124       | (424)     |
| Net increase (decrease) in cash and cash equivalents         | 1,592     | (37,191)  |
| Cash and equivalents at beginning of period                  | 15,156    | 48,475    |
| Cash and equivalents at end of period                        | \$ 16,748 | \$ 11,284 |
| Supplemental information:                                    |           |           |
| Cash paid for interest                                       | \$ 20,804 | \$ 20,664 |

See notes to condensed consolidated financial statements.

**Table of Contents**

**CENTRAL GARDEN & PET COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Three and Six Months Ended March 29, 2014**

**(unaudited)**

**1. Basis of Presentation**

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the Company or Central ) as of March 29, 2014 and March 30, 2013, the condensed consolidated statements of operations for the three months and six months ended March 29, 2014 and March 30, 2013, the condensed consolidated statements of comprehensive income for the three months and six months ended March 29, 2014 and March 30, 2013 and the condensed consolidated statements of cash flows for the six months ended March 29, 2014 and March 30, 2013 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 9, 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 six month periods ended March 29, 2014 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 2013 Annual Report on Form 10-K, which has previously been filed with the Securities and Exchange Commission. The September 28, 2013 balance sheet presented herein was derived from the audited statements.

***Noncontrolling Interest***

Noncontrolling interest in the Company's condensed consolidated financial statements represents the 20% interest not owned by Central in a consolidated subsidiary. Since the Company controls this subsidiary, its financial statements are 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 9, 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 also enters 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. See Note 4, Derivative Instruments, for additional information.

### ***Recent Accounting Pronouncements***

#### ***Comprehensive Income***

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). This guidance requires entities to disclose, either in the notes to the consolidated financial statements or parenthetically on the face of the statement that reports comprehensive income (loss), items reclassified out of accumulated other comprehensive income (loss) and into net earnings in their entirety and the effect of the reclassification on each affected statement of operations line item. In addition, for accumulated other comprehensive income (loss) reclassification items that are not reclassified in their entirety into net earnings, a cross reference to other required accounting standard disclosures is required. This guidance became effective for the Company on September 29, 2013. This new guidance did not have a material impact on the Company's condensed consolidated financial statements.

**Table of Contents****2. Business Combinations**

In December 2012, the Company acquired the remaining majority interest in FourStar Microbial Products, LLC (Four Star Microbial) for approximately \$4.8 million in cash and approximately \$4.2 million of contingent future performance-based payments. The purchase price exceeded the estimated fair value of the tangible and intangible assets acquired by \$3.2 million, which was recorded as goodwill. The operating results of FourStar Microbial had no material impact on the consolidated financial statements.

The following table summarizes the preliminary recording of the fair values of the assets acquired and liabilities assumed as of the acquisition date:

| <i>(In thousands)</i>   | Amounts<br>Previously<br>Recognized as of<br>Acquisition Date<br>(1) | Measurement<br>Period<br>Adjustments | Amounts<br>Recognized as of<br>Acquisition Date<br>(as<br>Adjusted) |
|---|--|--------------------------------------|---|
| Current assets, net of cash and cash equivalents<br>acquired          | \$ 220   | \$ 0                                 | \$ 220  |
| Fixed assets  | 40   | 0                                    | 40  |
| Goodwill  | 0  | 3,243                                | 3,243   |
| Intangible assets   | 1,144  | 5,958                                | 7,102   |
| Other long-term assets  | 5,406  | (5,406)                              | 0   |
| Current liabilities   | (13)   | 0                                    | (13)  |
| Other long-term liabilities   | 0  | (4,165)                              | (4,165)   |
|   | 6,797  | (370) <sup>(2)</sup>                 | 6,427   |
| Assets of acquiree recorded prior to purchase of<br>majority interest | (1,962)  | 370                                  | (1,592)   |
| Net assets acquired, less cash and cash equivalents                   | \$ 4,835   | \$ 0                                 | \$ 4,835  |

(1) As previously reported in our Form 10-Q for the period ended December 29, 2012.

(2) The Company recognized a loss of approximately \$370 on its prior ownership interest in the acquiree.

During fiscal 2013, the fair value measurements of assets acquired and liabilities assumed of FourStar Microbial as of the acquisition date were refined. This refinement did not have a significant impact on the Company's condensed consolidated statements of operations, balance sheets or cash flows in any period and, therefore, the Company has not retrospectively adjusted its financial statements. These fair value assessments were finalized and reflected in the Company's Form 10-K for the year ended September 28, 2013. Financial results for FourStar Microbial have been included in the results of operations within the Pet segment since the date of acquisition.

**3. 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.

**Table of Contents**

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 March 29, 2014 (in thousands):

|  | Level 1     | Level 2          | Level 3         | Total            |
|--|-------------|------------------|-----------------|------------------|
| <b>Assets:</b>                             |             |                  |                 |                  |
| Certificates of deposit (a)                | \$ 0        | \$ 14,220        | \$ 0            | \$ 14,220        |
| <b>Total assets</b>                        | <b>\$ 0</b> | <b>\$ 14,220</b> | <b>\$ 0</b>     | <b>\$ 14,220</b> |
| <b>Liabilities:</b>                        |             |                  |                 |                  |
| Liability for contingent consideration (c) | \$ 0        | \$ 0             | \$ 4,414        | \$ 4,414         |
| <b>Total liabilities</b>                   | <b>\$ 0</b> | <b>\$ 0</b>      | <b>\$ 4,414</b> | <b>\$ 4,414</b>  |

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 March 30, 2013:

|                             | Level 1     | Level 2          | Level 3     | Total            |
|-----------------------------|-------------|------------------|-------------|------------------|
| <b>Assets:</b>              |             |                  |             |                  |
| Certificates of deposit (a) | \$ 0        | \$ 17,820        | \$ 0        | \$ 17,820        |
| <b>Total assets</b>         | <b>\$ 0</b> | <b>\$ 17,820</b> | <b>\$ 0</b> | <b>\$ 17,820</b> |
| <b>Liabilities:</b>         |             |                  |             |                  |
| Derivative liabilities (b)  | \$ 0        | \$ 451           | \$ 0        | \$ 451           |
| <b>Total liabilities</b>    | <b>\$ 0</b> | <b>\$ 451</b>    | <b>\$ 0</b> | <b>\$ 451</b>    |

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 28, 2013:

|  | <b>Level 1</b> | <b>Level 2</b>   | <b>Level 3</b>  | <b>Total</b>     |
|--|----------------|------------------|-----------------|------------------|
| <b>Assets:</b>                             |                |                  |                 |                  |
| Certificates of deposit (a)                | \$ 0           | \$ 17,820        | \$ 0            | \$ 17,820        |
| <b>Total assets</b>                        | <b>\$ 0</b>    | <b>\$ 17,820</b> | <b>\$ 0</b>     | <b>\$ 17,820</b> |
| <b>Liabilities:</b>                        |                |                  |                 |                  |
| Liability for contingent consideration (c) | \$ 0           | \$ 0             | \$ 4,165        | \$ 4,165         |
| <b>Total liabilities</b>                   | <b>\$ 0</b>    | <b>\$ 0</b>      | <b>\$ 4,165</b> | <b>\$ 4,165</b>  |

- (a) The fair value of our time deposits is based on the most recent observable inputs for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable. These are presented as short term investments in the condensed consolidated balance sheets.
- (b) Derivative assets and liabilities were valued using quoted forward pricing from bank counterparties and are presented as other current assets and liabilities in the condensed consolidated balance sheets.

**Table of Contents**

- (c) The liability for contingent consideration relates to an earn-out for B2E, acquired in December 2012. The fair value of the contingent consideration arrangement is determined based on the Company's evaluation as to the probability and discounted amount of any earn-out that will be achieved based on expected future performance by the acquired entity. This is presented as part of accrued expenses and long-term liabilities in the condensed consolidated balance sheets.

The following table provides a summary of changes in fair value of our Level 3 financial instruments for the period ended September 28, 2013 and March 29, 2014 (in thousands):

|   | <b>Amount</b> |
|---|---------------|
| Balance as of September 28, 2013  | \$ 4,165      |
| Changes in the fair value of contingent performance-based payments established at the time of acquisition | 249           |
| Balance as of March 29, 2014  | \$ 4,414      |

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

The Company measures certain non-financial assets and liabilities, including long-lived assets, goodwill and intangible assets, at fair value on a non-recurring basis. Fair value measurements of non-financial assets and non-financial liabilities are used primarily in the impairment analyses of long-lived assets, goodwill and other intangible assets. During the period ended March 29, 2014, the Company was not required to measure any significant non-financial assets and liabilities at fair value.

***Fair Value of Other Financial Instruments***

The estimated fair value of the Company's \$450.0 million 8.25% senior subordinated notes due 2018 as of March 29, 2014, March 30, 2013 and September 28, 2013, was \$464.9 million, \$463.7 million, and \$449.5 million, respectively, compared to a carrying value of \$449.5 million, \$449.4 million, and \$449.4 million, respectively. The estimated fair value is based on quoted market prices for these notes, which are Level 1 inputs within the fair value hierarchy.

**4. Derivative Instruments**

Our operations are exposed to market risks from adverse changes in commodity prices affecting the cost of raw materials. In the normal course of business, these risks are managed through a variety of strategies, including the use of derivatives. The utilization of these financial transactions is governed by policies covering acceptable counterparty exposure, instrument types and other practices. The Company does not enter into derivative contracts for speculative purposes. The Company performs assessments of its counterparty credit risk regularly, including a review of credit ratings and potential nonperformance of the counterparty, and minimizes counterparty concentrations.

Commodity and commodity index futures, swaps and option contracts are used to economically hedge commodity input prices on grains and proteins. These derivative contracts are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. Generally, the Company economically hedges a portion of its anticipated consumption of commodity inputs for periods of up to 12 months. As of September 28, 2013 and March 29, 2014, the Company had no outstanding derivative instruments. As of March 30, 2013, the Company had economically hedged certain portions of its anticipated consumption of commodity inputs

using derivative instruments with expiration dates through July 2013.

The Company recognizes all derivative instruments as either assets or liabilities at fair value in the condensed consolidated balance sheets, with the exception of normal purchases and normal sales expected to result in physical delivery. The Company's derivative financial instruments have not been designated as hedging instruments for accounting purposes. The Company recognizes realized and unrealized gains and losses from derivatives used to economically hedge anticipated commodity consumption in other income (expense) on the condensed consolidated statement of operations.

**Table of Contents**

The following table presents the fair value of all derivative instruments outstanding in the condensed consolidated balance sheets (in thousands):

|  | March 29,<br>2014    |                           | March 30, 2013       |                           | September 28,<br>2013 |                           |
|--|----------------------|---------------------------|----------------------|---------------------------|-----------------------|---------------------------|
|  | Other Current Assets | Other Current Liabilities | Other Current Assets | Other Current Liabilities | Other Current Assets  | Other Current Liabilities |
| Derivatives not designated as hedging instruments: |                      |                           |                      |                           |                       |                           |
| Commodity contracts                                | \$ 0                 | \$ 0                      | \$ 0                 | \$ 451                    | \$ 0                  | \$ 0                      |
| <b>Total derivative instruments</b>                | <b>\$ 0</b>          | <b>\$ 0</b>               | <b>\$ 0</b>          | <b>\$ 451</b>             | <b>\$ 0</b>           | <b>\$ 0</b>               |

The following table presents the effect of derivative instruments recorded in other income (expense) on the condensed consolidated statements of operations (in thousands):

| Derivatives Not Designated as Hedging Instruments | Three Months Ended |                | Six Months Ended |                 |
|---|--------------------|----------------|------------------|-----------------|
|   | March 29, 2014     | March 30, 2013 | March 29, 2014   | March 30, 2013  |
| Commodity contracts                               | \$ 0               | \$ 68          | \$ 0             | \$ (738)        |
| <b>Total derivative instruments</b>               | <b>\$ 0</b>        | <b>\$ 68</b>   | <b>\$ 0</b>      | <b>\$ (738)</b> |

The following table presents the gross contract notional volume of outstanding derivative contracts:

| Commodity | Metric  | March 29, 2014 | March 30, 2013 | September 28, 2013 |
|-----------|---------|----------------|----------------|--------------------|
| Corn      | Bushels | 0              | 915,000        | 0                  |

**Table of Contents****5. Inventories, net**

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

|                               | March 29, 2014    | March 30, 2013    | September 28, 2013 |
|-------------------------------|-------------------|-------------------|--------------------|
| Raw materials                 | \$ 101,783        | \$ 130,718        | \$ 121,695         |
| Work in progress              | 16,267            | 17,918            | 19,856             |
| Finished goods                | 269,870           | 286,924           | 236,322            |
| Supplies                      | 14,800            | 323               | 14,060             |
| <b>Total inventories, net</b> | <b>\$ 402,720</b> | <b>\$ 435,883</b> | <b>\$ 391,934</b>  |

**6. 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. Based on the Company's annual analysis of goodwill performed during the fourth quarter of fiscal 2013, it concluded the carrying value of the Company's Garden segment goodwill was impaired, resulting in a non-cash goodwill impairment charge of \$7.7 million.

**7. Other Intangible Assets**

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

|  | Gross       | Accumulated<br>Amortization<br>(in<br>millions) | Impairment    | Net<br>Carrying<br>Value |
|--|-------------|---|---------------|--------------------------|
| March 29, 2014                                     |             |   |               |                          |
| Marketing-related intangible assets amortizable    | \$ 12.5     | \$ (9.4)  | \$ 0          | \$ 3.1                   |
| Marketing-related intangible assets nonamortizable | 59.6        | 0   | (16.9)        | 42.7                     |
| <b>Total</b>                                       | <b>72.1</b> | <b>(9.4)</b>                                    | <b>(16.9)</b> | <b>45.8</b>              |
| Customer-related intangible assets amortizable     | 42.8        | (19.0)  | 0             | 23.8                     |

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|                                  |                |          |           |           |         |
|----------------------------------|----------------|----------|-----------|-----------|---------|
| Other acquired intangible assets | amortizable    | 16.6     | (8.3)     | 0         | 8.3     |
| Other acquired intangible assets | nonamortizable | 1.2      | 0         | (1.2)     | 0       |
| Total                            |                | 17.8     | (8.3)     | (1.2)     | 8.3     |
| Total other intangible assets    |                | \$ 132.7 | \$ (36.7) | \$ (18.1) | \$ 77.9 |

|                                     |                | Gross    | Accumulated<br>Amortization<br>(in<br>millions) | Impairment | Net<br>Carrying<br>Value |
|-------------------------------------|----------------|----------|---|------------|--------------------------|
| March 30, 2013                      |                |          |   |            |                          |
| Marketing-related intangible assets | amortizable    | \$ 12.3  | \$ (7.9)  | \$ 0       | \$ 4.4                   |
| Marketing-related intangible assets | nonamortizable | 59.6     | 0   | (16.9)     | 42.7                     |
| Total                               |                | 71.9     | (7.9)   | (16.9)     | 47.1                     |
| Customer-related intangible assets  | amortizable    | 42.7     | (16.6)  | 0          | 26.1                     |
| Other acquired intangible assets    | amortizable    | 10.8     | (7.2)   | 0          | 3.6                      |
| Other acquired intangible assets    | nonamortizable | 1.2      | 0   | (1.2)      | 0                        |
| Total                               |                | 12.0     | (7.2)   | (1.2)      | 3.6                      |
| Total other intangible assets       |                | \$ 126.6 | \$ (31.7)                                       | \$ (18.1)  | \$ 76.8                  |



**Table of Contents**

|                                     |                | Gross    | Accumulated<br>Amortization<br>(in<br>millions) | Impairment | Net<br>Carrying<br>Value |
|-------------------------------------|----------------|----------|---|------------|--------------------------|
| September 28, 2013                  |                |          |   |            |                          |
| Marketing-related intangible assets | amortizable    | \$ 12.5  | \$ (8.9)  | \$ 0       | \$ 3.6                   |
| Marketing-related intangible assets | nonamortizable | 59.6     | 0   | (16.9)     | 42.7                     |
| Total                               |                | 72.1     | (8.9)   | (16.9)     | 46.3                     |
| Customer-related intangible assets  | amortizable    | 42.8     | (17.9)  | 0          | 24.9                     |
| Other acquired intangible assets    | amortizable    | 16.6     | (7.9)   | 0          | 8.7                      |
| Other acquired intangible assets    | nonamortizable | 1.2      | 0   | (1.2)      | 0                        |
| Total                               |                | 17.8     | (7.9)   | (1.2)      | 8.7                      |
| Total other intangible assets       |                | \$ 132.7 | \$ (34.7)                                       | \$ (18.1)  | \$ 79.9                  |

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

As part of its acquisition of the remaining majority interest in FourStar Microbial during the first quarter of fiscal 2013, the Company acquired approximately \$0.1 million of marketing-related intangible assets, \$0.1 million of customer-related intangible assets and \$6.9 million of other 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 2013, the Company tested its indefinite-lived intangible assets and no impairment was indicated. Other factors indicating the carrying value of the Company's amortizable intangible assets may not be recoverable were not present in fiscal 2013 or during the six months ended March 29, 2014, and accordingly, no impairment testing was performed on these assets.

The Company is currently amortizing 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, 15 years for customer-related intangibles and 15 years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately \$1.0 million for each of three month periods ended March 29, 2014 and March 30, 2013, respectively, and \$2.0 million and \$2.1 million for the six months ended March 29, 2014 and March 30, 2013, 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 2014 through fiscal 2018.

**8. Long-Term Debt**

Long-term debt consists of the following:

**March 29, 2014    March 30, 2013    September 28, 2013**  
**(in thousands)**

|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Senior subordinated notes, net of unamortized discount <sup>(1)</sup> , interest at 8.25%, payable semi-annually, principal due March 2018                          | \$ 449,472        | \$ 449,363        | \$ 449,417        |
| 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 | 95,000            | 0                 | 0                 |
| Revolving credit facility, interest at Alternate Base Rate plus a margin of 0.75% to 1.75%, or LIBOR plus a margin of 1.75% to 2.75%, final maturity June 2016      | 0                 | 144,000           | 23,000            |
| Other notes payable   | 863               | 332               | 170               |
| <b>Total</b>  | <b>545,335</b>    | <b>593,695</b>    | <b>472,587</b>    |
| Less current portion  | (303)             | (271)             | (142)             |
| <b>Long-term portion</b>  | <b>\$ 545,032</b> | <b>\$ 593,424</b> | <b>\$ 472,445</b> |

(1) Represents unamortized original issue discount of \$528 and \$637, \$583 as of March 29, 2014, March 30, 2013 and September 28, 2013, respectively.

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**Table of Contents*****Asset Backed Loan Facility***

On December 5, 2013, the Company entered into a credit agreement which provides up to a \$390 million principal amount senior secured asset-based revolving credit facility, with up to an additional \$200 million principal amount available with the consent of the Lenders if the Company exercises the accordion feature set forth therein (collectively, the Credit Facility). The Credit Facility matures on December 5, 2018 and replaced the Company's prior revolving credit facility. The Company may borrow, repay and reborrow amounts under the Credit Facility until its maturity date, at which time all amounts outstanding under the Credit Facility must be repaid in full. As of March 29, 2014, there were borrowings of \$95.0 million outstanding under the Credit Facility. There were no letters of credit outstanding under the Credit Facility as of March 29, 2014. There were other letters of credit of \$13.6 million outstanding as of March 29, 2014.

The Credit Facility is subject to a borrowing base, calculated using a formula based upon eligible receivables and inventory, minus certain reserves and subject to restrictions. The borrowing base as of March 29, 2014 was approximately \$390.0 million. The borrowing availability as of March 29, 2014 was approximately \$295.0 million. Borrowings under the Credit Facility will bear interest at an index based on LIBOR or, at the option of the Company, the Base Rate (defined as the highest of (a) the SunTrust prime rate, (b) the Federal Funds Rate plus 0.5% and (c) one-month LIBOR plus 1.00%), plus, in either case, an applicable margin based on the Company's total outstanding borrowings. Such applicable margin for LIBOR-based borrowings fluctuates between 1.25%-1.75% (and was 1.25% at March 29, 2014) and such applicable margin for Base Rate borrowings fluctuates between 0.25%-0.75% (and was 0.25% at March 29, 2014). As of March 29, 2014, the applicable interest rate related to Base Rate borrowings was 3.5%, and the applicable interest rate related to LIBOR-based borrowings was 1.4%.

The Credit Facility contains customary covenants, including financial covenants which require the Company to maintain a minimum fixed charge coverage ratio of 1.00:1.00 upon reaching certain borrowing levels. The Credit Facility is secured by substantially all assets of the Company. The Company was in compliance with all covenants under the Credit Facility during the period ended March 29, 2014.

The Company incurred approximately \$3.1 million of costs in conjunction with this transaction, which included banking fees and legal expenses. These costs will be amortized over the term of the Credit Facility.

The Company recorded a non-cash charge of \$1.7 million for the three month period ended December 28, 2013 as part of interest expense, related to the unamortized deferred financing costs under the prior revolving credit facility.

***Senior Subordinated Notes***

On March 8, 2010, the Company issued \$400 million aggregate principal amount of 8.25% senior subordinated notes due March 1, 2018 (the 2018 Notes). On February 13, 2012, the Company issued an additional \$50 million aggregate principal amount of its 2018 Notes at a price of 98.501%, plus accrued interest from September 1, 2011, in a private placement. The Company used the net proceeds from the offering to pay a portion of the outstanding balance under its prior revolving credit facility.

The estimated fair value of our \$450 million of 2018 Notes as of March 29, 2014 was approximately \$464.9 million. The estimated fair value is based on quoted market prices for these notes.

The 2018 Notes require semiannual interest payments, which commenced on September 1, 2010. The 2018 Notes are unsecured senior subordinated obligations and are subordinated to all of the Company's existing and future senior debt, including the Company's Credit Facility. The obligations under the 2018 Notes are fully and unconditionally

guaranteed on a senior subordinated basis by each of the Company's existing and future domestic restricted subsidiaries with certain exceptions. The guarantees are general unsecured senior subordinated obligations of the guarantors and are subordinated to all existing and future senior debt of the guarantors.

The Company may redeem some or all of the 2018 Notes at any time after March 1, 2014 for 104.125%, after March 1, 2015 for 102.063% and after March 1, 2016 for 100%, plus accrued and unpaid interest. The holders of the 2018 Notes have the right to require the Company to repurchase all or a portion of the 2018 Notes at a purchase price equal to 101% of the principal amount of the notes repurchased, plus accrued and unpaid interest upon the occurrence of a change of control.

The 2018 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions. The Company was in compliance with all financial covenants in the 2018 Notes indenture as of March 29, 2014.

**Table of Contents****9. 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 six months ended March 29, 2014 and March 30, 2013:

| (in thousands)                                | Controlling Interest          |                               |                                  |                      |   |          |            | Noncontrolling |            |
|---|-------------------------------|-------------------------------|----------------------------------|----------------------|---|----------|------------|----------------|------------|
|   | Class<br>A<br>Common<br>Stock | Class<br>B<br>Common<br>Stock | Additional<br>Paid In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total    | Interest   | Total          |            |
| <b>Balance<br/>September 28,<br/>2013</b>     | \$ 122                        | \$ 353                        | \$ 16                            | \$ 389,153           | \$ 77,592                                       | \$ 1,442 | \$ 468,678 | \$ 1,346       | \$ 470,024 |
| Comprehensive<br>income                       |                               |                               |                                  |                      | 8,187   | 87       | 8,274      | 490            | 8,764      |
| Stock based<br>compensation                   |                               |                               |                                  | 2,486                |   |          | 2,486      |                | 2,486      |
| Restricted share<br>activity                  |                               | 9                             |                                  | 3,968                |   |          | 3,977      |                | 3,977      |
| Issuance of<br>common stock                   | 1                             | 2                             |                                  | 562                  |   |          | 565        |                | 565        |
| Tax benefit on<br>stock option<br>exercise    |                               |                               |                                  | 321                  |   |          | 321        |                | 321        |
| Distribution to<br>Noncontrolling<br>interest |                               |                               |                                  |                      |   |          |            | (633)          | (633)      |
| <b>Balance<br/>March 29, 2014</b>             | \$ 123                        | \$ 364                        | \$ 16                            | \$ 396,490           | \$ 85,779                                       | \$ 1,529 | \$ 484,301 | \$ 1,203       | \$ 485,504 |

| (in thousands)                            | Controlling Interest          |                               |                                  |                      |   |          |            | Noncontrolling |            |
|---|-------------------------------|-------------------------------|----------------------------------|----------------------|---|----------|------------|----------------|------------|
|   | Class<br>A<br>Common<br>Stock | Class<br>B<br>Common<br>Stock | Additional<br>Paid In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total    | Interest   | Total          |            |
| <b>Balance<br/>September 29,<br/>2012</b> | \$ 122                        | \$ 347                        | \$ 16                            | \$ 382,195           | \$ 79,718                                       | \$ 1,539 | \$ 463,937 | \$ 946         | \$ 464,883 |
| Comprehensive loss                        |                               |                               |                                  |                      | 6,927   | (607)    | 6,320      | 686            | 7,006      |
| Stock based<br>compensation               |                               |                               |                                  | 2,441                |   |          | 2,441      |                | 2,441      |
| Restricted share<br>activity              |                               | 5                             |                                  | 2,498                |   |          | 2,503      |                | 2,503      |
|   |                               |                               |                                  | 638                  |   |          | 638        |                | 638        |

|   |        |        |       |            |           |        |            |          |            |
|---|--------|--------|-------|------------|-----------|--------|------------|----------|------------|
| Issuance of common stock                |        |        |       |            |           |        |            |          |            |
| Repurchase of common stock              |        |        |       | (1,305)    | (197)     |        | (1,502)    |          | (1,502)    |
| Tax benefit on stock option exercise    |        |        |       | 289        |           |        | 289        |          | 289        |
| Distribution to Noncontrolling interest |        |        |       |            |           |        |            | (629)    | (629)      |
| <b>Balance March 30, 2013</b>           | \$ 122 | \$ 352 | \$ 16 | \$ 386,756 | \$ 86,448 | \$ 932 | \$ 474,626 | \$ 1,003 | \$ 475,629 |

### 10. Stock-Based Compensation

The Company recognized share-based compensation expense of \$4.6 million and \$7.8 million for the six month periods ended March 29, 2014 and March 30, 2013, respectively, as a component of selling, general and administrative expenses. The tax benefit associated with share-based compensation expense for the six month periods ended March 29, 2014 and March 30, 2013 was \$1.7 million and \$2.9 million, respectively.

**Table of Contents****11. 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<br>March 29, 2014 |        |           | Six Months Ended<br>March 29, 2014 |        |           |
|---|--------------------------------------|--------|-----------|------------------------------------|--------|-----------|
|   | Income                               | Shares | Per Share | Income                             | Shares | Per Share |
| (in thousands, except per share amounts)    |                                      |        |           |                                    |        |           |
| Basic EPS:                                  |                                      |        |           |                                    |        |           |
| Net income available to common shareholders | \$ 20,895                            | 48,688 | \$ 0.43   | \$ 8,187                           | 48,523 | \$ 0.17   |
| Effect of dilutive securities:              |                                      |        |           |                                    |        |           |
| Options to purchase common stock            |                                      | 23     | 0.00      |                                    | 50     | 0.00      |
| Restricted shares                           |                                      | 405    | 0.00      |                                    | 390    | 0.00      |
| Diluted EPS:                                |                                      |        |           |                                    |        |           |
| Net income available to common shareholders | \$ 20,895                            | 49,116 | \$ 0.43   | \$ 8,187                           | 48,963 | \$ 0.17   |

|   | Three Months Ended<br>March 30, 2013 |        |           | Six Months Ended<br>March 30, 2013 |        |           |
|---|--------------------------------------|--------|-----------|------------------------------------|--------|-----------|
|   | Income                               | Shares | Per Share | Income                             | Shares | Per Share |
| (in thousands, except per share amounts)    |                                      |        |           |                                    |        |           |
| Basic EPS:                                  |                                      |        |           |                                    |        |           |
| Net income available to common shareholders | \$ 22,196                            | 48,064 | \$ 0.46   | \$ 6,927                           | 47,968 | \$ 0.14   |
| Effect of dilutive securities:              |                                      |        |           |                                    |        |           |
| Options to purchase common stock            |                                      | 410    | 0.00      |                                    | 390    | 0.00      |
| Restricted shares                           |                                      | 266    | 0.00      |                                    | 408    | 0.00      |
| Diluted EPS:                                |                                      |        |           |                                    |        |           |
| Net income available to common shareholders | \$ 22,196                            | 48,740 | \$ 0.46   | \$ 6,927                           | 48,766 | \$ 0.14   |

Options to purchase 11.6 million shares of common stock at prices ranging from \$4.60 to \$16.23 per share were outstanding at March 29, 2014 and options to purchase 12.0 million shares of common stock at prices ranging from \$4.60 to \$16.23 per share were outstanding at March 30, 2013.

For the three month periods ended March 29, 2014 and March 30, 2013, options to purchase 10.4 million and 9.1 million shares of common stock, respectively, 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 six month period ended March 29, 2014 and March 30, 2013, options to purchase 10.4 million and 4.6 million shares of common stock, respectively, 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.





**Table of Contents****12. 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).

|  | <b>Three Months Ended</b> |                           | <b>Six Months Ended</b>       |                           |
|--|---------------------------|---------------------------|-------------------------------|---------------------------|
|  | <b>March 29,<br/>2014</b> | <b>March 30,<br/>2013</b> | <b>March 29,<br/>2014</b>     | <b>March 30,<br/>2013</b> |
| <b>Net sales:</b>  |                           |                           |                               |                           |
| Pet segment  | \$ 216,744                | \$ 234,750                | \$ 401,349                    | \$ 429,930                |
| Garden segment   | 284,867                   | 263,419                   | 390,783                       | 360,736                   |
| <b>Total net sales</b>   | <b>\$ 501,611</b>         | <b>\$ 498,169</b>         | <b>\$ 792,132</b>             | <b>\$ 790,666</b>         |
| <b>Income (loss) from operations:</b>                              |                           |                           |                               |                           |
| Pet segment  | 24,193                    | 27,465                    | 38,579                        | 37,638                    |
| Garden segment   | 36,799                    | 33,958                    | 30,568                        | 25,422                    |
| Corporate  | (16,223)                  | (14,677)                  | (32,733)                      | (29,408)                  |
| <b>Total income from operations</b>                                | <b>44,769</b>             | <b>46,746</b>             | <b>36,414</b>                 | <b>33,652</b>             |
| Interest expense net   | (10,389)                  | (10,910)                  | (22,593)                      | (21,160)                  |
| Other income (expense)   | 108                       | (48)                      | (60)                          | (1,029)                   |
| Income taxes   | 12,999                    | 12,828                    | 5,084                         | 3,850                     |
| <b>Income including noncontrolling interest</b>                    | <b>21,489</b>             | <b>22,960</b>             | <b>8,677</b>                  | <b>7,613</b>              |
| Net Income attributable to noncontrolling interest                 | 594                       | 764                       | 490                           | 686                       |
| <b>Net income attributable to Central Garden &amp; Pet Company</b> | <b>\$ 20,895</b>          | <b>\$ 22,196</b>          | <b>\$ 8,187</b>               | <b>\$ 6,927</b>           |
| <b>Depreciation and amortization:</b>                              |                           |                           |                               |                           |
| Pet segment  | \$ 4,484                  | \$ 4,024                  | \$ 8,370                      | \$ 7,719                  |
| Garden segment   | 1,832                     | 1,622                     | 3,405                         | 3,278                     |
| Corporate  | 2,876                     | 2,685                     | 5,737                         | 5,350                     |
| <b>Total depreciation and amortization</b>                         | <b>\$ 9,192</b>           | <b>\$ 8,331</b>           | <b>\$ 17,512</b>              | <b>\$ 16,347</b>          |
|  | <b>March 29,<br/>2014</b> | <b>March 30,<br/>2013</b> | <b>September 28,<br/>2013</b> |                           |
| <b>Assets:</b>   |                           |                           |                               |                           |
| Pet segment  | \$ 434,059                | \$ 447,082                | \$ 425,988                    |                           |
| Garden segment   | 521,663                   | 542,764                   | 388,581                       |                           |

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|  |                     |                     |                     |
|--|---------------------|---------------------|---------------------|
| Corporate                                      | 338,625             | 356,735             | 346,591             |
| <b>Total assets</b>                            | <b>\$ 1,294,347</b> | <b>\$ 1,346,581</b> | <b>\$ 1,161,160</b> |
| Goodwill (included in corporate assets above): |                     |                     |                     |
| <b>Pet segment</b>                             | <b>\$ 205,756</b>   | <b>\$ 202,514</b>   | <b>\$ 205,756</b>   |
| Garden segment                                 | 0                   | 7,709               | 0                   |
| <b>Total goodwill</b>                          | <b>\$ 205,756</b>   | <b>\$ 210,223</b>   | <b>\$ 205,756</b>   |

**Table of Contents****13. 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 2018 Notes. Certain subsidiaries and operating divisions are not guarantors of the Notes (collectively, the Non-Guarantor entities ) and have been included in the financial results of the Parent in the information below. These Non-Guarantor entities are not material to the Parent. Those subsidiaries that are guarantors and co-obligors of the Notes are as follows:

Farnam Companies, Inc.  
 Four Paws Products Ltd.  
 Gulfstream Home & Garden, Inc.  
 Kaytee Products, Inc.  
 Matson, LLC  
 New England Pottery, LLC  
 Pennington Seed, Inc. (including Gro Tec, Inc. and All-Glass Aquarium Co., Inc.)  
 Pets International, Ltd.  
 T.F.H. Publications, Inc.  
 Wellmark International (including B2E Corporation and B2E Biotech LLC)

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

**CONSOLIDATING CONDENSED STATEMENT  
 OF  
 OPERATIONS  
 Three Months Ended March 29, 2014  
 (in thousands)  
 (unaudited)**

|  | Parent     | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------|--------------|--------------|
| Net sales                                    | \$ 170,227 | \$ 344,890                | \$ (13,506)  | \$ 501,611   |
| Cost of products sold and occupancy          | 125,449    | 242,072                   | (13,506)     | 354,015      |
| Gross profit                                 | 44,778     | 102,818                   | 0            | 147,596      |
| Selling, general and administrative expenses | 34,843     | 67,984                    | 0            | 102,827      |
| Income from operations                       | 9,935      | 34,834                    | 0            | 44,769       |
| Interest net                                 | (10,384)   | (5)                       | 0            | (10,389)     |
| Other income (loss )                         | (2,376)    | 2,484                     | 0            | 108          |
| Income (loss) before income taxes            | (2,825)    | 37,313                    | 0            | 34,488       |
| Income taxes (tax benefit)                   | (798)      | 13,797                    | 0            | 12,999       |

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|  |           |           |             |           |
|--|-----------|-----------|-------------|-----------|
| Income (loss) including noncontrolling interest  | (2,027)   | 23,516    |             | 21,489    |
| Income attributable to noncontrolling interest   | 594       | 0         | 0           | 594       |
| Income (loss) attributable to Central Garden & Pet Co.<br>before equity in undistributed income of guarantor<br>subsidiaries | (2,621)   | 23,516    | 0           | 20,895    |
| Equity in undistributed income of guarantor subsidiaries   | 23,516    | 0         | (23,516)    | 0         |
| Net income attributable to Central Garden & Pet Co.  | \$ 20,895 | \$ 23,516 | \$ (23,516) | \$ 20,895 |

**Table of Contents**

**CONSOLIDATING CONDENSED STATEMENT  
OF  
OPERATIONS  
Three Months Ended March 30, 2013  
(in thousands)  
(unaudited)**

|  | Parent     | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------|--------------|--------------|
| Net sales  | \$ 158,939 | \$ 351,581                | \$ (12,351)  | \$ 498,169   |
| Cost of products sold and occupancy  | 116,559    | 240,791                   | (12,351)     | 344,999      |
| Gross profit   | 42,380     | 110,790                   | 0            | 153,170      |
| Selling, general and administrative expenses   | 36,927     | 69,497                    | 0            | 106,424      |
| Income from operations   | 5,453      | 41,293                    | 0            | 46,746       |
| Interest net   | (10,922)   | 12                        | 0            | (10,910)     |
| Other income (loss )   | (3,065)    | 3,017                     | 0            | (48)         |
| Income (loss) before income taxes  | (8,534)    | 44,322                    | 0            | 35,788       |
| Income taxes (tax benefit)   | (2,605)    | 15,433                    | 0            | 12,828       |
| Income (loss) including noncontrolling interest  | (5,929)    | 28,889                    |              | 22,960       |
| Income attributable to noncontrolling interest   | 764        | 0                         | 0            | 764          |
| Income (loss) attributable to Central Garden & Pet Co.<br>before equity in undistributed income of guarantor<br>subsidiaries | (6,693)    | 28,889                    | 0            | 22,196       |
| Equity in undistributed income of guarantor subsidiaries   | 28,889     | 0                         | (28,889)     | 0            |
| Net income attributable to Central Garden & Pet Co.  | \$ 22,196  | \$ 28,889                 | \$ (28,889)  | \$ 22,196    |

**CONSOLIDATING CONDENSED STATEMENT  
OF  
OPERATIONS  
Six Months Ended March 29, 2014  
(in thousands)  
(unaudited)**

|  | Parent     | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------|--------------|--------------|
| Net sales                                    | \$ 266,566 | \$ 550,196                | \$ (24,630)  | \$ 792,132   |
| Cost of products sold and occupancy          | 202,196    | 387,229                   | (24,630)     | 564,795      |
| Gross profit                                 | 64,370     | 162,967                   | 0            | 227,337      |
| Selling, general and administrative expenses | 63,218     | 127,705                   | 0            | 190,923      |
| Income from operations                       | 1,152      | 35,262                    | 0            | 36,414       |

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|  |          |           |             |          |
|--|----------|-----------|-------------|----------|
| Interest net   | (22,568) | (25)      | 0           | (22,593) |
| Other income (loss )   | (1,961)  | 1,901     | 0           | (60)     |
| Income (loss) before income taxes  | (23,377) | 37,138    | 0           | 13,761   |
| Income taxes (tax benefit)   | (8,646)  | 13,730    | 0           | 5,084    |
| Income (loss) including noncontrolling interest  | (14,731) | 23,408    |             | 8,677    |
| Income attributable to noncontrolling interest   | 490      | 0         | 0           | 490      |
| Income (loss) attributable to Central Garden & Pet Co.<br>before equity in undistributed income of guarantor<br>subsidiaries | (15,221) | 23,408    | 0           | 8,187    |
| Equity in undistributed income of guarantor subsidiaries   | 23,408   | 0         | (23,408)    | 0        |
| Net income attributable to Central Garden & Pet Co.  | \$ 8,187 | \$ 23,408 | \$ (23,408) | \$ 8,187 |

**Table of Contents**

**CONSOLIDATING CONDENSED STATEMENT  
OF  
OPERATIONS  
Six Months Ended March 30, 2013  
(in thousands)  
(unaudited)**

|  | Parent     | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------|--------------|--------------|
| Net sales  | \$ 254,942 | \$ 560,626                | \$ (24,902)  | \$ 790,666   |
| Cost of products sold and occupancy  | 191,402    | 394,037                   | (24,902)     | 560,537      |
| Gross profit   | 63,540     | 166,589                   | 0            | 230,129      |
| Selling, general and administrative expenses   | 65,446     | 131,031                   | 0            | 196,477      |
| Income (loss) from operations  | (1,906)    | 35,558                    | 0            | 33,652       |
| Interest net   | (21,221)   | 61                        | 0            | (21,160)     |
| Other income (loss )   | (2,817)    | 1,788                     | 0            | (1,029)      |
| Income (loss) before income taxes  | (25,944)   | 37,407                    | 0            | 11,463       |
| Income taxes (tax benefit)   | (8,988)    | 12,838                    | 0            | 3,850        |
| Income (loss) including noncontrolling interest  | (16,956)   | 24,569                    |              | 7,613        |
| Income attributable to noncontrolling interest   | 686        | 0                         | 0            | 686          |
| Income (loss) attributable to Central Garden & Pet Co.<br>before equity in undistributed income of guarantor<br>subsidiaries | (17,642)   | 24,569                    | 0            | 6,927        |
| Equity in undistributed income of guarantor subsidiaries   | 24,569     | 0                         | (24,569)     | 0            |
| Net income attributable to Central Garden & Pet Co.  | \$ 6,927   | \$ 24,569                 | \$ (24,569)  | \$ 6,927     |

**CONSOLIDATING CONDENSED  
STATEMENTS  
OF COMPREHENSIVE INCOME  
Three Months Ended March 29, 2014  
(in thousands)  
(unaudited)**

|  | Parent     | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------|--------------|--------------|
| Net income (loss)  | \$ (2,027) | \$ 23,516                 | \$ 0         | \$ 21,489    |
| Other comprehensive income:                                      |            |                           |              |              |
| Foreign currency translation                                     | 2          | 0                         | 0            | 2            |
| Total comprehensive income (loss)                                | (2,025)    | 23,516                    | 0            | 21,491       |
| Comprehensive income attributable to noncontrolling<br>interests | 594        | 0                         | 0            | 594          |

|  |            |           |      |           |
|--|------------|-----------|------|-----------|
| Comprehensive income (loss) attributable to Central Garden & Pet Company | \$ (2,619) | \$ 23,516 | \$ 0 | \$ 20,897 |
|--|------------|-----------|------|-----------|

**CONSOLIDATING CONDENSED  
STATEMENTS  
OF COMPREHENSIVE INCOME  
Three Months Ended March 30, 2013  
(in thousands)  
(unaudited)**

|  | Parent     | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------|--------------|--------------|
| Net income (loss)  | \$ (5,929) | \$ 28,889                 | \$ 0         | \$ 22,960    |
| Other comprehensive loss:  |            |                           |              |              |
| Foreign currency translation   | (566)      | 0                         | 0            | (566)        |
| Total comprehensive income (loss)  | (6,495)    | 28,889                    | 0            | 22,394       |
| Comprehensive income attributable to noncontrolling interests            | 764        | 0                         | 0            | 764          |
| Comprehensive income (loss) attributable to Central Garden & Pet Company | \$ (7,259) | \$ 28,889                 | \$ 0         | \$ 21,630    |



**Table of Contents**

**CONSOLIDATING CONDENSED STATEMENTS  
OF COMPREHENSIVE INCOME  
Six Months Ended March 29, 2014  
(in thousands)  
(unaudited)**

|  | Parent      | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|-------------|---------------------------|--------------|--------------|
| Net income (loss)  | \$ (14,731) | \$ 23,408                 | \$ 0         | \$ 8,677     |
| Other comprehensive income:  |             |                           |              |              |
| Foreign currency translation   | 87          | 0                         | 0            | 87           |
| Total comprehensive income (loss)  | (14,644)    | 23,408                    | 0            | 8,764        |
| Comprehensive income attributable to noncontrolling interests            | 490         | 0                         | 0            | 490          |
| Comprehensive income (loss) attributable to Central Garden & Pet Company | \$ (15,134) | \$ 23,408                 | \$ 0         | \$ 8,274     |

**CONSOLIDATING CONDENSED STATEMENTS  
OF COMPREHENSIVE INCOME  
Six Months Ended March 30, 2013  
(in thousands)  
(unaudited)**

|  | Parent      | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|-------------|---------------------------|--------------|--------------|
| Net income (loss)  | \$ (16,956) | \$ 24,569                 | \$ 0         | \$ 7,613     |
| Other comprehensive income:  |             |                           |              |              |
| Foreign currency translation   | (607)       | 0                         | 0            | (607)        |
| Total comprehensive income (loss)  | (17,563)    | 24,569                    | 0            | 7,006        |
| Comprehensive income attributable to noncontrolling interests            | 686         | 0                         | 0            | 686          |
| Comprehensive income (loss) attributable to Central Garden & Pet Company | \$ (18,249) | \$ 24,569                 | \$ 0         | \$ 6,320     |

**Table of Contents**

**CONSOLIDATING CONDENSED BALANCE SHEET**  
**March 29, 2014**  
**(in thousands)**  
**(unaudited)**

|   | Parent              | Guarantor<br>Subsidiaries | Eliminations        | Consolidated        |
|---|---------------------|---------------------------|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                           |                     |                     |
| Cash and cash equivalents                                     | \$ 14,820           | \$ 1,928                  | \$ 0                | \$ 16,748           |
| Short term investments  | 14,220              | 0                         | 0                   | 14,220              |
| Accounts receivable, net                                      | 104,384             | 226,821                   | (8,022)             | 323,183             |
| Inventories   | 129,367             | 273,353                   | 0                   | 402,720             |
| Prepaid expenses and other assets                             | 25,719              | 30,163                    | 0                   | 55,882              |
| <b>Total current assets</b>                                   | <b>288,510</b>      | <b>532,265</b>            | <b>(8,022)</b>      | <b>812,753</b>      |
| Land, buildings, improvements and equipment, net              | 77,903              | 107,451                   | 0                   | 185,354             |
| Goodwill  | 0                   | 205,756                   | 0                   | 205,756             |
| Investment in guarantors                                      | 741,485             | 0                         | (741,485)           | 0                   |
| Deferred income taxes and other assets                        | 57,247              | 33,237                    | 0                   | 90,484              |
| <b>Total</b>  | <b>\$ 1,165,145</b> | <b>\$ 878,709</b>         | <b>\$ (749,507)</b> | <b>\$ 1,294,347</b> |
| <b>LIABILITIES AND EQUITY</b>                                 |                     |                           |                     |                     |
| Accounts payable  | \$ 63,803           | \$ 86,371                 | \$ (8,022)          | \$ 142,152          |
| Accrued expenses and other current liabilities                | 35,455              | 45,734                    | 0                   | 81,189              |
| <b>Total current liabilities</b>                              | <b>99,258</b>       | <b>132,105</b>            | <b>(8,022)</b>      | <b>223,341</b>      |
| Long-term debt  | 544,917             | 115                       | 0                   | 545,032             |
| Other long-term obligations                                   | 35,466              | 5,004                     | 0                   | 40,470              |
| Shareholders' equity attributable to Central Garden & Pet Co. | 484,301             | 741,485                   | (741,485)           | 484,301             |
| Noncontrolling interest                                       | 1,203               | 0                         | 0                   | 1,203               |
| <b>Total equity</b>   | <b>485,504</b>      | <b>741,485</b>            | <b>(741,485)</b>    | <b>485,504</b>      |
| <b>Total</b>  | <b>\$ 1,165,145</b> | <b>\$ 878,709</b>         | <b>\$ (749,507)</b> | <b>\$ 1,294,347</b> |

**Table of Contents**

**CONSOLIDATING CONDENSED BALANCE SHEET**  
**September 28, 2013**  
(in thousands)

|  | Parent              | Guarantor<br>Subsidiaries | Eliminations        | Consolidated        |
|--|---------------------|---------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                    |                     |                           |                     |                     |
| Cash and cash equivalents                        | \$ 12,441           | \$ 2,715                  | \$ 0                | \$ 15,156           |
| Short term investments                           | 17,820              | 0                         | 0                   | 17,820              |
| Accounts receivable, net                         | 43,660              | 153,734                   | (3,134)             | 194,260             |
| Inventories                                      | 114,662             | 277,272                   | 0                   | 391,934             |
| Prepaid expenses and other assets                | 24,747              | 28,737                    | 0                   | 53,484              |
| <b>Total current assets</b>                      | <b>213,330</b>      | <b>462,458</b>            | <b>(3,134)</b>      | <b>672,654</b>      |
| Land, buildings, improvements and equipment, net | 78,662              | 110,251                   | 0                   | 188,913             |
| Goodwill   | 0                   | 205,756                   | 0                   | 205,756             |
| Investment in guarantors                         | 693,615             | 0                         | (693,615)           | 0                   |
| Other assets                                     | 57,255              | 36,582                    | 0                   | 93,837              |
| <b>Total</b>                                     | <b>\$ 1,042,862</b> | <b>\$ 815,047</b>         | <b>\$ (696,749)</b> | <b>\$ 1,161,160</b> |

|   |                     |                   |                     |                     |
|---|---------------------|-------------------|---------------------|---------------------|
| <b>LIABILITIES AND EQUITY</b>                             |                     |                   |                     |                     |
| Accounts payable  | \$ 36,869           | \$ 69,834         | \$ (3,134)          | \$ 103,569          |
| Accrued expenses and other liabilities                    | 33,664              | 45,096            | 0                   | 78,760              |
| <b>Total current liabilities</b>                          | <b>70,533</b>       | <b>114,930</b>    | <b>(3,134)</b>      | <b>182,329</b>      |
| Long-term debt  | 472,418             | 27                | 0                   | 472,445             |
| Other long-term obligations                               | 29,887              | 6,475             | 0                   | 36,362              |
| Shareholders' equity attributable to Central Garden & Pet | 468,678             | 693,615           | (693,615)           | 468,678             |
| Noncontrolling interest                                   | 1,346               | 0                 | 0                   | 1,346               |
| <b>Total equity</b>                                       | <b>470,024</b>      | <b>693,615</b>    | <b>(693,615)</b>    | <b>470,024</b>      |
| <b>Total</b>  | <b>\$ 1,042,862</b> | <b>\$ 815,047</b> | <b>\$ (696,749)</b> | <b>\$ 1,161,160</b> |

**CONSOLIDATING CONDENSED BALANCE SHEET**  
**March 30, 2013**  
(in thousands)  
(unaudited)

|                           | Parent   | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---------------------------|----------|---------------------------|--------------|--------------|
| <b>ASSETS</b>             |          |                           |              |              |
| Cash and cash equivalents | \$ 8,906 | \$ 2,378                  | \$ 0         | \$ 11,284    |
| Short term investments    | 17,820   | 0                         | 0            | 17,820       |
| Accounts receivable, net  | 108,938  | 224,199                   | (10,947)     | 322,190      |
| Inventories               | 145,781  | 290,102                   | 0            | 435,883      |

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|   |              |            |              |              |
|---|--------------|------------|--------------|--------------|
| Prepaid expenses and other assets                             | 30,013       | 29,395     | 0            | 59,408       |
| Total current assets  | 311,458      | 546,074    | (10,947)     | 846,585      |
| Land, buildings, improvements and equipment, net              | 82,948       | 110,725    | 0            | 193,673      |
| Goodwill  | 0            | 210,223    | 0            | 210,223      |
| Investment in guarantors                                      | 772,514      | 0          | (772,514)    | 0            |
| Deferred income taxes and other assets                        | 53,747       | 42,353     | 0            | 96,100       |
| Total   | \$ 1,220,667 | \$ 909,375 | \$ (783,461) | \$ 1,346,581 |
| <b>LIABILITIES AND EQUITY</b>                                 |              |            |              |              |
| Accounts payable  | \$ 79,227    | \$ 97,411  | \$ (10,947)  | \$ 165,691   |
| Accrued expenses and other current liabilities                | 39,520       | 37,666     | 0            | 77,186       |
| Total current liabilities                                     | 118,747      | 135,077    | (10,947)     | 242,877      |
| Long-term debt  | 593,376      | 48         | 0            | 593,424      |
| Other long-term obligations                                   | 32,915       | 1,736      | 0            | 34,651       |
| Shareholders' equity attributable to Central Garden & Pet Co. | 474,626      | 772,514    | (772,514)    | 474,626      |
| Noncontrolling interest                                       | 1,003        | 0          | 0            | 1,003        |
| Total equity  | 475,629      | 772,514    | (772,514)    | 475,629      |
| Total   | \$ 1,220,667 | \$ 909,375 | \$ (783,461) | \$ 1,346,581 |

**Table of Contents**

**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**  
**Six Months Ended March 29, 2014**  
(in thousands)  
(unaudited)

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---------------|-----------------------------------|---------------------|---------------------|
| Net cash used by operating activities                | \$ (16,606)   | \$ (20,029)                       | \$ (23,408)         | \$ (60,043)         |
| Additions to property and equipment                  | (4,979)       | (5,045)                           | 0                   | (10,024)            |
| Proceeds from short term investments                 | 3,600         | 0                                 | 0                   | 3,600               |
| Payment to acquire companies                         | 0             | 0                                 | 0                   | 0                   |
| Investment in guarantor subsidiaries                 | (47,870)      | 24,462                            | 23,408              | 0                   |
| Net cash provided (used) by investing activities     | (49,249)      | 19,417                            | 23,408              | (6,424)             |
| Repayments of long-term debt                         | (104)         | (99)                              | 0                   | (203)               |
| Borrowings under revolving line of credit            | 188,000       | 0                                 | 0                   | 188,000             |
| Repayments under revolving line of credit            | (116,000)     | 0                                 | 0                   | (116,000)           |
| Repurchase of common stock                           | (924)         | 0                                 | 0                   | (924)               |
| Proceeds from issuance of common stock               | 461           | 0                                 | 0                   | 461                 |
| Payment of deferred financing costs                  | (3,087)       | 0                                 | 0                   | (3,087)             |
| Distribution to minority interest                    | (633)         | 0                                 | 0                   | (633)               |
| Excess tax benefits from stock-based awards          | 321           | 0                                 | 0                   | 321                 |
| Net cash provided (used) by financing activities     | 68,034        | (99)                              | 0                   | 67,935              |
| Effect of exchange rate changes on cash              | 200           | (76)                              | 0                   | 124                 |
| Net increase (decrease) in cash and cash equivalents | 2,379         | (787)                             | 0                   | 1,592               |
| Cash and cash equivalents at beginning of period     | 12,441        | 2,715                             | 0                   | 15,156              |
| Cash and cash equivalents at end of period           | \$ 14,820     | \$ 1,928                          | \$ 0                | \$ 16,748           |

**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**  
**Six Months Ended March 30, 2013**  
(in thousands)  
(unaudited)

|                                       | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------|---------------|-----------------------------------|---------------------|---------------------|
| Net cash used by operating activities | \$ (56,490)   | \$ (81,105)                       | \$ (24,569)         | \$ (162,164)        |
| Additions to property and equipment   | (7,000)       | (9,164)                           | 0                   | (16,164)            |
| Proceeds from short term investments  | 4,885         | 0                                 | 0                   | 4,885               |

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|  |           |          |        |           |
|--|-----------|----------|--------|-----------|
| Payment to acquire companies                     | 0         | (4,835)  | 0      | (4,835)   |
| Investment in guarantor subsidiaries             | (118,152) | 93,583   | 24,569 | 0         |
| Net cash provided (used) by investing activities | (120,267) | 79,584   | 24,569 | (16,114)  |
| Repayments of long-term debt                     | (111)     | (59)     | 0      | (170)     |
| Borrowings under revolving line of credit        | 186,000   | 0        | 0      | 186,000   |
| Repayments under revolving line of credit        | (42,000)  | 0        | 0      | (42,000)  |
| Repurchase of common stock                       | (2,454)   | 0        | 0      | (2,454)   |
| Proceeds from issuance of common stock           | 475       | 0        | 0      | 475       |
| Distribution to minority interest                | (629)     | 0        | 0      | (629)     |
| Excess tax benefits from stock-based awards      | 289       | 0        | 0      | 289       |
| Net cash provided (used) by financing activities | 141,570   | (59)     | 0      | 141,511   |
| Effect of exchange rate changes on cash          | (569)     | 145      | 0      | (424)     |
| Net decrease in cash and cash equivalents        | (35,756)  | (1,435)  | 0      | (37,191)  |
| Cash and cash equivalents at beginning of period | 44,662    | 3,813    | 0      | 48,475    |
| Cash and cash equivalents at end of period       | \$ 8,906  | \$ 2,378 | \$ 0   | \$ 11,284 |

**Table of Contents**

The Company and its guarantor subsidiaries participate in a cash pooling program. As part of this program, cash balances are generally swept on a daily basis between the guarantor subsidiary bank accounts and those of the Company. In addition, the Company pays expenses on behalf of its guarantor subsidiaries on a regular basis. These types of transactions have been accounted for as investments in guarantor subsidiaries within investing activities.

**14. Contingencies**

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

**15. Subsequent Event**

On April 1, 2014, the Company purchased certain assets of Envincio LLC, a wholly-owned subsidiary of Santolubes LLC, for approximately \$19.0 million in cash. The assets acquired include established brands, EPA registrations, inventory and trade receivables. This acquisition is expected to enable the Company to be a key supplier and product innovator in the growing natural insecticides product market, often characterized as EPA-exempt products, and expand its offerings in traditional pesticides.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Our Company**

Central Garden & Pet Company is a leading innovator, marketer and producer of quality branded products. We are one of the largest suppliers in the pet and lawn and garden supplies industries in the United States. The total pet food and supplies industry is estimated to be approximately \$30 billion in annual retail sales. We estimate the annual retail sales of the pet supplies and super-premium pet food markets in the categories in which we participate to be approximately \$13.5 billion. The total lawn and garden industry in the United States, which includes equipment, supplies and services, is estimated to be approximately \$21 billion in annual retail sales. We estimate the annual retail sales of the lawn and garden supplies markets in the categories in which we participate to be approximately \$6 billion. In addition, we participate in the pottery and seasonal décor markets.

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

Our lawn and garden supplies products include proprietary and non-proprietary grass seed; wild bird feed, bird feeders, bird houses and other birding accessories; weed, grass, ant and other herbicide, insecticide and pesticide products; and decorative outdoor lifestyle and lighting products including pottery, trellises and other wood products and holiday lighting. These products are sold under the master brands AMDRO®, GKI/Bethlehem Lighting®, Ironite®, Pennington®, and Sevin®, as well as a number of other brand names including Grant®, Lilly Miller®, Matthews Four Seasons™, New England Pottery®, Norcal Pottery®, Over-N-Out®, Smart Seed® and The Rebels®.

In fiscal 2013, our consolidated net sales were \$1.7 billion, of which our Pet segment, or Pet, accounted for approximately \$888 million and our Lawn and Garden segment, or Garden, accounted for approximately \$765 million. In fiscal 2013, our branded product sales were approximately \$1.4 billion, or approximately 83% of total sales, sales of other manufacturers' products were approximately 17% of total sales. In fiscal 2013, our income from operations, before corporate expenses and eliminations of \$64 million, was \$104 million, of which the Pet segment accounted for \$96 million and the Garden segment accounted for \$8 million. See Note 12 to our consolidated financial statements for financial information about our two operating segments.

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

**Recent Developments**

*Fiscal 2014 Second Quarter Financial Performance:*



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Our net sales increased \$3.4 million, or 0.7%, to \$502 million due to increased sales in our garden segment, which offset reduced sales in our pet segment.

Gross margin declined 130 basis points to 29.4% due to the margin decline in our garden segment.

Selling, general & administrative expenses decreased as a percentage of net sales to 20.5% from 21.4% in the prior year quarter.

Operating income decreased \$2.0 million to \$44.8 million.

Our effective income tax rate was 37.7% in the second quarter of fiscal 2014, compared to 35.8% in the second quarter of fiscal 2013.

Our net income in the second quarter of fiscal 2014 was \$20.9 million, or \$0.43 per share, compared to \$22.2 million, or \$0.46 per share, in the second quarter of fiscal 2013.

## **Table of Contents**

### *Acquisition of Assets:*

In April 2014, we purchased certain assets of Envincio LLC, a wholly-owned subsidiary of Santolubes LLC, for approximately \$19.0 million in cash. The assets acquired include established brands, EPA registrations, inventory and trade receivables. This acquisition is expected to enable the Company to be a key supplier and product innovator in the growing natural insecticides product market, often characterized as EPA-exempt products, and expand its offerings in traditional pesticides.

## **Results of Operations**

### **Three Months Ended March 29, 2014**

### **Compared with Three Months Ended March 30, 2013**

#### *Net Sales*

Net sales for the three months ended March 29, 2014 increased \$3.4 million, or 0.7%, to \$501.6 million from \$498.2 million for the three months ended March 30, 2013. Our branded product sales decreased \$5.2 million and sales of other manufacturers' products increased \$8.6 million.

Pet segment net sales decreased \$18.1 million, or 7.7%, to \$216.7 million for the three months ended March 29, 2014 from \$234.8 million for the three months ended March 30, 2013. Pet branded product sales decreased \$23.3 million, due primarily to a \$13.9 million decrease in our animal health category, resulting primarily from lower sales in our flea and tick business and our professional business, and a \$6.6 million decrease in our dog and cat category, partially offset by a \$5.2 million increase of sales of other manufacturers' products. Both the flea and tick business and the dog and cat business lost shelf space, as a result of a number of factors, including our decision not to renew some low margin private label business in our dog and cat category. Additionally, we began the introduction of two new flea and tick products with new formulations, which adversely impacted sales in the current quarter in preparation for shipments of the new products in the third quarter of fiscal 2014.

Garden segment net sales increased \$21.5 million, or 8.2%, to \$284.9 million for the three months ended March 29, 2014 from \$263.4 million for the three months ended March 30, 2013. Garden branded product sales increased \$18.1 million and sales of other manufacturers' products increased \$3.4 million. The sales increase in our garden branded products was due primarily to increases in grass seed and wild bird feed. The increase in sales in grass seed was primarily volume driven due to an inventory build by retailers in anticipation of the spring planting season and expanded distribution. We believe the early inventory build by the retailers shifted sales from April into our second fiscal quarter and that this will likely have an adverse impact on our third quarter Garden product sales. The increase in sales in wild bird feed was volume driven reflecting expanded distribution and favorable weather conditions. During fiscal 2013, we introduced two major innovative Garden products. Despite enthusiastic support from our retailers and substantial marketing spend, the new products did not sell through as expected, and we took a significant charge related to inventory and product and packaging changes at the end of the fourth quarter of fiscal 2013 relating to the new products. For the fiscal 2014 garden season, we have made design and packaging enhancements and implemented promotional programs relating to these products to improve retail sales of these products. While we are still in mid-season, sales of the innovative products are less than expected. By the end of the garden season, we should have a better indication as to whether we will be able to recoup our significant investment.

#### *Gross Profit*

Gross profit for the three months ended March 29, 2014 decreased \$5.6 million, or 3.7%, to \$147.6 million from \$153.2 million for the three months ended March 30, 2013. Gross margin declined from 30.7% for the three months ended March 30, 2013 to 29.4% for the three months ended March 29, 2014. Gross profit decreased in the pet segment as a result of the sales decrease while garden segment gross profit remained relatively flat as compared to the prior year quarter.

Gross margin in the pet segment remained unchanged from the prior year quarter as the impact of decreased sales of our higher margin products in our animal health category was offset by increased margins in our bird and small animal business which benefitted from lower commodity costs. Gross margin declined in the garden segment due primarily to a mix shift away from sales of higher margin products in our controls and fertilizers products. Additionally, the garden segment gross margin was impacted by lower margins in our grass seed business.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses decreased \$3.6 million, or 3.4%, to \$102.8 million for the three months ended March 29, 2014 from \$106.4 million for the three months ended March 30, 2013. As a percentage of net sales, selling, general and administrative expenses decreased to 20.5% for the three months ended March 29, 2014, compared to 21.4% in the comparable prior year quarter.

Selling and delivery expense decreased \$2.9 million, or 4.9%, to \$56.7 million for the three months ended March 29, 2014 from \$59.6 million for the three months ended March 30, 2013. The decrease was due primarily to decreased marketing program expenses, primarily advertising, in our garden segment.

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**Table of Contents**

Warehouse and administrative expense decreased \$0.7 million, or 1.5%, to \$46.1 million for the quarter ended March 29, 2014 from \$46.8 million in the quarter ended March 30, 2013 due primarily to decreased warehouse costs in our pet segment partially offset by increased insurance program costs and information technology third party provider costs at corporate. Corporate expenses are included within administrative expense and relate to the costs of unallocated executive, administrative, finance, legal, human resource, and informational technology functions.

***Operating Income***

Operating income decreased \$2.0 million, or 4.2%, to \$44.8 million for the three months ended March 29, 2014 from \$46.8 million for the three months ended March 30, 2013. Operating income decreased due to lower gross profit, which was partially offset by decreased selling, general and administrative costs. Operating income increased in our Garden segment, partially offset by a decrease in our Pet segment and an increase in operating expense in Corporate. Operating income as a percentage of net sales declined due to the decrease in gross margin, which was partially offset by an improvement in selling, general and administrative expenses as a percentage of sales.

Pet operating income decreased \$3.3 million, or 12.0% to \$24.2 million for the three months ended March 29, 2014 from \$27.5 million for the three months ended March 30, 2013. The decrease was due primarily to decreased sales, which drove lower gross profit, but was partially offset by lower selling, general and administrative costs. Garden operating income increased \$2.8 million, or 8.2%, to \$36.8 million from \$34.0 million in fiscal 2013 due primarily to reduced selling and delivery costs. Corporate operating expense increased \$1.5 million, or 10.2%, due primarily to an increase in insurance program costs and information technology third party provider costs.

***Net Interest Expense***

Net interest expense for the three months ended March 29, 2014 decreased \$0.5 million, or 4.8%, to \$10.4 million from \$10.9 million for the three months ended March 30, 2013. Interest expense decreased due primarily to our lower average debt outstanding during the quarter ended March 29, 2014. Debt outstanding on March 29, 2014 was \$545.3 million compared to \$593.7 million as of March 30, 2013. Our average borrowing rate for the current quarter decreased slightly to 7.7% compared to 7.8% for the prior year quarter.

***Other Income / Expense***

Other income increased \$0.2 million to \$0.1 million. Other income is comprised of income from investments accounted for under the equity method of accounting, foreign currency exchange gains and losses, and realized and unrealized gains and losses from derivative contracts used to economically hedge anticipated commodity purchases for use in our products.

***Income Taxes***

Our effective income tax rate was 37.7% for the quarter ended March 29, 2014 and 35.8% for the quarter ended March 30, 2013. The income tax rate increase was due primarily to tax credits available in the prior year quarter that were not available in the current year quarter.

**Six Months Ended March 29, 2014****Compared with Six Months Ended March 30, 2013*****Net Sales***

Net sales for the six months ended March 29, 2014 increased \$1.4 million, or 0.2%, to \$792.1 million from \$790.7 million for the six months ended March 30, 2013. Our branded product sales decreased \$11.4 million, while sales of other manufacturers' products increased \$12.8 million.

Pet Products' net sales decreased \$28.6 million, or 6.7%, to \$401.3 million for the six months ended March 29, 2014 from \$429.9 million in the comparable fiscal 2013 period. Pet branded product sales decreased \$37.0 million from the prior year period, due primarily to a \$14.1 million decrease in our animal health category, an \$8.2 million decrease in our aquatic category and an \$8.1 million decrease in our dog and cat category; all these decreases were primarily volume driven. Our animal health category was impacted by lower sales in both the flea and tick category and the professional category. Sales of other manufacturers' products increased approximately \$8.4 million compared to the prior year six month period.

Garden Products' net sales increased \$30.0 million, or 8.3%, to \$390.8 million for the six months ended March 29, 2014 from \$360.8 million in the comparable fiscal 2013 period. Garden branded product sales increased \$25.6 million due primarily to increases in other garden supplies, grass seed and wild bird feed. The increase in sales in grass seed was primarily volume driven due to an inventory build by retailers in anticipation of an early spring planting season and reflects a sales shift to the second quarter from the third quarter. The increase in sales in wild bird feed was volume driven reflecting expanded distribution. Sales of other manufacturers' products increased approximately \$4.4 million compared to the comparable prior year period.

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**Table of Contents*****Gross Profit***

Gross profit for the six months ended March 29, 2014 decreased \$2.8 million, or 1.2%, to \$227.3 million from \$230.1 million for the six months ended March 30, 2013. Gross profit as a percentage of net sales declined from 29.1% for the six months ended March 30, 2013 to 28.7% for the six months ended March 29, 2014.

Gross profit decreased in the pet segment for the six months ended March 29, 2014 due to decreased sales, but the impact was partially offset by an improved gross margin as compared with the prior year period. The largest contributor to the margin increase was our bird and small animal business which benefitted from lower commodity costs. Gross profit improved in the garden segment for the six months ended March 29, 2014 due to a \$30 million increase in sales, which was partially offset by a lower gross margin. Gross margin declined in the garden segment due primarily to lower margins in grass seed and controls and fertilizers. Grass seed was impacted by higher costs while our controls and fertilizers category was impacted by an unfavorable change in product mix.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses decreased \$5.6 million, or 2.8%, to \$190.9 million for the six months ended March 29, 2014 from \$196.5 million for the six months ended March 30, 2013. As a percentage of net sales, selling, general and administrative expenses decreased to 24.1% for the six months ended March 29, 2014, compared to 24.9% in the comparable prior year six month period.

Selling and delivery expense decreased \$5.5 million, or 5.1%, to \$101.4 million for the six months ended March 29, 2014 from \$106.9 million for the six months ended March 30, 2013. The decrease was due primarily to decreased advertising expense in our garden segment and a decrease in payroll related costs in our pet segment.

Warehouse and administrative expense decreased \$0.1 million to \$89.5 million for the six months ended March 29, 2014 from \$89.6 million in the six months ended March 30, 2013 due primarily to decreased costs in our pet segment from prior year warehouse consolidations that are now yielding savings partially offset by increased insurance program costs and information technology third party provider costs in Corporate.

***Operating Income***

Operating income increased \$2.8 million, or 8.2%, to \$36.4 million for the six months ended March 29, 2014 from \$33.6 million for the six months ended March 30, 2013. Operating income increased due to lower selling, general and administrative expenses that were only partially offset by lower gross profit. Increased operating income in the garden and pet segments was partially offset by increased operating expense in Corporate.

Pet operating income increased \$1.0 million to \$38.6 million due primarily to lower selling and delivery costs. Garden operating income increased \$5.1 million to \$30.5 million due primarily to increased sales and lower selling, general and administrative costs. Corporate operating expense increased \$3.3 million due primarily to increased insurance program costs and information technology third party provider costs.

***Net Interest Expense***

Net interest expense for the six months ended March 29, 2014 increased \$1.4 million or 6.8%, to \$22.6 million from \$21.2 million for the six months ended March 30, 2013. The increase was due primarily to a non-cash charge of \$1.7 million in the first quarter of fiscal 2014 related to the unamortized deferred financing costs related to our prior revolving credit facility. On December 5, 2013, the Company entered into a Credit Agreement which provides for a

\$390 million principal amount senior secured asset-based revolving credit facility, with up to an additional \$200 million principal amount available with the consent of the Lenders if the Company exercises the accordion feature set forth therein (collectively, the Credit Facility ). The Credit Facility matures on December 5, 2018 and replaced the Company's prior credit facility. This increase was partially offset by lower interest expense due primarily to our lower average debt outstanding during the six month period ended March 29, 2014 as compared to the prior year six month period.

***Other Expense***

Other expense decreased \$0.9 million from an expense of \$1.0 million for the six months ended March 30, 2013, to \$0.1 million for the six months ended March 29, 2014. The decrease was due primarily to realized and unrealized gains and losses incurred in the prior year six month period, from derivative contracts used to economically hedge anticipated commodity purchases for use in our products.

## **Table of Contents**

### ***Income Taxes***

Our effective income tax rate was 36.9% for the six months ended March 29, 2014 and 33.6% for the six months ended March 30, 2013. Our 2013 tax rate benefited primarily from additional tax credits available in 2013.

### **Inflation**

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

In recent years, our business was negatively impacted by low consumer confidence, as well as other macro-economic factors. In fiscal 2012 and throughout most of fiscal 2013, commodity costs continued to increase. Recently, commodity costs have been declining although we have seen increases in our grass seed costs. We continue to monitor commodity prices in order to take action to mitigate the impact of increasing raw material costs.

### **Weather and Seasonality**

Our sales of lawn and garden products are influenced by weather and climate conditions in the different markets we serve. Additionally, our garden segment's business is highly seasonal. In fiscal 2013, approximately 68% of our garden segment's net sales and 60% of our total net sales occurred during our second and third fiscal quarters. Substantially all of our garden segment's operating income is typically generated in this period, which has historically offset the operating loss incurred during the first fiscal quarter of the year.

### **Liquidity and Capital Resources**

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

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

We service two broad markets: pet supplies and lawn and garden supplies. Our pet supplies businesses involve products that have a year round selling cycle with a slight degree of seasonality. As a result, it is not necessary to maintain large quantities of inventory to meet peak demands. On the other hand, our lawn and garden businesses are highly seasonal with approximately 68% of our Garden segment's net sales occurring during the second and third fiscal quarters. This seasonality requires the shipment of large quantities of product well ahead of the peak consumer buying periods. To encourage retailers and distributors to stock large quantities of inventory, industry practice has been for manufacturers to give extended credit terms and/or promotional discounts.



***Operating Activities***

Net cash used by operating activities decreased by \$102.2 million, from \$162.2 million of cash used in operating activities for the six months ended March 30, 2013, to \$60.0 million of cash used in operating activities for the six months ended March 29, 2014. The decrease in cash used in operating activities was due primarily to reduced spend on inventory in the current period compared to the prior year period. In the prior year period, we built safety stock to ensure our ability to service our customers would not be disrupted. Although we have built inventory for the current garden season, we are focused on bringing our investment in inventory down over time, while maintaining high fill rates and service levels to our customers.

***Investing Activities***

Net cash used in investing activities decreased \$9.7 million, from \$16.1 million for the six months ended March 30, 2013 to \$6.4 million during the six months ended March 29, 2014. The decrease in cash used in investing activities was due primarily to lower capital expenditures in the current year and our acquisition activity in the prior year period. In December 2012, we acquired the remaining majority interest in FourStar Microbial Products, LLC ( FourStar Microbial ) for approximately \$4.8 million in cash with possible contingent future performance-based payments. Capital expenditures also decreased in the current year due to reduced expenditures related to facilities and our ERP implementation.

## **Table of Contents**

### ***Financing Activities***

Net cash provided by financing activities decreased \$73.6 million, from \$141.5 million of cash provided by financing activities for the six months ended March 30, 2013, to \$67.9 million of cash provided by financing activities for the six months ended March 29, 2014. The decrease in cash provided was due primarily to lower net borrowings under our revolving credit facility during the six months ended March 29, 2014 compared to the six months ended March 30, 2013.

We expect that our principal sources of funds will be cash generated from our operations and, if necessary, borrowings under our \$390 million asset backed loan facility. Based on our anticipated cash needs, availability under our asset backed loan facility and the scheduled maturity of our debt, we believe that our sources of liquidity should be adequate to meet our working capital, capital spending and other cash needs for at least the next 12 months. However, we cannot assure you that these sources will continue to provide us with sufficient liquidity and, should we require it, that we will be able to obtain financing on terms satisfactory to us, or at all.

We anticipate that our capital expenditures, which are related primarily to replacements and upgrades to plant and equipment and investment in our implementation of a scalable enterprise-wide information technology platform, will not exceed \$30 million during fiscal 2014. We are investing in this information technology platform to improve existing operations, support future growth and enable us to take advantage of new applications and technologies. We invested approximately \$82 million from fiscal 2005 through fiscal 2013 in this initiative. Capital expenditures for 2014 and beyond will depend upon the pace of conversion of those remaining legacy systems. This initiative, when complete, will combine our numerous information systems, which should create greater efficiency and effectiveness.

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

At March 29, 2014, our total debt outstanding was \$545.3 million, as compared with \$593.7 million at March 30, 2013.

### ***Asset Backed Loan Facility***

On December 5, 2013, we entered into a credit agreement which provides up to a \$390 million principal amount senior secured asset-based revolving credit facility, with up to an additional \$200 million principal amount available with the consent of the Lenders if we exercise the accordion feature set forth therein (collectively, the Credit Facility ). The Credit Facility matures on December 5, 2018 and replaced our prior revolving credit facility. We may borrow, repay and reborrow amounts under the Credit Facility until its maturity date, at which time all amounts outstanding under the Credit Facility must be repaid in full. As of March 29, 2014, there were borrowings of \$95.0 million outstanding under the Credit Facility. There were no letters of credit outstanding under the Credit Facility as of March 29, 2014. There were other letters of credit of \$13.6 million outstanding as of March 29, 2014.

The Credit Facility is subject to a borrowing base, calculated using a formula based upon eligible receivables and inventory, minus certain reserves and subject to restrictions. The borrowing base as of March 29, 2014 was approximately \$390.0 million. The borrowing availability as of March 29, 2014 was \$295.0 million. Borrowings under the Credit Facility will bear interest at an index based on LIBOR or, at the option of the Company, the Base Rate (defined as the highest of (a) the SunTrust prime rate, (b) the Federal Funds Rate plus 0.5% and (c) one-month

LIBOR plus 1.00%), plus, in either case, an applicable margin based on the Company's total outstanding borrowings. Such applicable margin for LIBOR-based borrowings fluctuates between 1.25%-1.75% (and was 1.25% at March 29, 2014) and such applicable margin for Base Rate borrowings fluctuates between 0.25%-0.75% (and was 0.25% at March 29, 2014). As of March 29, 2014, the applicable interest rate related to Base Rate borrowings was 3.5%, and the applicable interest rate related to LIBOR-based borrowings was 1.4%.

The Credit Facility contains customary covenants, including financial covenants which require us to maintain a minimum fixed charge coverage ratio of 1.00:1.00 upon reaching certain borrowing levels. The Credit Facility is secured by substantially all assets of the Company. We were in compliance with all covenants under the Credit Facility during the period ended March 29, 2014.

We incurred approximately \$3.1 million of costs in conjunction with this transaction, which included banking fees and legal expenses. These costs will be amortized over the term of the Credit Facility.

## **Table of Contents**

We recorded a non-cash charge of \$1.7 million for the three month period ended December 29, 2013, as part of interest expense, related to the unamortized deferred financing costs under the prior revolving credit facility.

### ***Senior Subordinated Notes***

On March 8, 2010, we issued \$400 million aggregate principal amount of 8.25% senior subordinated notes due March 1, 2018 (the 2018 Notes ). On February 13, 2012, we issued an additional \$50 million aggregate principal amount of our 2018 Notes at a price of 98.501%, plus accrued interest from September 1, 2011, in a private placement. We used the net proceeds from the offering to pay a portion of the outstanding balance under our prior credit facility.

The estimated fair value of our \$450 million of 2018 Notes as of March 29, 2014 was approximately \$464.9 million. The estimated fair value is based on quoted market prices for these notes.

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

We may redeem some or all of the 2018 Notes at any time on or after March 1, 2014 for 104.125%, after March 1, 2015 for 102.063% and after March 1, 2016 for 100%, plus accrued and unpaid interest. The holders of the 2018 Notes have the right to require us to repurchase all or a portion of the 2018 Notes at a purchase price equal to 101% of the principal amount of the notes repurchased, plus accrued and unpaid interest upon the occurrence of a change of control.

The 2018 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions. We were in compliance with all financial covenants related to the 2018 Notes indenture as of March 29, 2014.

### **Off-Balance Sheet Arrangements**

There have been no material changes to the information provided in our Annual Report on Form 10-K for the fiscal year ended September 28, 2013 regarding off-balance sheet arrangements.

### **Contractual Obligations**

There have been no material changes outside the ordinary course of business in our contractual obligations set forth in the Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in our Annual Report on Form 10-K for the fiscal year ended September 28, 2013.

### **New Accounting Pronouncements**

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

### **Critical Accounting Policies, Estimates and Judgments**

There have been no material changes to our critical accounting policies, estimates and assumptions or the judgments affecting the application of those accounting policies since our Annual Report on Form 10-K for the fiscal year ended September 28, 2013.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There has been no material change in our exposure to market risk from that discussed in our Annual Report on Form 10-K for the fiscal year ended September 28, 2013.

**Table of Contents****Item 4. Controls and Procedures**

(a) *Evaluation of Disclosure Controls and Procedures.* Our Chief Executive Officer and Chief Financial Officer have reviewed, as of the end of the period covered by this report, the disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) that ensure that information relating to the Company required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported in a timely and proper manner and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based upon this review, such officers concluded that our disclosure controls and procedures were effective as of March 29, 2014.

(b) *Changes in Internal Control Over Financial Reporting.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in our internal control over financial reporting occurred during the second quarter of fiscal 2014. Based on that evaluation, management concluded that there has been no change in our internal control over financial reporting during the second quarter of fiscal 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in Item 1A to Part I of our Form 10-K for the fiscal year ended September 28, 2013.

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

The following table sets forth the repurchases of any equity securities during the fiscal quarter ended March 29, 2014 and the dollar amount of authorized share repurchases remaining under our stock repurchase program.

| Period | Total<br>Number<br>of<br>Shares<br>(or<br>Units)<br>Purchased | Average<br>Price Paid<br>per<br>Share<br>(or<br>Units) | Total Number<br>of Shares<br>(or Units)<br>Purchased<br>as<br>Part of Publicly<br>Announced Plans<br>or<br>Programs | Maximum Number (or<br>Approximate Dollar Value)<br>of Shares<br>(or Units)<br>that May<br>Yet Be Purchased<br>Under the Plans or<br>Programs (1) |
|--------|---|--|---|--|
|--------|---|--|---|--|

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|                   |                  |                       |         |     |               |
|-------------------|------------------|-----------------------|---------|-----|---------------|
| December 29, 2013 | February 1, 2014 | 1,438 <sup>(2)</sup>  | \$ 6.45 | 0   | \$ 50,093,000 |
| February 2, 2014  | March 1, 2014    | 30,581 <sup>(2)</sup> | \$ 7.23 | 300 | \$ 50,091,000 |
| March 2, 2014     | March 29, 2014   | 386 <sup>(2)</sup>    | \$ 7.41 | 0   | \$ 50,091,000 |
| Total             |                  | 32,405                | \$ 7.20 | 300 | \$ 50,091,000 |

- (1) During the third quarter of fiscal 2011, our Board of Directors authorized a \$100 million share repurchase program. The program has no expiration date and expires when the amount authorized has been used or the Board withdraws its authorization. The repurchase of shares may be limited by certain financial covenants in our credit facility and indenture that restrict our ability to repurchase our stock.
- (2) Shares purchased during the period indicated represent withholding of a portion of shares to cover taxes in connection with the vesting of restricted stock and the exercise of stock options.

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Table of Contents**

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

|           |   |
|-----------|---|
| 31.1      | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2      | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1      | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.                        |
| 32.2      | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.                        |
| 101.INS** | XBRL Instance Document  |
| 101.SCH** | XBRL Taxonomy Extension Schema Document   |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase Document  |



Table of Contents

**SIGNATURES**

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

CENTRAL GARDEN & PET COMPANY

Registrant

Dated: May 8, 2014

/s/ JOHN R. RANELLI

John R. Ranelli

President and Chief Executive Officer

*(Principal Executive Officer)*

/s/ LORI A. VARLAS

Lori A. Varlas

Chief Financial Officer

*(Principal Financial Officer)*