
**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 December 24, 2016
or
- TRANSITION REPORT PURSUANT OF SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission File Number: 001-33268

CENTRAL GARDEN & PET COMPANY

Delaware
(State or other jurisdiction
of incorporation or organization)

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

1340 Treat Blvd., Suite 600, Walnut Creek, California 94597
(Address of principal executive offices)
(925) 948-4000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 January 25, 2017	12,084,647
Class A Common Stock Outstanding as of January 25, 2017	37,592,411
Class B Stock Outstanding as of January 25, 2017	1,652,262

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements (Unaudited):	
	Condensed Consolidated Balance Sheets as of December 24, 2016, December 26, 2015 and September 24, 2016	4
	Condensed Consolidated Statements of Operations Three Months Ended December 24, 2016 and December 26, 2015	5
	Condensed Consolidated Statements of Comprehensive Income Three Months Ended December 24, 2016 and December 26, 2015	6
	Condensed Consolidated Statements of Cash Flows Three Months Ended December 24, 2016 and December 26, 2015	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	37
Item 4.	Controls and Procedures	37

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3.	Defaults Upon Senior Securities	38
Item 4.	Mine Safety Disclosures	38
Item 5.	Other Information	38
Item 6.	Exhibits	39

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

This Form 10-Q includes “forward-looking statements.” Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries in which we operate and other information that is not historical information. When used in this Form 10-Q, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes” and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith, and we believe there is a reasonable basis for them, but we cannot assure you that our expectations, beliefs and projections will be realized.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Form 10-Q. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Form 10-Q are set forth in the Form 10-K for the fiscal year ended September 24, 2016, including the factors described in the section entitled “Item 1A – Risk Factors.” If any of these risks or uncertainties materializes, or if any of our underlying assumptions are incorrect, our actual results may differ significantly from the results that we express in, or imply by, any of our forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances, except as required by law. Presently known risk factors include, but are not limited to, the following factors:

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

Table of Contents

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	December 24, 2016	December 26, 2015
Cash flows from operating activities:		
Net income (loss)	\$ 7,789	\$ (8,623)
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	10,009	9,032
Amortization of deferred financing costs	341	417
Stock-based compensation	2,687	2,218
Excess tax benefits from stock-based awards	(4,356)	(900)
Deferred income taxes	3,527	3,997
Write-off of deferred financing costs	—	3,337
Gain on sale of property and equipment	(95)	(14)
Gain on sale of facility	(2,050)	—
Other	798	—
Change in assets and liabilities (excluding businesses acquired):		
Accounts receivable	11,590	33,736
Inventories	(67,678)	(61,101)
Prepaid expenses and other assets	(1,238)	(6,921)
Accounts payable	31,863	23,404
Accrued expenses	(6,420)	622
Other long-term obligations	(80)	315
Net cash used by operating activities	<u>(13,313)</u>	<u>(481)</u>
Cash flows from investing activities:		
Additions to property and equipment	(12,968)	(5,256)
Payments to acquire companies, net of cash acquired	(60,042)	(68,529)
Proceeds from the sale of business, facility and other assets	7,960	—
Change in restricted cash	(71)	1,218
Investment in equity method investee	(2,000)	—
Other investing activities	(265)	(200)
Net cash used in investing activities	<u>(67,386)</u>	<u>(72,767)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(74)	(400,072)
Proceeds from issuance of long-term debt	—	400,000
Borrowings under revolving line of credit	1,000	79,000
Repayments under revolving line of credit	(1,000)	(37,000)
Repurchase of common stock, including shares surrendered for tax withholding	(7,913)	(1,167)
Payment of contingent consideration liability	(860)	—
Distribution to noncontrolling interest	(1,018)	(592)
Payment of financing costs	—	(6,324)
Excess tax benefits from stock-based awards	4,356	900
Net cash provided (used) in financing activities	<u>(5,509)</u>	<u>34,745</u>
Effect of exchange rate changes on cash and cash equivalents	(193)	(75)
Net decrease in cash and cash equivalents	<u>(86,401)</u>	<u>(38,578)</u>
Cash and equivalents at beginning of period	92,982	47,584
Cash and equivalents at end of period	<u>\$ 6,581</u>	<u>\$ 9,006</u>
Supplemental information:		
Cash paid for interest	<u>\$ 13,034</u>	<u>\$ 17,844</u>

See notes to condensed consolidated financial statements.

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

1. Basis of Presentation

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the “Company” or “Central”) as of December 24, 2016 and December 26, 2015, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive income and the condensed consolidated statements of cash flows for the three months ended December 24, 2016 and December 26, 2015 have been prepared by the Company, without audit. In the opinion of management, the interim financial statements include all normal recurring adjustments necessary for a fair statement of the results for the interim periods presented.

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

Due to the seasonal nature of the Company’s garden business, the results of operations for the three months ended December 24, 2016 are not indicative of the operating results that may be expected for the entire fiscal year. These interim financial statements should be read in conjunction with the annual audited financial statements, accounting policies and financial notes thereto, included in the Company’s 2016 Annual Report on Form 10-K, which has previously been filed with the Securities and Exchange Commission. The September 24, 2016 balance sheet presented herein was derived from the audited financial statements.

Noncontrolling Interest

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

Derivative Instruments

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

The Company does not perform the assessments required to achieve hedge accounting for commodity derivative positions. Accordingly, the changes in the values of these derivatives are recorded currently in other income (expense) in its condensed consolidated statements of operations. As of December 24, 2016 and December 26, 2015, the Company had no outstanding derivative instruments.

Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

Consolidation

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

Stock Based Compensation

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

Accounting Standards Not Yet Adopted

Revenue Recognition

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

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

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

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

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

Leases

In February 2016, the FASB issued ASU 2016-02 (ASU 2016-02), *Leases (Topic 842)*. ASU 2016-02 requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. ASU 2016-02 is effective for the Company in our first quarter of fiscal 2020 on a modified retrospective basis and earlier adoption is

Table of Contents

permitted. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02 on its consolidated financial statements, and it currently expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon the adoption of ASU 2016-02.

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

Inventory Measurement

In July 2015, the FASB issued ASU 2015-11 (ASU 2015-11), *Simplifying the Measurement of Inventory*. Under ASU 2015-11, inventory will be measured at the "lower of cost and net realizable value" and options that currently exist for "market value" will be eliminated. The standard defines net realizable value as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." No other changes were made to the current guidance on inventory measurement. ASU 2015-11 is effective for interim and annual periods beginning after December 15, 2016, or the Company's first quarter of fiscal 2018. Early application is permitted and should be applied prospectively. The Company is currently evaluating the impact the adoption of ASU 2015-11 will have on its consolidated financial statements.

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. This ASU eliminates the current requirement for entities to present deferred tax liabilities and assets as current and noncurrent in a classified statement of financial position and instead requires that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, or the Company's first quarter of fiscal 2018, and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact the adoption of ASU 2015-17 will have on its consolidated financial statements.

Statement of Cash Flows

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

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

2. Fair Value Measurements

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis based upon the level within the fair value hierarchy in which the fair value measurements fall, as of December 24, 2016 (in thousands):

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

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis based upon the level within the fair value hierarchy in which the fair value measurements fall, as of December 26, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for contingent consideration (a)	\$ 0	\$ 0	\$ 5,625	\$ 5,625
Total liabilities	\$ 0	\$ 0	\$ 5,625	\$ 5,625

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

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

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

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

	Amount
Balance as of September 24, 2016	\$ 5,113
Performance-based payments made	(860)
Balance as of December 24, 2016	<u>\$ 4,253</u>
	Amount
Balance as of September 26, 2015	\$ 3,625
Estimated contingent performance-based consideration established at the time of acquisition	2,000
Balance as of December 26, 2015	<u>\$ 5,625</u>

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

The Company measures certain non-financial assets and liabilities, including long-lived assets, goodwill and intangible assets, at fair value on a non-recurring basis. Fair value measurements of non-financial assets and non-financial liabilities are used primarily in the impairment analyses of long-lived assets, goodwill and other intangible assets. During the periods ended December 24, 2016 and December 26, 2015, the Company was not required to measure any significant non-financial assets and liabilities at fair value.

Fair Value of Other Financial Instruments

In November 2015, the Company issued \$400 million aggregate principal amount of 6.125% senior notes due November 2023 (the "2023 Notes"). The estimated fair value of the Company's 2023 Notes as of December 24, 2016, December 26, 2015 and September 24, 2016 was \$421.4 million, \$404.0 million and \$430.3 million, respectively, compared to a carrying value of \$394.6 million, \$393.8 million and \$394.4 million, respectively.

3. Acquisitions

Segrest Inc.

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

Proforma financial information has not been presented as the Segrest acquisition was not considered material to the Company's overall consolidated financial statements during the periods presented.

4. Inventories, net

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

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

5. Goodwill

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

6. Other Intangible Assets

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

	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Accumulated Impairment</u>	<u>Net Carrying Value</u>
	(in millions)			
December 24, 2016				
Marketing-related intangible assets – amortizable	\$ 14.9	\$ (11.5)	\$ —	\$ 3.4
Marketing-related intangible assets – nonamortizable	62.8	—	(26.0)	36.8
Total	77.7	(11.5)	(26.0)	40.2
Customer-related intangible assets – amortizable	64.3	(27.0)	—	37.3
Other acquired intangible assets – amortizable	20.8	(11.9)	—	8.9
Other acquired intangible assets – nonamortizable	7.7	—	(1.2)	6.5
Total	28.5	(11.9)	(1.2)	15.4
Total other intangible assets	<u>\$ 170.5</u>	<u>\$ (50.4)</u>	<u>\$ (27.2)</u>	<u>\$ 92.9</u>
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Accumulated Impairment</u>	<u>Net Carrying Value</u>
	(in millions)			
December 26, 2015				
Marketing-related intangible assets – amortizable	\$ 14.1	\$ (10.7)	\$ —	\$ 3.4
Marketing-related intangible assets – nonamortizable	59.6	—	(24.2)	35.4
Total	73.7	(10.7)	(24.2)	38.8
Customer-related intangible assets – amortizable	43.3	(22.8)	—	20.5
Other acquired intangible assets – amortizable	19.3	(10.6)	—	8.7
Other acquired intangible assets – nonamortizable	7.8	—	(1.2)	6.6
Total	27.1	(10.6)	(1.2)	15.3
Total other intangible assets	<u>\$ 144.1</u>	<u>\$ (44.1)</u>	<u>\$ (25.4)</u>	<u>\$ 74.6</u>
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Accumulated Impairment</u>	<u>Net Carrying Value</u>
	(in millions)			
September 24, 2016				
Marketing-related intangible assets – amortizable	\$ 14.9	\$ (11.3)	\$ —	\$ 3.6
Marketing-related intangible assets – nonamortizable	63.0	—	(26.0)	37.0
Total	77.9	(11.3)	(26.0)	40.6
Customer-related intangible assets – amortizable	65.6	(26.1)	—	39.5
Other acquired intangible assets – amortizable	20.8	(11.6)	—	9.2
Other acquired intangible assets – nonamortizable	7.8	—	(1.2)	6.6
Total	28.6	(11.6)	(1.2)	15.8
Total other intangible assets	<u>\$ 172.1</u>	<u>\$ (49.0)</u>	<u>\$ (27.2)</u>	<u>\$ 95.9</u>

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

The Company evaluates long-lived assets, including amortizable and indefinite-lived intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The Company evaluates indefinite-lived intangible assets on an annual basis. In fiscal 2016, the Company recognized a non-cash \$1.8 million impairment charge to certain indefinite-lived intangible assets as a result of increased competition in the marketplace and declining volume of sales. Other factors indicating the carrying value of the Company's amortizable intangible assets may not be recoverable were not present in fiscal 2016 or during the three months ended December 24, 2016, and accordingly, no impairment testing was performed on these assets.

The Company amortizes its acquired intangible assets with definite lives over periods ranging from four years to 25 years; over weighted average remaining lives of six years for marketing-related intangibles, 11 years for customer-related intangibles and 13 years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately \$1.4 million and \$1.0 million for the three month periods ended December 24, 2016 and December 26, 2015, respectively, and is classified within operating expenses in the condensed consolidated statements of operations. Estimated annual amortization expense related to acquired intangible assets in each of the succeeding five years is estimated to be approximately \$5 million per year from fiscal 2017 through fiscal 2021

7. Long-Term Debt

Long-term debt consists of the following:

	December 24, 2016	December 26, 2015	September 24, 2016
	(in thousands)		
Senior notes, interest at 6.125%, payable semi-annually, principal due November 2023	\$ 400,000	\$ 400,000	\$ 400,000
Unamortized debt issuance costs	(5,436)	(6,194)	(5,635)
Net carrying value	394,564	393,806	394,365
Asset-based revolving credit facility, interest at LIBOR plus a margin of 1.25% to 1.75% or Base Rate plus a margin of 0.25% to 0.75%, final maturity December 2018	—	42,000	—
Asset-based revolving credit facility, interest at LIBOR plus a margin of 1.25% to 1.50% or Base Rate plus a margin of 0.25% to 0.50%, final maturity April 2021	—	—	—
Other notes payable	844	379	904
Total	395,408	436,185	395,269
Less current portion	(397)	(292)	(463)
Long-term portion	\$ 395,011	\$ 435,893	\$ 394,806

Senior Notes and Redemption of Senior Subordinated Notes

On November 9, 2015, the Company issued \$400 million aggregate principal amount of 6.125% senior notes due November 2023. In December 2015, the Company used the net proceeds from the offering, together with available cash, to redeem its \$400 million aggregate principal amount of 8.25% senior subordinated notes due March 1, 2018 at a price of 102.063% of the principal amount and to pay fees and expenses related to the offering.

The Company incurred approximately \$6.3 million of debt issuance costs in conjunction with these transactions, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs will be amortized over the term of the 2023 Notes.

As a result of the Company's redemption of the 2018 Notes, the Company incurred a call premium payment of \$8.3 million, overlapping interest expense for 30 days of approximately \$2.7 million and a \$3.3 million non-cash charge for the write off of unamortized deferred financing costs and discount related to the 2018 Notes. These amounts are included in interest expense in the condensed consolidated statements of operations for the quarter ended December 26, 2015.

The 2023 Notes require semiannual interest payments, which commenced on May 15, 2016. The 2023 Notes are unconditionally guaranteed on a senior basis by each of the Company's existing and future domestic restricted subsidiaries which are borrowers under or guarantors of Central's senior secured revolving credit facility. The 2023 Notes are unsecured senior obligations and are subordinated to all of the Company's existing and future secured debt, including the Company's Credit Facility, to the extent of the value of the collateral securing such indebtedness.

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

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

The 2023 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions. The Company was in compliance with all covenants as of December 24, 2016.

Asset-Based Loan Facility Amendment

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

The Amended Credit Facility is subject to a borrowing base, calculated using a formula based upon eligible receivables and inventory, minus certain reserves and subject to restrictions. As of December 24, 2016, the borrowing base and remaining borrowing availability was \$329.1 million. Borrowings under the Amended Credit Facility bear interest at an index based on LIBOR or, at the option of the Company, the Base Rate (defined as the highest of (a) the SunTrust prime rate, (b) the Federal Funds Rate plus 0.5% and (c) one-month LIBOR plus 1.00%), plus, in either case, an applicable margin based on the Company's consolidated senior leverage ratio. Such applicable margin for LIBOR-based borrowings fluctuates between 1.25% - 1.50% and was 1.25% as of December 24, 2016, and such applicable margin for Base Rate borrowings fluctuates between 0.25%-0.5% and was 0.25% as of December 24, 2016. As of December 24, 2016, the applicable interest rate related to Base Rate borrowings was 4.0%, and the applicable interest rate related to LIBOR-based borrowings was 2.0%.

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

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

8. Supplemental Equity Information

The following table provides a summary of the changes in the carrying amounts of equity attributable to controlling interest and noncontrolling interest for the three months ended December 24, 2016 and December 26, 2015

(in thousands)	Controlling Interest						Total	Noncontrolling Interest	Total
	Common Stock	Class A Common Stock	Class B Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income			
Balance September 24, 2016	\$ 120	\$ 374	\$ 16	\$ 393,297	\$ 160,501	\$ (1,294)	\$ 553,014	\$ 1,573	\$ 554,587
Comprehensive income					7,637	(508)	7,129	152	7,281
Amortization of share-based awards				2,118			2,118		2,118
Restricted share activity		(1)		(3,312)			(3,313)		(3,313)
Issuance of common stock, including net share settlement of stock options	—	2		(4,033)			(4,031)		(4,031)
Tax benefit on stock option exercise, net of tax deficiency				4,332			4,332		4,332
Distribution to Noncontrolling interest								(1,018)	(1,018)
Balance December 24, 2016	<u>\$ 120</u>	<u>\$ 375</u>	<u>\$ 16</u>	<u>\$ 392,402</u>	<u>\$ 168,138</u>	<u>\$ (1,802)</u>	<u>\$ 559,249</u>	<u>\$ 707</u>	<u>\$ 559,956</u>
(in thousands)	Controlling Interest						Total	Noncontrolling Interest	Total
	Common Stock	Class A Common Stock	Class B Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income			
Balance September 26, 2015	\$ 119	\$ 364	\$ 16	\$ 388,636	\$ 115,987	\$ 164	\$ 505,286	\$ 1,094	\$ 506,380
Comprehensive income					(8,602)	(233)	(8,835)	(21)	(8,856)
Amortization of share-based awards				1,625			1,625		1,625
Restricted share activity		—		(216)			(216)		(216)
Issuance of common stock, including net share settlement of stock options		2		(360)			(358)		(358)
Tax benefit on stock option exercise, net of tax deficiency				898			898		898
Distribution to Noncontrolling interest								(592)	(592)
Balance December 26, 2015	<u>\$ 119</u>	<u>\$ 366</u>	<u>\$ 16</u>	<u>\$ 390,583</u>	<u>\$ 107,385</u>	<u>\$ (69)</u>	<u>\$ 498,400</u>	<u>\$ 481</u>	<u>\$ 498,881</u>

9. Stock-Based Compensation

The Company recognized share-based compensation expense of \$2.7 million and \$2.2 million for the three months ended December 24, 2016 and December 26, 2015, respectively, as a component of selling, general and administrative expenses. The tax benefit associated with share-based compensation expense for the three months ended December 24, 2016 and December 26, 2015 was \$1.0 million and \$0.8 million, respectively.

10. Earnings Per Share

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

	Three Months Ended December 24, 2016			Three Months Ended December 26, 2015		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic EPS:						
Net income available to common shareholders	\$ 7,637	49,665	\$ 0.15	\$ (8,602)	48,566	\$ (0.18)
Effect of dilutive securities:						
Options to purchase common stock		1,356	—		—	—
Restricted shares		789	—		—	—
Diluted EPS:						
Net income available to common shareholders	<u>\$ 7,637</u>	<u>51,810</u>	<u>\$ 0.15</u>	<u>\$ (8,602)</u>	<u>48,566</u>	<u>\$ (0.18)</u>

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

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

11. Segment Information

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

	Three Months Ended	
	December 24, 2016	December 26, 2015
Net sales:		
Pet segment	\$ 304,046	\$ 248,662
Garden segment	115,452	111,150
Total net sales	\$ 419,498	\$ 359,812
Operating income (loss):		
Pet segment	33,406	26,195
Garden segment	2,676	(3,254)
Corporate	(16,144)	(14,168)
Total income from operations	19,938	8,773
Interest expense - net	(6,835)	(22,123)
Other expense	(967)	(473)
Income tax expense (benefit)	4,347	(5,200)
Income (loss) including noncontrolling interest	7,789	(8,623)
Net income (loss) attributable to noncontrolling interest	152	(21)
Net income (loss) attributable to Central Garden & Pet Company	\$ 7,637	\$ (8,602)
Depreciation and amortization:		
Pet segment	\$ 5,830	4,464
Garden segment	1,507	1,685
Corporate	2,672	2,883
Total depreciation and amortization	\$ 10,009	\$ 9,032

	December 24, 2016	December 26, 2015	September 24, 2016
Assets:			
Pet segment	\$ 575,192	\$ 540,218	\$ 508,879
Garden segment	354,674	342,811	304,901
Corporate	317,835	328,180	398,413
Total assets	\$ 1,247,701	\$ 1,211,209	\$ 1,212,193
Goodwill (included in corporate assets above):			
Pet segment	\$ 224,912	\$ 209,089	\$ 225,912
Garden segment	5,473	—	5,473
Total goodwill	\$ 230,385	\$ 209,089	\$ 231,385

12. Consolidating Condensed Financial Information of Guarantor Subsidiaries

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

- Farnam Companies, Inc.
- Four Paws Products Ltd.
- Gulfstream Home & Garden, Inc.
- Hydro-Organics Wholesale, Inc.
- IMS Trading, LLC
- IMS Southern, LLC
- Kaytee Products, Inc.
- Matson, LLC
- New England Pottery, LLC
- Pennington Seed, Inc. (including Gro Tec, Inc. and All-Glass Aquarium Co., Inc.)
- Pets International, Ltd.
- Segrest, Inc. (including Blue Springs Hatchery, Inc., Segrest Farms, Inc., Florida Tropical Distributors International, Inc., Sun Pet, Ltd and Aquatica Tropicals, Inc.)
- T.F.H. Publications, Inc.
- Wellmark International (including B2E Corporation and B2E Biotech LLC)

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

During the second quarter of fiscal 2016, the Company added Hydro-Organics Wholesale, Inc., IMS Trading, LLC and IMS Southern, LLC as guarantors of the 2023 Notes. Financial results for the quarter ended December 26, 2015 previously reflected IMS Trading, LLC and IMS Southern, LLC as part of Parent. In accordance with Rule 3-10 of the Securities and Exchange Commission’s Regulation S-X, financial results presented herein for the fiscal quarter ended December 26, 2015 have been adjusted to reflect the current Guarantor status.

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

Three Months Ended December 24, 2016

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 155,518	\$ 14,024	\$ 266,438	\$ (16,482)	\$ 419,498
Cost of goods sold and occupancy	121,136	11,678	181,440	(15,434)	298,820
Gross profit	34,382	2,346	84,998	(1,048)	120,678
Selling, general and administrative expenses	35,965	3,664	62,159	(1,048)	100,740
Operating income (loss)	(1,583)	(1,318)	22,839	—	19,938
Interest expense	(6,851)	(17)	(5)	—	(6,873)
Interest income	38	—	—	—	38
Other expense	(603)	(193)	(171)	—	(967)
Income (loss) before taxes and equity in earnings of affiliates	(8,999)	(1,528)	22,663	—	12,136
Income tax expense (benefit)	(3,192)	(411)	7,950	—	4,347
Equity in earnings (losses) of affiliates	13,444	—	(811)	(12,633)	—
Net income (loss) including noncontrolling interest	7,637	(1,117)	13,902	(12,633)	7,789
Net income attributable to noncontrolling interest	—	152	—	—	152
Net income (loss) attributable to Central Garden & Pet Company	\$ 7,637	\$ (1,269)	\$ 13,902	\$ (12,633)	\$ 7,637

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

Three Months Ended December 26, 2015

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 116,963	\$ 15,271	\$ 242,723	\$ (15,145)	\$ 359,812
Cost of goods sold and occupancy	94,269	12,949	166,971	(14,163)	260,026
Gross profit	22,694	2,322	75,752	(982)	99,786
Selling, general and administrative expenses	29,300	3,812	58,883	(982)	91,013
Operating income (loss)	(6,606)	(1,490)	16,869	—	8,773
Interest expense	(22,133)	(12)	—	—	(22,145)
Interest income	21	1	—	—	22
Other expense	(71)	(67)	(335)	—	(473)
Income (loss) before taxes and equity in earnings of affiliates	(28,789)	(1,568)	16,534	—	(13,823)
Income tax expense (benefit)	(10,873)	(512)	6,185	—	(5,200)
Equity in earnings (losses) of affiliates	9,314	—	(786)	(8,528)	—
Net income (loss) including noncontrolling interest	(8,602)	(1,056)	9,563	(8,528)	(8,623)
Net loss attributable to noncontrolling interest	—	(21)	—	—	(21)
Net income (loss) attributable to Central Garden & Pet Company	\$ (8,602)	\$ (1,035)	\$ 9,563	\$ (8,528)	\$ (8,602)

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Three Months Ended December 24, 2016

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 7,637	\$ (1,117)	\$ 13,902	\$ (12,633)	\$ 7,789
Other comprehensive income (loss):					
Foreign currency translation	(508)	(355)	(50)	405	(508)
Total comprehensive income (loss)	7,129	(1,472)	13,852	(12,228)	7,281
Comprehensive income attributable to noncontrolling interests	—	152	—	—	152
Comprehensive income (loss) attributable to Central Garden & Pet Company	\$ 7,129	\$ (1,624)	\$ 13,852	\$ (12,228)	\$ 7,129

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Three Months Ended December 26, 2015

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ (8,602)	\$ (1,056)	\$ 9,563	\$ (8,528)	\$ (8,623)
Other comprehensive income (loss):					
Foreign currency translation	(233)	(141)	(51)	192	(233)
Total comprehensive income (loss)	(8,835)	(1,197)	9,512	(8,336)	(8,856)
Comprehensive loss attributable to noncontrolling interests	—	(21)	—	—	(21)
Comprehensive income (loss) attributable to Central Garden & Pet Company	\$ (8,835)	\$ (1,176)	\$ 9,512	\$ (8,336)	\$ (8,835)

CONSOLIDATING CONDENSED BALANCE SHEET

December 24, 2016

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$ 1,772	\$ 3,997	\$ 812	\$ —	\$ 6,581
Restricted cash	10,981	—	—	—	10,981
Accounts receivable, net	72,850	6,919	112,455	—	192,224
Inventories	137,615	15,435	277,121	—	430,171
Prepaid expenses and other	22,687	914	29,745	—	53,346
Total current assets	245,905	27,265	420,133	—	693,303
Land, buildings, improvements and equipment, net	39,384	3,858	126,594	—	169,836
Goodwill	15,058	—	215,327	—	230,385
Other long-term assets	29,297	3,525	129,848	(8,493)	154,177
Intercompany receivable	38,559	—	586,588	(625,147)	—
Investment in subsidiaries	1,251,408	—	—	(1,251,408)	—
Total	\$ 1,619,611	\$ 34,648	\$ 1,478,490	\$ (1,885,048)	\$ 1,247,701
LIABILITIES AND EQUITY					
Accounts payable	\$ 46,208	\$ 7,146	\$ 81,883	\$ —	\$ 135,237
Accrued expenses	42,223	1,362	50,909	—	94,494
Current portion of long-term debt	22	—	375	—	397
Total current liabilities	88,453	8,508	133,167	—	230,128
Long-term debt	394,564	—	447	—	395,011
Intercompany payable	575,187	49,960	—	(625,147)	—
Losses in excess of investment in subsidiaries	—	—	21,014	(21,014)	—
Other long-term obligations	2,158	—	68,941	(8,493)	62,606
Total Central Garden & Pet shareholders' equity (deficit)	559,249	(24,527)	1,254,921	(1,230,394)	559,249
Noncontrolling interest	—	707	—	—	707
Total equity (deficit)	559,249	(23,820)	1,254,921	(1,230,394)	559,956
Total	\$ 1,619,611	\$ 34,648	\$ 1,478,490	\$ (1,885,048)	\$ 1,247,701

CONSOLIDATING CONDENSED BALANCE SHEET

December 26, 2015

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$ 918	\$ 5,034	\$ 3,054	\$ —	\$ 9,006
Restricted cash	11,939	—	—	—	11,939
Short term investments	—	—	—	—	—
Accounts receivable, net	68,141	7,398	119,818	—	195,357
Inventories	128,587	17,253	270,618	—	416,458
Prepaid expenses and other	35,085	962	23,826	—	59,873
Total current assets	244,670	30,647	417,316	—	692,633
Land, buildings, improvements and equipment, net	49,227	3,787	110,934	—	163,948
Goodwill	—	—	209,089	—	209,089
Other long-term assets	54,866	3,540	89,198	(2,065)	145,539
Intercompany receivable	33,348	—	456,706	(490,054)	—
Investment in subsidiaries	1,092,134	—	—	(1,092,134)	—
Total	\$ 1,474,245	\$ 37,974	\$ 1,283,243	\$ (1,584,253)	\$ 1,211,209
LIABILITIES AND EQUITY					
Accounts payable	\$ 51,305	\$ 9,085	\$ 68,701	\$ —	\$ 129,091
Accrued expenses	41,384	1,520	46,143	—	89,047
Current portion of long-term debt	262	—	30	—	292
Total current liabilities	92,951	10,605	114,874	—	218,430
Long-term debt	435,835	—	58	—	435,893
Intercompany payable	444,900	45,154	—	(490,054)	—
Losses in excess of investment in subsidiaries	—	—	17,536	(17,536)	—
Other long-term obligations	2,159	—	57,911	(2,065)	58,005
Total Central Garden & Pet shareholders' equity (deficit)	498,400	(18,266)	1,092,864	(1,074,598)	498,400
Noncontrolling interest	—	481	—	—	481
Total equity (deficit)	498,400	(17,785)	1,092,864	(1,074,598)	498,881
Total	\$ 1,474,245	\$ 37,974	\$ 1,283,243	\$ (1,584,253)	\$ 1,211,209

CONSOLIDATING CONDENSED BALANCE SHEET

September 24, 2016

(in thousands)

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

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

Three Months Ended December 24, 2016

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	\$ (27,540)	\$ (4,428)	\$ 22,731	\$ (4,076)	\$ (13,313)
Additions to property, plant and equipment	(1,831)	(110)	(11,027)	—	(12,968)
Payments to acquire companies, net of cash acquired	(60,042)	—	—	—	(60,042)
Proceeds from sale of business, facility and other assets	2	—	7,958	—	7,960
Change in restricted cash and cash equivalents	(71)	—	—	—	(71)
Investment in equity method investee	(2,000)	—	—	—	(2,000)
Other investing activities	(265)	—	—	—	(265)
Intercompany investing activities	(5,781)	—	(19,214)	24,995	—
Net cash used by investing activities	(69,988)	(110)	(22,283)	24,995	(67,386)
Repayments on revolving line of credit	(1,000)	—	—	—	(1,000)
Borrowings on revolving line of credit	1,000	—	—	—	1,000
Repayments of long-term debt	(66)	—	(8)	—	(74)
Excess tax benefits from stock-based awards	4,356	—	—	—	4,356
Repurchase of common stock	(7,913)	—	—	—	(7,913)
Distribution to parent	—	(4,076)	—	4,076	—
Distribution to noncontrolling interest	—	(1,018)	—	—	(1,018)
Payment of contingent consideration	—	—	(860)	—	(860)
Intercompany financing activities	21,223	3,772	—	(24,995)	—
Net cash provided (used) by financing activities	17,600	(1,322)	(868)	(20,919)	(5,509)
Effect of exchange rates on cash	(458)	162	103	—	(193)
Net increase (decrease) in cash and cash equivalents	(80,386)	(5,698)	(317)	—	(86,401)
Cash and cash equivalents at beginning of period	82,158	9,695	1,129	—	92,982
Cash and cash equivalents at end of period	\$ 1,772	\$ 3,997	\$ 812	\$ —	\$ 6,581

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

Three Months Ended December 26, 2015

(in thousands)

	Parent	Non-Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	\$ (19,914)	\$ (1,065)	\$ 25,382	\$ (4,884)	\$ (481)
Additions to property, plant and equipment	(707)	(226)	(4,323)	—	(5,256)
Payments to acquire companies, net of cash acquired	(68,529)	—	—	—	(68,529)
Change in restricted cash and cash equivalents	1,218	—	—	—	1,218
Other investing activities	(200)	—	—	—	(200)
Intercompany investing activities	(653)	—	(19,321)	19,974	—
Net cash used by investing activities	(68,871)	(226)	(23,644)	19,974	(72,767)
Repayments of long-term debt	(400,065)	—	(7)	—	(400,072)
Borrowings under revolving line of credit	79,000	—	—	—	79,000
Repayments on revolving line of credit	(37,000)	—	—	—	(37,000)
Issuance of long-term debt	400,000	—	—	—	400,000
Excess tax benefits from stock-based awards	900	—	—	—	900
Repurchase of common stock	(1,167)	—	—	—	(1,167)
Distribution to parent	—	(4,884)	—	4,884	—
Distribution to noncontrolling interest	—	(592)	—	—	(592)
Payment of financing costs	(6,324)	—	—	—	(6,324)
Intercompany financing activities	18,261	1,713	—	(19,974)	—
Net cash provided (used) by financing activities	53,605	(3,763)	(7)	(15,090)	34,745
Effect of exchange rates on cash	(182)	66	41	—	(75)
Net increase decrease in cash and cash equivalents	(35,362)	(4,988)	1,772	—	(38,578)
Cash and cash equivalents at beginning of year	36,280	10,022	1,282	—	47,584
Cash and cash equivalents at end of year	\$ 918	\$ 5,034	\$ 3,054	\$ —	\$ 9,006

13. Contingencies

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

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

Our Company

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

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

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

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

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

Recent Developments

Fiscal 2017 First Quarter Financial Performance:

- Net sales increased \$59.7 million, or 16.6%, to \$419.5 million from the prior year quarter. Pet segment sales increased \$55.3 million, and Garden segment sales increased \$4.4 million.
- Gross margin increased 110 basis points to 28.8% and gross profit increased \$20.9 million, with both segments contributing to the increases.
- Selling, general & administrative expense increased \$9.7 million to \$100.7 million, but declined as a percentage of net sales as compared to the prior year quarter.
- Operating income improved \$11.2 million from the prior year quarter, to \$19.9 million in the first quarter of fiscal 2017. Adjusting for the gain on the sale of a distribution facility in the fiscal 2017 quarter, operating income increased \$9.1 million.
- Our net income in the first quarter of fiscal 2017 was \$7.6 million, or \$0.15 per diluted share, compared to a net loss of \$8.6 million, or \$0.18 per diluted share, in the first quarter of fiscal 2016. Non-GAAP net income was \$6.3 million, or \$0.12 per diluted share, adjusting for the gain on the sale of the distribution facility in the fiscal 2017 quarter, compared to \$0.3 million, or \$0.01 per diluted share in the first quarter of fiscal 2016,

adjusting for the incremental expenses incurred in the prior year period for the refinancing of our \$400 million Senior Subordinated Notes.

Segrest, Inc. Acquisition

In October 2016, we purchased Segrest Inc. for a purchase price of \$60 million, of which \$6 million is in an escrow account, payment of which is contingent upon future events. Segrest is the leading wholesaler of aquarium fish and is expected to strengthen our position in the aquatics category and provide the opportunity for synergies with our existing aquatics business.

Veterinary Products Business

In November 2016, we sold a small veterinary products division, which had sales of \$8.6 million in fiscal 2016. The business was not profitable over the last several years.

Use of Non-GAAP Financial Measures

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

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

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

- Gains or losses on disposals of significant plant assets: we have excluded the impact of gains or losses on the disposal of facilities as these represent infrequent transactions that impact comparability between operating periods. We believe the adjustment of these gains or losses supplements the GAAP information with a measure that may be used to help assess the sustainability of our continuing operating performance.
- Loss on early extinguishment of debt: we have excluded the charges associated with the refinancing of our 2018 Notes as the amount and frequency of such charges are not consistent and are significantly impacted by the timing and size of debt financing transactions.
- Tax impact: adjustment represents the impact of the tax effect of the pre-tax non-GAAP adjustments excluded from non-GAAP net income. The tax impact of the non-GAAP adjustments is calculated based on the consolidated effective tax rate on a GAAP basis, applied to the non-GAAP adjustments, unless the underlying item has a materially different tax treatment.
- We have also provided organic net sales, a non-GAAP measure that excludes the impact of businesses purchased or exited in the prior 12 months, because we believe it permits investors to better understand the performance of our historical business without the impact of recent acquisitions or dispositions.

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

The non-GAAP adjustments reflect the following:

- (1) During the first quarter of fiscal 2017, we recorded a \$2.0 million gain in our Garden segment from the sale of a distribution facility resulting from rationalizing our facilities to reduce excess capacity. This adjustment was recorded as part of selling, general and administrative costs in the condensed consolidated statements of operations.
- (2) During the first quarter of fiscal 2016, we redeemed our 2018 Notes and issued senior notes due November 2023. As a result of the redemption, we incurred incremental expenses of \$14.3 million, comprised of a call premium payment of \$8.3 million, a \$2.7 million payment of overlapping interest expense for 30 days and a \$3.3 million non-cash charge for the write off of unamortized deferred financing costs and discount related to the 2018 Notes. These amounts are included in Interest expense in the condensed consolidated statements of operations.

Operating Income Reconciliation	GAAP to Non-GAAP Reconciliation (in thousands) For the Three Months Ended	
	December 24, 2016	December 26, 2015
	GAAP operating income	\$ 19,938
Sale of distribution facility	(1) (2,050)	—
Non-GAAP operating income	\$ 17,888	\$ 8,773
GAAP operating margin	4.8%	2.4%
Non-GAAP operating margin	4.3%	2.4%

Net Income and Diluted Net Income Per Share Reconciliation	GAAP to Non-GAAP Reconciliation (in thousands, except per share amounts) For the Three Months Ended	
	December 24, 2016	December 26, 2015
	GAAP net income (loss) attributable to Central Garden & Pet	\$ 7,637
Sale of distribution facility	(1) (2,050)	—
2018 notes redemption	(2) —	14,339
Tax effects of non-GAAP adjustments	734	(5,394)
Total net income (loss) impact from non-GAAP adjustments	(1,316)	8,945
Non-GAAP net income attributable to Central Garden & Pet	\$ 6,321	\$ 343
GAAP diluted net income per share	\$ 0.15	\$ (0.18)
Non-GAAP diluted net income per share	\$ 0.12	\$ 0.01
Shares used in GAAP diluted net earnings per share calculation	51,810	48,566
Shares used in non-GAAP diluted net earnings per share calculation	51,810	50,684

Organic Net Sales Reconciliation

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

Consolidated	GAAP to Non-GAAP Reconciliation (in thousands)		
	For the Three Months Ended		
	December 24, 2016	December 26, 2015	Percentage change
Reported Net Sales - GAAP	\$ 419.5	\$ 359.8	16.6%
Effect of acquisitions and divestitures	41.8	6.7	
Organic net sales	<u>\$ 377.7</u>	<u>\$ 353.1</u>	7.0%

Pet Segment	GAAP to Non-GAAP Reconciliation (in thousands)		
	For the Three Months Ended		
	December 24, 2016	December 26, 2015	Percentage change
Reported Net Sales - GAAP	\$ 304.0	\$ 248.7	22.2%
Effect of acquisitions and divestitures	41.8	1.6	
Organic net sales	<u>\$ 262.2</u>	<u>\$ 247.1</u>	6.1%

Results of Operations

Three Months Ended December 24, 2016 Compared with Three Months Ended December 26, 2015

Net Sales

Net sales for the three months ended December 24, 2016 increased \$59.7 million, or 16.6%, to \$419.5 million from \$359.8 million for the three months ended December 26, 2015. Our branded product sales increased \$56.3 million, and sales of other manufacturers' products increased \$3.4 million. After taking into account the impact of acquisitions and divestitures, organic net sales increased \$24.6 million, or 7.0%, as compared to the fiscal 2016 quarter.

Pet net sales increased \$55.3 million, or 22.2%, to \$304.0 million for the three months ended December 24, 2016 from \$248.7 million for the three months ended December 26, 2015. The increase in net sales was due to two recently acquired businesses which contributed \$40.5 million and organic net sales growth of \$15.1 million, primarily in our Dog & Cat category. Pet organic net sales increased 6.1%. Pet branded product sales increased \$57.7 million, due primarily to the two recent acquisitions and, to a lesser extent, to the organic net sales growth noted above, partially offset by a \$2.4 million decrease in sales of other manufacturers' products.

Garden net sales increased \$4.4 million, or 4.0%, to \$115.5 million for the three months ended December 24, 2016 from \$111.1 million for the three months ended December 26, 2015. Garden branded product sales decreased \$1.4 million, and sales of other manufacturers' products increased \$5.8 million. The sales decrease in branded products was due primarily to a \$5.2 million decrease caused by our exit from the holiday decor business in January 2016 partially offset by minor increases in most of the other garden categories in which we participate. The increase in sales of other manufacturer's products was due primarily to increased distribution.

Gross Profit

Gross profit for the three months ended December 24, 2016 increased \$20.9 million, or 20.9%, to \$120.7 million from \$99.8 million for the three months ended December 26, 2015. While both our operating segments contributed to the increase in gross profit, the increase was primarily in the Pet segment due principally to the two most recent acquisitions, owned less than a year, and growth in our dog and cat category. Gross margin increased 110 basis points to 28.8% for the three months ended December 24, 2016 from 27.7% for the three months ended December 26, 2015. The increase was primarily driven by the improved gross margin in the Garden segment, although both segments contributed to the margin increase. In our Garden segment, improved gross margin was due primarily to lower input costs and a favorable product mix. In our Pet segment, the improved gross margin was due primarily to the favorable mix and our recent acquisition.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$9.7 million, or 10.7%, to \$100.7 million for the three months ended December 24, 2016 from \$91.0 million for the three months ended December 26, 2015. As a percentage of net sales, selling, general and administrative expenses decreased to 24.0% for the three months ended December 24, 2016, compared to 25.3% in the comparable prior year quarter. Excluding a \$2.0 million gain from the sale of a distribution facility, which is included within warehouse and administrative expenses, the increase in selling, general and administrative expenses would have been \$11.8 million and as a percentage of net sales, selling, general and administrative expense would have been 24.5%. Increased expense in the Pet segment and at corporate in the quarter was partially offset by decreased expense in the Garden segment.

Selling and delivery expense increased \$3.6 million, or 7.5%, to \$50.5 million for the three months ended December 24, 2016 from \$46.9 million for the three months ended December 26, 2015. The increase was in our Pet segment due to recent acquisitions and increased selling and delivery expense supporting the increase in sales. Although selling and delivery expense increased in dollar terms, they declined as a percentage of net sales.

Warehouse and administrative expense increased \$6.1 million, or 14.1%, to \$50.2 million for the quarter ended December 24, 2016 from \$44.1 million for the quarter ended December 26, 2015. Excluding a \$2.0 million gain from the sale of a distribution facility, warehouse and administrative expense increased \$7.2 million. Increased expense in the Pet segment and at corporate was partially offset by decreased expense in the Garden segment. The increased expense was due primarily to recent acquisitions and facility transition costs in the Pet segment and increased insurance related expense and equity

compensation expense at corporate, partially offset by the gain on the sale of the distribution facility and reduced expense from the business exited in the prior year in the Garden segment. Corporate expenses are included within administrative expense and relate to the costs of unallocated executive, administrative, finance, legal, human resources, and information technology functions.

Operating Income

Operating income increased \$11.1 million to \$19.9 million for the three months ended December 24, 2016 from \$8.8 million for the three months ended December 26, 2015. Increased sales of \$59.7 million and an improved gross margin were partially offset by a \$9.7 million increase in selling, general and administrative costs. Operating margin improved to 4.8% for the three months ended December 24, 2016 from 2.4% for the three months ended December 26, 2015 due to an improvement in gross margin and a decrease in selling, general and administrative expenses as a percentage of net sales. Excluding the gain resulting from the sale of a distribution facility, operating income increased \$9.1 million and the operating margin was 4.3%.

Pet operating income increased \$7.2 million, or 27.5%, to \$33.4 million for the three months ended December 24, 2016 from \$26.2 million for the three months ended December 26, 2015. The increase was due primarily to increased sales and an improved gross margin partially offset by increased selling, general and administrative expenses. Pet operating margin increased to 11.0% for the three months ended December 24, 2016 from 10.5% for the three months ended December 26, 2015 due to an improved gross margin and lower selling, general and administrative costs as a percentage of net sales.

Garden operating income increased \$6.0 million to \$2.7 million for the three months ended December 24, 2016 from an expense of \$3.3 million for the three months ended December 26, 2015. The increase was due to increased sales and an improved gross margin aided by decreased selling, general and administrative expenses primarily due to lower input costs, a favorable product mix and the gain on the sale of a distribution facility.

Corporate operating expense increased \$2.1 million to \$16.2 million in the current year quarter from \$14.1 million in the fiscal 2016 quarter due primarily to increased insurance related expenses and equity compensation expense.

Net Interest Expense

Net interest expense for the three months ended December 24, 2016 decreased \$15.3 million, or 69.1%, to \$6.8 million from \$22.1 million for the three months ended December 26, 2015. In November 2015, we issued \$400 million aggregate principal amount of 2023 Notes and replaced our outstanding 2018 Notes. As a result of our redemption of the 2018 Notes, we recognized incremental interest expense of approximately \$14.3 million. Excluding the \$14.3 million of incremental expense related to the issuance and redemption of our fixed rate debt in the fiscal 2016 quarter, interest expense decreased \$1.0 million to \$6.8 million from \$7.8 million in the comparable prior year quarter. The decrease was due principally to the lower interest rate on our 2023 Notes.

Debt outstanding on December 24, 2016 was \$395.4 million compared to \$436.2 million as of December 26, 2015. Our average borrowing rate for the current quarter decreased to 6.3% from 7.2% for the prior year quarter.

Other Expense

Other expense is comprised of income from investments accounted for under the equity method of accounting and foreign currency exchange gains and losses. Other expense increased \$0.5 million to \$1.0 million for the quarter ended December 24, 2016, from \$0.5 million for the quarter ended December 26, 2015 due primarily to equity method losses and related expenses.

Income Taxes

Our effective income tax rate was 35.8% for the quarter ended December 24, 2016 and 37.6% for the quarter ended December 26, 2015. The decrease in the income tax rate was due primarily to projected additional tax incentives in the current year.

Inflation

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

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

Weather and Seasonality

Our sales of lawn and garden products are influenced by weather and climate conditions in the different markets we serve. Additionally, our Garden segment's business is highly seasonal. In fiscal 2016, approximately 66% of our Garden segment's net sales and 58% of our total net sales occurred during our second and third fiscal quarters. Substantially all of the Garden segment's operating income is typically generated in this period, which has historically offset the operating loss incurred during the first fiscal quarter of the year.

Liquidity and Capital Resources

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

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

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

Operating Activities

Net cash used by operating activities increased by \$12.8 million, from \$0.5 million for the three months ended December 26, 2015, to \$13.3 million for the three months ended December 24, 2016. The increase in cash used was due primarily to a decrease in cash flow from working capital accounts for the period ended December 24, 2016, primarily receivables and inventory, as compared to the prior year period. We have begun our seasonal inventory build for the upcoming garden season and remain focused on maintaining high fill rates and service levels to our customers.

Investing Activities

Net cash used in investing activities decreased \$5.4 million, from \$72.8 million for the three months ended December 26, 2015 to \$67.4 million during the three months ended December 24, 2016. The decrease in cash used in investing activities was due primarily to decreased acquisition activity in the current year compared to the prior year, as well as an increase in proceeds from the sale of a small veterinary division and a distribution facility in our Garden segment during the first fiscal quarter of 2017. In October 2016, we acquired Segrest Inc., a wholesaler of aquarium fish, for a purchase price of \$60 million, of which \$6 million is in an escrow account managed by an independent trustee and is payable in the future contingent upon future events. We made two acquisitions during the first fiscal quarter of 2016. On September 30, 2015, we acquired Hydro-Organics Wholesale Inc., an organic fertilizer company, for approximately \$7.8 million cash and approximately \$2.6 million of estimated contingent future performance-based payments. In December 2015, we purchased the pet bedding business and certain other assets of DMC for approximately \$61 million. The decreased acquisition activity in the current year period was partially offset by an increase in capital expenditures of approximately \$7.7 million in the current year period compared to the prior year period.

Financing Activities

Net cash used by financing activities increased \$40.3 million, from \$34.7 million of cash provided by financing activities for the three months ended December 26, 2015, to \$5.5 million of cash used for the three months ended December 24, 2016. The increase in cash used by financing activities was due primarily to lower net borrowings under our asset backed loan facility in the current year period compared to the prior year period, as well as an increase in taxes paid for shares withheld in connection with the net share settlement of vested restricted stock and exercised options. These uses of cash were partially offset by the payment of financing costs associated with the issuance of our 2023 Notes, subsequent redemption of our 2018 Notes and amendment of our asset backed loan facility during the three months ended December 26, 2015, as well as an increase in cash flows from excess tax benefits from stock based awards due to the increase in stock option exercise activity during the current year period.

We expect that our principal sources of funds will be cash generated from our operations and, if necessary, borrowings under our \$400 million asset backed loan facility. Based on our anticipated cash needs, availability under our asset backed loan facility and the scheduled maturity of our debt, we believe that our sources of liquidity should be adequate to meet our working capital, capital spending and other cash needs for at least the next 12 months. However, we cannot assure you that these sources will continue to provide us with sufficient liquidity and, should we require it, that we will be able to obtain financing on terms satisfactory to us, or at all.

We believe that cash flows from operating activities, funds available under our asset backed loan facility, and arrangements with suppliers will be adequate to fund our presently anticipated working capital and capital expenditure requirements for the foreseeable future. We anticipate that our capital expenditures, which are related primarily to replacements and expansion of and upgrades to plant and equipment and also investment in our continued implementation of a scalable enterprise-wide information technology platform, will be approximately \$40 million to \$45 million over the next 12 months.

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

At December 24, 2016, our total debt outstanding was \$395.4 million, as compared with \$436.2 million at December 26, 2015.

Senior Notes and Redemption of Senior Subordinated Notes

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

We incurred approximately \$6.3 million of debt issuance costs in conjunction with these transactions, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs will be amortized over the term of the 2023 Notes.

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

The 2023 Notes require semiannual interest payments, which commenced on May 15, 2016. The 2023 Notes are unconditionally guaranteed on a senior basis by each of our existing and future domestic restricted subsidiaries which are borrowers under or guarantors of our senior secured revolving credit facility. The 2023 Notes are unsecured senior obligations and are subordinated to all of our existing and future secured debt, including our Credit Facility, to the extent of the value of the collateral securing such indebtedness.

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

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

The 2023 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions. We were in compliance with all covenants as of December 24, 2016.

Asset-Based Loan Facility Amendment

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

The Amended Credit Facility is subject to a borrowing base, calculated using a formula based upon eligible receivables and inventory, minus certain reserves and subject to restrictions. As of December 24, 2016, the borrowing base and remaining borrowing availability was \$329.1 million. Borrowings under the Amended Credit Facility bear interest at an index based on LIBOR or, at the option of the Company, the Base Rate (defined as the highest of (a) the SunTrust prime rate, (b) the Federal Funds Rate plus 0.5% and (c) one-month LIBOR plus 1.00%), plus, in either case, an applicable margin based on our consolidated senior leverage ratio. Such applicable margin for LIBOR-based borrowings fluctuates between 1.25% - 1.5% and was 0.0% as of December 24, 2016, and such applicable margin for Base Rate borrowings fluctuates between 0.25% - 0.5% and was 0.0% as of December 24, 2016. As of December 24, 2016, the applicable interest rate related to Base Rate borrowings was 4.0%, and the applicable interest rate related to LIBOR-based borrowings was 2.0%.

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

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

New Accounting Pronouncements

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

Critical Accounting Policies, Estimates and Judgments

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* Our Chief Executive Officer and principal financial officer have reviewed, as of the end of the period covered by this report, the "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) that ensure that information relating to the Company required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported in a timely and proper manner and that such information is accumulated and communicated to our management, including our Chief Executive Officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based upon this review, such officers concluded that our disclosure controls and procedures were effective as of December 24, 2016.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

The following table sets forth the repurchases of any equity securities during the fiscal quarter ended December 24, 2016 and the dollar amount of authorized share repurchases remaining under our stock repurchase program.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
September 25, 2016 - October 29, 2016	74,388 ⁽²⁾	\$ 24.48	—	\$ 34,968,000
October 30, 2016 - November 26, 2016	463 ⁽²⁾	\$ 25.18	—	\$ 34,968,000
November 27, 2016 - December 24, 2016	52,828 ⁽²⁾	\$ 28.02	—	\$ 34,968,000
Total	127,679	\$ 25.95	—	\$ 34,968,000

(1) During the third quarter of fiscal 2011, our Board of Directors authorized a \$100 million share repurchase program. The program has no expiration date and expires when the amount authorized has been used or the Board withdraws its authorization. The repurchase of shares may be limited by certain financial covenants in our credit facility and indenture that restrict our ability to repurchase our stock.

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

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

- 4.1 Fifth Supplemental Indenture, dated as of December 23, 2016, by and among the Company, certain guarantors named therein and Wells Fargo Bank, National Association, as trustee, relating to the 6.125% Senior Notes due 2023.

- 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 31.2 Certification of Acting 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 Acting Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.

- 101.INS XBRL Instance Document

- 101.SCH XBRL Taxonomy Extension Schema Document

- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

- 101.LAB XBRL Taxonomy Extension Label Linkbase Document

- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

CENTRAL GARDEN & PET COMPANY

Registrant

Dated: February 2, 2017

/s/ GEORGE C. ROETH

George C. Roeth

President and Chief Executive Officer

(Principal Executive Officer)

/s/ HOWARD MACHEK

Howard Machek

Senior Vice President and Chief Accounting Officer

(Principal Financial Officer)

FIFTH SUPPLEMENTAL INDENTURE

FIFTH SUPPLEMENTAL INDENTURE (this “Supplemental Indenture”), dated effective as of December 23, 2016, among (i) Segrest, Inc., a Delaware corporation, (ii) Blue Springs Hatchery, Inc., a Delaware corporation, (iii) Segrest Farms, Inc., a Delaware corporation, (iv) Florida Tropical Distributors International, Inc., a Delaware corporation, (v) Sun Pet, Ltd., a Delaware corporation, and (vi) Aquatica Tropicals, Inc., a Delaware corporation (each, a “Subsidiary Guarantor” and together, the “Subsidiary Guarantors”), each a subsidiary of Central Garden & Pet Company, a Delaware corporation (the “Company”), the Company, the other Guarantors (as defined in the Indenture referred to herein) and Wells Fargo Bank, National Association, as trustee under the indenture referred to below (the “Trustee”).

WITNESSETH

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (as supplemented from time to time, the “Base Indenture”), dated as of March 8, 2010;

WHEREAS, the Company executed the Third Supplemental Indenture, dated as of November 9, 2015 (the “Third Supplemental Indenture” and together with the Base Indenture and the Fourth Supplemental Indenture dated as of March 25, 2016, the “Indenture”) providing for the issuance of 6.125% Senior Notes due 2023 (the “Notes”);

WHEREAS, the Indenture provides that under certain circumstances the Subsidiary Guarantors will execute and deliver to the Trustee a supplemental indenture pursuant to which the Subsidiary Guarantors will unconditionally guarantee all of the Company’s Obligations under the Notes and the Indenture on the terms and conditions set forth herein (the “Guarantee”); and

WHEREAS, pursuant to Section 9.01 of the Third Supplemental Indenture, the Trustee is authorized to execute and deliver this Fifth Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, each Subsidiary Guarantor and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. **CAPITALIZED TERMS.** Capitalized terms used herein without definition will have the meanings assigned to them in the Indenture.
 2. **AGREEMENT TO GUARANTEE.** The Subsidiary Guarantors hereby agree to provide an unconditional Guarantee on the terms and subject to the conditions set forth in the Guarantee and in the Third Supplemental Indenture, including but limited to Article 10 thereof.
 3. **EXECUTION AND DELIVERY.** Each Subsidiary Guarantor agrees that the Guarantee will remain in full force and effect notwithstanding any failure to endorse on each Note a notation of such Guarantee.
-

4. NO RECOURSE AGAINST OTHERS. No past, present or future director, manager, officer, employee, incorporator, stockholder or agent of the Subsidiary Guarantors, as such, will have any liability for any obligations of the Company or any Subsidiary Guarantor under the Notes, any Guarantees, the Indenture or this Fifth Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

5. NEW YORK LAW TO GOVERN. THE INTERNAL LAW OF THE STATE OF NEW YORK WILL GOVERN AND BE USED TO CONSTRUE THIS FIFTH SUPPLEMENTAL INDENTURE BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

6. COUNTERPARTS. The parties may sign any number of copies of this Fifth Supplemental Indenture. Each signed copy will be an original, but all of them together represent the same agreement. Signatures of the parties hereto transmitted by facsimile or PDF may be used in lieu of the originals shall be deemed to be their original signatures for all purposes.

7. EFFECT OF HEADINGS. The Section headings herein are for convenience only and will not affect the construction hereof.

8. THE TRUSTEE. The Trustee makes no representation as to and will not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Fifth Supplemental Indenture or the Guarantees or for or in respect of the recitals contained herein, all of which recitals are made solely by the Subsidiary Guarantors and the Company.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

SEGREST, INC.

By: /s/ GEORGE A. YUHAS
Name: George A. Yuhas
Title: Secretary

BLUE SPRINGS HATCHERY, INC.

By: /s/ GEORGE A. YUHAS
Name: George A. Yuhas
Title: Secretary

SEGREST FARMS, INC.

By: /s/ GEORGE A. YUHAS
Name: George A. Yuhas
Title: Secretary

FLORIDA TROPICAL DISTRIBUTORS INTERNATIONAL, INC.

By: /s/ GEORGE A. YUHAS
Name: George A. Yuhas
Title: Secretary

SUN PET, LTD.

By: /s/ GEORGE A. YUHAS
Name: George A. Yuhas
Title: Secretary

AQUATICA TROPICALS, INC.

By: /s/ GEORGE A. YUHAS
Name: George A. Yuhas
Title: Secretary

CENTRAL GARDEN & PET COMPANY

By: /s/ GEORGE A. YUHAS
Name: George A. Yuhas
Title: Secretary

GUARANTORS:

FOUR PAWS PRODUCTS LTD.
KAYTEE PRODUCTS, INCORPORATED
PENNINGTON SEED, INC.
ALL-GLASS AQUARIUM CO., INC.
T.F.H. PUBLICATIONS, INC.
WELLMARK INTERNATIONAL
GRO TEC, INC.
B2E CORPORATION
B2E BIOTECH LLC
FARNAM COMPANIES, INC.
GULFSTREAM HOME & GARDEN, INC.
NEW ENGLAND POTTERY, LLC
PETS INTERNATIONAL, LTD.
MATSON, LLC
IMS TRADING, LLC
IMS SOUTHERN, LLC
HYDRO-ORGANICS WHOLESALE

By: /s/ GEORGE A. YUHAS

Name: George A. Yuhas

Title: Authorized Officer

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Trustee

By: /s/ MICHAEL Q. TU
Name: Michael Q. Tu
Title: Assistant Vice President

SIGNATURE PAGE TO FIFTH SUPPLEMENTAL INDENTURE

I, George C. Roeth, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended December 24, 2016 of Central Garden & Pet Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2017

/s/ GEORGE C. ROETH

George C. Roeth

President and Chief Executive Officer

(Principal Executive Officer)

I, Howard A. Machek, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended December 24, 2016 of Central Garden & Pet Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2017

/s/ HOWARD A. MACHEK

Howard A. Machek

Senior Vice President and Chief Accounting Officer

(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying quarterly report on Form 10-Q of Central Garden & Pet Company for the quarter ended December 24, 2016 (the "Report"), I, George C. Roeth, President and Chief Executive Officer of Central Garden & Pet Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) such Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and
- (2) the information contained in such Report presents, in all material respects, the financial condition and results of operations of Central Garden & Pet Company.

February 2, 2017

/s/ GEORGE C. ROETH

George C. Roeth

President and Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying quarterly report on Form 10-Q of Central Garden & Pet Company for the quarter ended December 24, 2016 (the "Report"), I, Howard A. Machek, Principal Financial Officer of Central Garden & Pet Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) such Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and
- (2) the information contained in such Report presents, in all material respects, the financial condition and results of operations of Central Garden & Pet Company.

February 2, 2017

/s/ HOWARD A. MACHEK

Howard A. Machek

Senior Vice President and Chief Accounting Officer

(Principal Financial Officer)