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 26, 2020

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

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

1340 Treat Blvd., Suite 600, Walnut Creek, California 94597
(Address of principal executive offices)
(925) 948-4000
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	CENT	The NASDAQ Stock Market LLC
Class A Common Stock	CENTA	The NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 31, 2021	11,336,358
Class A Common Stock Outstanding as of January 31, 2021	42,219,410
Class B Stock Outstanding as of January 31, 2021	1,612,374

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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

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

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Form 10-Q. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Form 10-Q are set forth in the Form 10-K for the fiscal year ended September 26, 2020, 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:

- our ability to successfully manage the impact of COVID-19 on our business, including but not limited to, the impact on our workforce, operations, fill rates, supply chain, demand for our products and services, and our financial results and condition;
- the potential for future reductions in demand for product categories, which benefited from the COVID-19 pandemic;
- the success of our new Central to Home strategy;

- 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;
- supply shortages in pet birds, small animals and fish;
- adverse weather conditions;
- dependence on a small number of customers for a significant portion of our business;
- impacts of tariffs or a trade war;
- consolidation trends in the retail industry;
- declines in consumer spending during economic downturns;
- risks associated with new product introductions, including the risk that our new products will not produce sufficient sales to recoup our investment;
- competition in our industries;
- continuing implementation of an enterprise resource planning information technology system;
- potential environmental liabilities;
- risk associated with international sourcing;
- access to and cost of additional capital;
- risks associated with our acquisition strategy, including our ability to successfully integrate our recently announced acquisitions;
- potential goodwill or intangible asset impairment;
- our dependence upon our key executives;
- inflation, deflation and other adverse macro-economic conditions;
- our inability to protect our trademarks and other proprietary rights;
- fluctuations in energy prices, fuel and related petrochemical costs;
- litigation and product liability claims;
- regulatory issues;
- the impact of product recalls;
- potential costs and risks associated with actual or potential cyber attacks;
- potential dilution from issuance of authorized shares;
- the voting power associated with our Class B stock; and
- the impact of new accounting regulations and the U.S. Tax Cuts and Jobs Act on the Company's tax rate.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 26, 2020	December 28, 2019	September 26, 2020
ASSETS			
Current assets:			
Cash and cash equivalents	$ 608,285	$ 445,813	$ 652,712
Restricted cash	13,670	12,990	13,685
Accounts receivable (less allowances of $30,951, $21,257 and $27,661)	322,806	268,229	391,773
Inventories, net	574,878	556,479	439,615
Prepaid expenses and other	28,074	37,569	27,498
Total current assets	1,547,713	1,321,080	1,525,283
Plant, property and equipment, net	252,157	241,795	244,667
Goodwill	289,955	289,854	289,955
Other intangible assets, net	131,557	145,153	134,924
Operating lease right-of-use assets	115,833	105,277	115,882
Other assets	108,884	31,998	28,653
Total	$ 2,446,099	$ 2,135,157	$ 2,339,364
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	$ 216,991	$ 184,659	$ 205,234
Accrued expenses	189,290	124,774	201,436
Current lease liabilities	34,834	34,320	33,495
Current portion of long-term debt	97	107	97
Total current liabilities	441,212	343,860	440,262
Long-term debt	788,921	693,329	693,956
Long-term lease liabilities	85,729	75,283	86,516
Deferred income taxes and other long-term obligations	43,224	49,513	40,956
Equity:			
Common stock, $0.01 par value: 11,336,358, 11,484,297 and 11,336,358 shares outstanding at December 26, 2020, December 28, 2019 and September 26, 2020	113	115	113
Class A common stock, $0.01 par value: 42,171,329, 42,289,882 and 41,856,626 shares outstanding at December 26, 2020, December 28, 2019 and September 26, 2020	422	423	419
Class B stock, $0.01 par value: 1,612,374, 1,647,922 and 1,612,374 shares outstanding at December 26, 2020, December 28, 2019 and September 26, 2020	16	16	16
Additional paid-in capital	570,678	570,117	566,883
Retained earnings	516,394	403,693	510,781
Accumulated other comprehensive loss	(1,032)	(1,240)	(1,409)
Total Central Garden & Pet Company shareholders’ equity	1,086,591	973,124	1,076,803
Noncontrolling interest	422	48	871
Total equity	1,087,013	973,172	1,077,674
Total	$ 2,446,099	$ 2,135,157	$ 2,339,364

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 26, 2020	December 28, 2019
Net sales	$ 592,230	$ 482,828
Cost of goods sold and occupancy	426,811	351,562
Gross profit	165,419	131,266
Selling, general and administrative expenses	138,379	129,201
Operating income	27,040	2,065
Interest expense	(20,975)	(10,641)
Interest income	206	2,004
Other income	752	305
Income (loss) before income taxes and noncontrolling interest	7,023	(6,267)
Income tax expense (benefit)	1,381	(1,728)
Income (loss) including noncontrolling interest	5,642	(4,539)
Net income (loss) attributable to noncontrolling interest	29	(122)
Net income (loss) attributable to Central Garden & Pet Company	$ 5,613	$ (4,417)
Net income (loss) per share attributable to Central Garden & Pet Company:		
Basic	$ 0.10	$ (0.08)
Diluted	$ 0.10	$ (0.08)
Weighted average shares used in the computation of net income (loss) per share:		
Basic	53,734	54,755
Diluted	54,686	54,755

See notes to condensed consolidated financial statements.

CENTRAL GARDEN & PET COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands, unaudited)

	Three Months Ended	
	December 26, 2020	December 28, 2019
Income (loss) including noncontrolling interest	$ 5,642	$ (4,539)
Other comprehensive income:		
Foreign currency translation	377	436
Total comprehensive income (loss)	6,019	(4,103)
Comprehensive income (loss) attributable to noncontrolling interest	29	(122)
Comprehensive income (loss) attributable to Central Garden & Pet Company	$ 5,990	$ (3,981)

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	December 26, 2020	December 28, 2019
Cash flows from operating activities:		
Net income (loss)	$ 5,642	$ (4,539)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization	12,915	13,140
Amortization of deferred financing costs	475	446
Non-cash lease expense	9,087	8,513
Stock-based compensation	4,669	4,152
Debt extinguishment costs	8,577	—
Loss on sale of business	2,611	—
Deferred income taxes	973	1,890
Gain on sale of property and equipment	(664)	(8)
Other	210	474
Change in assets and liabilities (excluding businesses acquired):		
Accounts receivable	68,929	32,173
Inventories	(137,635)	(89,327)
Prepaid expenses and other assets	(1,362)	(8,065)
Accounts payable	10,134	35,700
Accrued expenses	(13,393)	(4,422)
Other long-term obligations	1,437	115
Operating lease liabilities	(8,720)	(8,264)
Net cash used by operating activities	(36,115)	(18,022)
Cash flows from investing activities:		
Additions to plant, property and equipment	(14,661)	(9,877)
Payments to acquire companies, net of cash acquired	(80,887)	—
Proceeds from the sale of business	2,400	—
Investments	—	(424)
Other investing activities	(223)	(75)
Net cash used in investing activities	(93,371)	(10,376)
Cash flows from financing activities:		
Repayments of long-term debt	(400,024)	(31)
Proceeds from issuance of long-term debt	500,000	—
Premium paid on extinguishment of debt	(6,124)	—
Repurchase of common stock, including shares surrendered for tax withholding	(871)	(23,054)
Payment of contingent consideration liability	(110)	(77)
Distribution to noncontrolling interest	(478)	—
Payment of financing costs	(8,031)	(869)
Net cash provided (used) by financing activities	84,362	(24,031)
Effect of exchange rate changes on cash and cash equivalents	682	531
Net decrease in cash, cash equivalents and restricted cash	(44,442)	(51,898)
Cash, cash equivalents and restricted cash at beginning of period	666,397	510,701
Cash, cash equivalents and restricted cash at end of period	$ 621,955	$ 458,803
Supplemental information:		
Cash paid for interest	$ 13,180	$ 12,944

See notes to condensed consolidated financial statements.

1. Basis of Presentation

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the “Company” or “Central”) as of December 26, 2020 and December 28, 2019, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive income (loss) for the three months ended December 26, 2020 and December 28, 2019 and the condensed consolidated statements of cash flows for the three months ended December 26, 2020 and December 28, 2019 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 United Kingdom, 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.

Due to the seasonal nature of the Company’s garden business, the results of operations for the three months ended December 26, 2020 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 2020 Annual Report on Form 10-K, which has previously been filed with the Securities and Exchange Commission. The September 26, 2020 balance sheet presented herein was derived from the audited financial statements.

Change in Segment Components

During the first quarter of fiscal year 2021, the Company began reporting the results of its outdoor cushion operations in the Pet segment as a result of a change in internal management reporting lines due to potential synergies in sourcing, manufacturing and innovation and to be consistent with the reporting of financial information used to assess performance and allocate resources. These operations were previously reported in the Garden segment and are now managed and reported in the Pet segment. All prior period segment disclosures have been recast to reflect this segment change.

Noncontrolling Interest

Noncontrolling interest in the Company’s condensed consolidated financial statements represents the 20% interest not owned by Central in a consolidated subsidiary. Since the Company controls this subsidiary, its financial statements are consolidated with those of the Company, and the noncontrolling owner’s 20% share of the subsidiary’s net assets and results of operations is deducted and reported as noncontrolling interest on the consolidated balance sheets and as net income (loss) attributable to noncontrolling interest in the consolidated statements of operations. See Note 9, Supplemental Equity Information, for additional information.

Cash, Cash Equivalents and Restricted Cash

The Company considers cash and all highly liquid investments with an original maturity of three months or less at date of purchase to be cash and cash equivalents. Restricted cash includes cash and highly liquid instruments that are used as collateral for stand-alone letter of credit agreements related to normal business transactions. These agreements require the Company to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash the Company has available for other uses. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets to the condensed consolidated statements of cash flows as of December 26, 2020, December 28, 2019 and September 26, 2020, respectively.

	December 26, 2020	December 28, 2019	September 26, 2020
		(in thousands)	
Cash and cash equivalents	$ 608,285	$ 445,813	$ 652,712
Restricted cash	13,670	12,990	13,685
Total cash, cash equivalents and restricted cash	$ 621,955	$ 458,803	$ 666,397

Allowance for Credit Losses and Customer Allowances

The Company’s trade accounts receivable are recorded at net realizable value, which includes an allowance for estimated credit losses, as well as allowances for contractual customer deductions accounted for as variable consideration. Under the guidance found in ASC Topic 326, the “expected credit loss” model replaces the previous incurred loss model and requires consideration of a broader range of information to estimate expected credit losses over the lives of the Company's trade accounts receivable. The Company's prior methodology for estimating credit losses on its trade accounts receivable did not differ significantly from the new requirements of Topic 326.

The Company maintains an allowance for credit losses related to its trade accounts receivable for future expected credit losses for the inability of its customers to make required payments. The Company estimates the allowance based upon historical bad debts, current customer receivable balances and the customer's financial condition. The allowance is adjusted to reflect changes in current and forecasted macroeconomic conditions. The Company's estimate of credit losses includes expected current and future economic and market conditions surrounding the COVID-19 pandemic, which did not significantly impact its allowance.

Revenue Recognition

Revenue Recognition and Nature of Products and Services

The Company manufactures, markets and distributes a wide variety of branded, private label and third-party pet and garden products to wholesalers, distributors and retailers, primarily in the United States. The majority of the Company's revenue is generated from the sale of finished pet and garden products. The Company also recognizes a minor amount of non-product revenue (less than 1% of consolidated net sales) from third-party logistics services, merchandising services and royalty income from sales-based licensing arrangements. Product and non-product revenue is recognized when performance obligations under the terms of the contracts with customers are satisfied. The Company recognizes product revenue when control over the finished goods transfers to its customers, which generally occurs upon shipment to, or receipt at, customers' locations, as determined by the specific terms of the contract. These revenue arrangements generally have single performance obligations. Non-product revenue is recognized as the services are provided to the customer in the case of third-party logistics services and merchandising services, or as third-party licensee sales occur for royalty income. Revenue, which includes shipping and handling charges billed to the customer, is reported net of variable consideration and consideration payable to our customers, including applicable discounts, returns, allowances, trade promotion, unsaleable product, consumer coupon redemption and rebates. Shipping and handling costs that occur before the customer obtains control of the goods are deemed to be fulfillment activities and are accounted for as fulfillment costs.

Key sales terms are established on a frequent basis such that most customer arrangements and related incentives have a one year or shorter duration. As such, the Company does not capitalize contract inception costs. Product fulfillment costs are capitalized as a part of inventoriable costs in accordance with our inventory policies. The Company generally does not have unbilled receivables at the end of a period. Deferred revenues are not material and primarily include advance payments for services that have yet to be rendered. The Company does not receive noncash consideration for the sale of goods. Amounts billed and due from our customers are classified as receivables and require payment on a short-term basis; therefore, the Company does not have any significant financing components.

Sales Incentives and Other Promotional Programs

The Company routinely offers sales incentives and discounts through various regional and national programs to our customers and consumers. These programs include product discounts or allowances, product rebates, product returns, one-time or ongoing trade-promotion programs with customers and consumer coupon programs that require the Company to estimate and accrue the expected costs of such programs. The costs associated with these activities are accounted for as reductions to the transaction price of the Company's products and are, therefore, recorded as reductions to gross sales at the time of sale. The Company bases its estimates of incentive costs on historical trend experience with similar programs, actual incentive terms per customer contractual obligations and expected levels of performance of trade promotions, utilizing customer and sales organization inputs. The Company maintains liabilities at the end of each period for the estimated incentive costs incurred but unpaid for these programs. Differences between estimated and actual incentive costs are generally not material and are recognized in earnings in the period such differences are determined. Reserves for product returns, accrued rebates and promotional accruals are included in the condensed consolidated balance sheets as part of accrued expenses, and the value of inventory associated with reserves for sales returns is included within prepaid expenses and other current assets on the condensed consolidated balance sheets.

Leases

The Company determines whether an arrangement contains a lease at inception by determining if the contract conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration and other facts and circumstances. Long-term operating lease right-of-use ("ROU") assets and current and long-term operating lease liabilities are presented separately in the condensed consolidated balance sheets. Finance lease ROU assets are presented in property, plant and equipment, net, and the related finance liabilities are presented with current and long-term debt in the condensed consolidated balance sheets.

Lease ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets are calculated based on the lease liability adjusted for any lease payments paid to the lessor at or before the commencement date and excludes any lease incentives received from the lessor. Lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. As the Company's leases typically do not contain a readily determinable implicit rate, the Company determines the present value of the lease liability using its incremental borrowing rate at the lease commencement date based on the lease term on a collateralized basis. Variable lease payments are expensed as incurred and include certain non-lease components, such as maintenance and other services provided by the lessor, and other charges included in the lease, as applicable. Non-lease components and the lease components to which they relate are accounted for as a single lease component, as the Company has elected to combine lease and non-lease components for all classes of underlying assets.

Amortization of ROU lease assets is calculated on a straight-line basis over the lease term with the expense recorded in cost of sales or selling, general and administrative expenses, depending on the nature of the leased item. Interest expense is recorded over the lease term and is recorded in interest expense (based on a front-loaded interest expense pattern) for finance leases and is recorded in cost of sales or selling, general and administrative expenses (on a straight-line basis) for operating leases. All operating lease cash payments and interest on finance leases are recorded within cash flows from operating activities and all finance lease principal payments are recorded within cash flows from financing activities in the condensed consolidated statements of cash flows.

Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, which changes the impairment model for most financial assets to require measurement and recognition of expected credit losses for financial assets measured at amortized cost, including trade receivables. The model replaces the probable, incurred loss model for those assets and broadens the information an entity must consider when developing its expected credit loss estimate for assets measured at amortized cost. The Company adopted the standard as of September 27, 2020, and the adoption did not have a material impact on the Company's condensed consolidated financial statements and related disclosures. Additionally, there have been no significant changes to the Company's accounting policies as disclosed in the Company's fiscal 2020 Form 10-K as a result of the adoption of this new accounting guidance.

Goodwill and Intangible Assets

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Company adopted this standard as of September 27, 2020 on a prospective basis, and the adoption of this standard did not have a material impact on its condensed consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment.* The new guidance simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The Company adopted this guidance as of September 27, 2020 on a prospective basis. Based on the Company's most recent annual goodwill impairment test performed as of July 1, 2020, there were no reporting units for which the carrying amount of the reporting unit exceeded its fair value; therefore, the adoption of this ASU did not have an impact on the Company's condensed consolidated financial statements and related disclosures.

Fair Value Disclosures

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.* This ASU modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. The Company adopted this standard as of September 27, 2020, and the adoption did not have a material impact on its condensed consolidated financial statements and related disclosures.

Accounting Standards Not Yet Adopted

Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, *Simplifying the Accounting for Income Taxes*, which eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating taxes during the quarters and the recognition of deferred tax liabilities for outside basis differences. This guidance also simplifies aspects of the accounting for franchise taxes, enacts changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for the Company in its first quarter of fiscal 2022 and would require the Company to recognize a cumulative effect adjustment to the opening balance of retained earnings, if applicable. The Company is currently evaluating the impact that ASU 2019-12 may have on its condensed consolidated financial statements.

2. Fair Value Measurements

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis based upon the level within the fair value hierarchy in which the fair value measurements fall, as of December 26, 2020:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Liabilities:				
Liability for contingent consideration (a)	$ —	$ —	$ 1,227	$ 1,227
Total liabilities	$ —	$ —	$ 1,227	$ 1,227

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 28, 2019:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Liabilities:				
Liability for contingent consideration (a)	$ —	$ —	$ 1,323	$ 1,323
Total liabilities	$ —	$ —	$ 1,323	$ 1,323

The following table presents our financial assets and liabilities at fair value on a recurring basis based upon the level within the fair value hierarchy in which the fair value measurements fall, as of September 26, 2020:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Liabilities:				
Liability for contingent consideration (a)	$ —	$ —	$ 1,369	$ 1,369
Total liabilities	$ —	$ —	$ 1,369	$ 1,369

(a) The fair values of the Company's contingent consideration liabilities from previous business acquisitions are considered "Level 3" measurements because the Company uses various estimates in the valuation models to project timing and amount of future contingent payments. The liability for contingent consideration relates to an earn-out for B2E, acquired in December 2012, future performance-based contingent payments for Hydro-Organics Wholesale, Inc., acquired in October 2015 and future performance-based contingent payments for Segrest, Inc., acquired in October 2016. In December 2019, performance-based criteria associated with the $6 million contingent consideration liability related to Segrest, Inc. were met and accordingly, the entire amount was released out of an independent escrow account to the former owners as of December 28, 2019. 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 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 26, 2020 and December 28, 2019:

	Amount
	(in thousands)
Balance September 26, 2020	$ 1,369
Estimated contingent performance-based consideration established at the time of acquisition	—
Changes in the fair value of contingent performance-based payments established at the time of acquisition	(32)
Performance-based payments	(110)
Balance December 26, 2020	$ 1,227

	Amount
	(in thousands)
Balance September 28, 2019	$ 7,369
Estimated contingent performance-based consideration established at the time of acquisition	—
Changes in the fair value of contingent performance-based payments established at the time of acquisition	31
Performance-based payments	(6,077)
Balance December 28, 2019	$ 1,323

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

The Company measures certain non-financial assets and liabilities, including long-lived assets, goodwill and intangible assets, at fair value on a non-recurring basis. Fair value measurements of non-financial assets and non-financial liabilities are used primarily in the impairment analyses of long-lived assets, goodwill and other intangible assets. During the periods ended December 26, 2020 and December 28, 2019, the Company was not required to measure any significant non-financial assets and liabilities at fair value.

Fair Value of Other Financial Instruments

In October 2020, the Company issued $ 500 million aggregate principal amount of 4.125% senior notes due October 2030 (the "2030 Notes"). The estimated fair value of the Company's 2030 Notes as of December 26, 2020 was $522.1 million, compared to a carrying value of $ 492.1 million.

In December 2017, the Company issued $ 300 million aggregate principal amount of 5.125% senior notes due February 2028 (the "2028 Notes"). The estimated fair value of the Company's 2028 Notes as of December 26, 2020, December 28, 2019 and September 26, 2020 was $318.1 million, $312.2 million and $316.0 million, respectively, compared to a carrying value of $ 296.7 million, $296.2 million and $296.6 million, respectively.

In November 2020, the Company redeemed $400 million aggregate principal amount of 6.125% senior notes due November 2023 (the "2023 Notes") at a price of 101.531%. The estimated fair value of the Company's 2023 Notes as of December 28, 2019 and September 26, 2020 was $413.8 million and $409.2 million, respectively, compared to a carrying value of $397.0 million and $397.5 million, respectively.

The estimated fair value is based on quoted market prices for these notes, which are Level 1 inputs within the fair value hierarchy.

3. Acquisitions and Divestitures

Acquisition

DoMyOwn

In December 2020, the Company acquired DoMyOwn, a leading online retailer of professional-grade control products in the United States, for approximately $83 million. The acquisition strengthens the Company's position in the control products category and adds a leading online platform for eCommerce fulfillment and digital capabilities. The Company has not yet finalized the allocation of the purchase price to the fair value of the tangible assets, intangible assets and liabilities acquired. Approximately $80 million of the purchase price remains unallocated, and is included in other assets on the Company's condensed consolidated balance sheet as of December 26, 2020. The financial results of DoMyOwn have been included in the results of operations within the Garden segment since the date of acquisition.

Divestiture

Breeder's Choice

In December 2020, the Company completed the sale of certain assets of its Breeder's Choice business unit. Prior to the sale of Breeder's Choice assets, the Company recognized the financial results of the business unit in its Pet Segment. The Company received cash proceeds of $2.4 million and sold approximately $4.7 million of current and long-term net assets. The Company recognized a loss on the sale of the Breeder's Choice business unit of approximately $2.6 million during the three months ended December 26, 2020 as part of selling, general and administrative expenses in the Company's condensed consolidated statement of operations.

4. Inventories, net

Inventories, net of allowance for obsolescence, consist of the following:

	December 26, 2020	December 28, 2019	September 26, 2020
		(in thousands)	
Raw materials	$ 167,135	$ 156,464	$ 152,692
Work in progress	58,175	68,489	49,312
Finished goods	335,086	314,213	218,847
Supplies	14,482	17,313	18,764
Total inventories, net	$ 574,878	$ 556,479	$ 439,615

5. Goodwill

The Company tests goodwill for impairment annually (as of the first day of the fourth fiscal quarter), 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, by first assessing qualitative factors to determine whether it is more likely than not the fair value of the reporting unit is less than its carrying amount. If it is determined that it is more likely than not the fair value of the reporting unit is greater than its carrying amount, it is unnecessary to perform the quantitative goodwill impairment test. If it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the quantitative test is performed to identify potential goodwill impairment. Based on certain circumstances, the Company may elect to bypass the qualitative assessment and proceed directly to performing the quantitative goodwill impairment test, which compares the fair value of the Company's reporting units to their related carrying values, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the Company will recognize an impairment loss in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The Company's goodwill impairment analysis also includes a comparison of the aggregate estimated fair value of its two reporting units to the Company's total market capitalization. No impairment of goodwill was recorded for the three months ended December 26, 2020 and December 28, 2019. The Company recorded approximately $3.8 million of goodwill in its Pet segment during the three months ended December 28, 2019 as part of its finalization of the allocation of the purchase price paid for C&S Products.

6. Other Intangible Assets

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

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
	(in millions)			
December 26, 2020				
Marketing-related intangible assets – amortizable	$ 20.6	$ (17.8)	$ —	$ 2.8
Marketing-related intangible assets – nonamortizable	70.6	—	(26.0)	44.6
Total	91.2	(17.8)	(26.0)	47.4
Customer-related intangible assets – amortizable	140.3	(66.8)	(2.5)	71.0
Other acquired intangible assets – amortizable	26.0	(18.7)	—	7.3
Other acquired intangible assets – nonamortizable	7.1	—	(1.2)	5.9
Total	33.1	(18.7)	(1.2)	13.2
Total other intangible assets	$ 264.6	$ (103.3)	$ (29.8)	$ 131.6

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
	(in millions)			
December 28, 2019				
Marketing-related intangible assets – amortizable	$ 20.6	$ (16.8)	$ —	$ 3.8
Marketing-related intangible assets – nonamortizable	70.6	—	(26.0)	44.6
Total	91.2	(16.8)	(26.0)	48.4
Customer-related intangible assets – amortizable	140.3	(56.0)	(2.5)	81.8
Other acquired intangible assets – amortizable	26.0	(16.9)	—	9.1
Other acquired intangible assets – nonamortizable	7.1	—	(1.2)	5.9
Total	33.1	(16.9)	(1.2)	15.0
Total other intangible assets	$ 264.6	$ (89.7)	$ (29.7)	$ 145.2

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
	(in millions)			
September 26, 2020				
Marketing-related intangible assets – amortizable	$ 20.6	$ (17.6)	$ —	$ 3.0
Marketing-related intangible assets – nonamortizable	70.6	—	(26.0)	44.6
Total	91.2	(17.6)	(26.0)	47.6
Customer-related intangible assets – amortizable	140.3	(64.1)	(2.5)	73.7
Other acquired intangible assets – amortizable	26.0	(18.2)	—	7.8
Other acquired intangible assets – nonamortizable	7.1	—	(1.2)	5.9
Total	33.1	(18.2)	(1.2)	13.6
Total other intangible assets	$ 264.6	$ (99.9)	$ (29.8)	$ 134.9

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

As part of its acquisition of C&S Products in the third quarter of fiscal 2019, the Company acquired approximately $ 0.9 million of amortizable marketing-related intangible assets and approximately $1.9 million of customer-related 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. Factors indicating the carrying value of the Company's amortizable intangible assets may not be recoverable were not present in the three months ended December 26, 2020, and accordingly, no impairment testing was performed on these assets.

The Company amortizes its acquired intangible assets with definite lives over periods ranging from three years to 25 years; over weighted average remaining lives of three years for marketing-related intangibles, eight years for customer-related intangibles and 10 years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately $3.4 million and $3.8 million for the three months ended December 26, 2020 and December 28, 2019, respectively, and is classified within selling, general and administrative 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 $12 million per year from fiscal 2021 through fiscal 2025 and thereafter.

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7. Leases

The Company has operating and finance leases for manufacturing and distribution facilities, vehicles, equipment and office space. The Company's leases have remaining lease terms of one to 10 years, inclusive of renewal or termination options that the Company is reasonably certain to exercise. The Company does not include significant restrictions or covenants in its lease agreements, and residual value guarantees are not included within its operating leases. Some of the Company's leasing arrangements require variable payments that are dependent on usage or output or may vary for other reasons, such as product costs, insurance and tax payments. These variable payments are not included in the Company's recorded lease assets and liabilities and are expensed as incurred. Certain leases are tied to a variable index or rate and are included in lease assets and liabilities based on the indices or rates as of lease commencement. See Note 1. Basis of Presentation, Leases, for more information about the Company's lease accounting policies.

Supplemental balance sheet information related to the Company's leases was as follows:

	Balance Sheet Classification	As of December 26, 2020	As of December 28, 2019
		(in millions)	
Operating leases			
Right-of-use assets	Operating lease right-of-use assets	$ 115.8	$ 105.3
Current lease liabilities	Current operating lease liabilities	$ 34.8	$ 34.3
Non-current lease liabilities	Long-term operating lease liabilities	85.7	75.3
Total operating lease liabilities		$ 120.5	$ 109.6
Finance leases			
Right-of-use assets	Property, plant and equipment, net	$ 0.3	$ 0.4
Current lease liabilities	Current portion of long-term debt	$ 0.1	$ 0.1
Non-current lease liabilities	Long-term debt	0.1	0.2
Total finance lease liabilities		$ 0.2	$ 0.3

Components of lease cost were as follows:

	Three months ended December 26, 2020	Three months ended December 28, 2019
	(in millions)	
Operating lease cost	$ 10.0	$ 9.6
Finance lease cost:		
Amortization of right-of-use assets	$ —	$ —
Interest on lease liabilities	—	—
Total finance lease cost	$ —	$ —
Short-term lease cost	$ 0.9	$ 0.7
Variable lease cost	$ 2.2	$ 0.9
Total lease cost	$ 13.1	$ 11.2

Supplemental cash flow information and non-cash activity related to the Company's leases was as follows:

	Three Months Ended December 26, 2020	Three months ended December 28, 2019
	(in millions)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 8.7	$ 8.6
Operating cash flows from finance leases	$ —	$ —
Financing cash flows from finance leases	$ —	$ —
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 9.3	$ 2.5
Finance leases	$ —	$ —

Weighted-average remaining lease term and discount rate for the Company's leases were as follows:

	As of December 26, 2020	As of December 28, 2019
Weighted-average remaining lease term (in years):		
Operating leases	4.7	4.9
Finance leases	1.8	2.6
Weighted-average discount rate:		
Operating leases	3.16 %	3.88 %
Finance leases	4.81 %	4.86 %

Future non-cancelable lease payments are as follows:

Fiscal Year	As of December 26, 2020 Operating Leases	Finance Leases
	(in millions)	
2021 (remaining nine months)	$ 37.7	$ 0.1
2022	30.4	0.1
2023	19.7	—
2024	15.4	—
2025	11.9	—
Thereafter	15.2	—
Total future undiscounted lease payments	$ 130.3	$ 0.2
Less imputed interest	(9.8)	—
Total reported lease liability	$ 120.5	$ 0.2

8. Long-Term Debt

Long-term debt consists of the following:

	December 26, 2020	December 28, 2019	September 26, 2020
		(in thousands)	
Senior notes, interest at 6.125%, payable semi-annually, principal due November 2023	$ —	$ 400,000	$ 400,000
Senior notes, interest at 5.125%, payable semi-annually, principal due February 2028	300,000	300,000	300,000
Senior notes, interest at 4.125%, payable semi-annually, principal due October 2030	500,000	—	—
Unamortized debt issuance costs	(11,153)	(6,841)	(6,142)
Net carrying value	788,847	693,159	693,858
Asset-based revolving credit facility, interest at LIBOR plus a margin of 1.00% to 1.50% or Base Rate plus a margin of 0.0% to 0.50%, final maturity September 2024.	—	—	—
Other notes payable	171	277	195
Total	789,018	693,436	694,053
Less current portion	(97)	(107)	(97)
Long-term portion	$ 788,921	$ 693,329	$ 693,956

Senior Notes

Issuance of $500 million 4.125% Senior Notes due 2030 and Redemption of $ 400 million 6.125% Senior Notes due 2023

In October 2020, the Company issued $ 500 million aggregate principal amount of 4.125% senior notes due October 2030 (the "2030 Notes"). In November 2020, the Company used a portion of the net proceeds to redeem all of its outstanding 6.125% senior notes due November 2023 (the "2023 Notes") at a redemption price of 101.531% plus accrued and unpaid interest, and to pay related fees and expenses, with the remainder for general corporate purposes.

The Company incurred approximately $8.0 million of debt issuance costs associated with this transaction, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs are being amortized over the term of the 2030 Notes.

As a result of the Company's redemption of the 2023 Notes, the Company incurred a call premium payment of $ 6.1 million, overlapping interest expense for 30 days of approximately $1.4 million and a $2.5 million non-cash charge for the write-off of unamortized deferred financing costs related to the 2023 Notes. These amounts are included in interest expense in the condensed consolidated statements of operations.

The 2030 Notes require semiannual interest payments on October 15 and April 15, commencing April 15, 2021. The 2030 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 or guarantee Central's other debt.

The Company may redeem some or all of the 2030 Notes at any time, at its option, prior to October 15, 2025 at a price equal to 100% of the principal amount plus a “make-whole” premium. Prior to October 15, 2023, the Company may redeem up to 40% of the original aggregate principal amount of the notes with the proceeds of certain equity offerings at a redemption price of 104.125% of the principal amount of the notes. The Company may redeem some or all of the 2030 Notes, at its option, in whole or in part, at any time on or after October 15, 2025 for 102.063%, on or after October 15, 2026 for 101.375%, on or after October 15, 2027 for 100.688% and on or after October 15, 2028 for 100.0%, plus accrued and unpaid interest.

The holders of the 2030 Notes have the right to require the Company to repurchase all or a portion of the 2030 Notes at a purchase price equal to 101.0% of the principal amount of the notes repurchased, plus accrued and unpaid interest upon the occurrence of a change of control.

The 2030 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions. The Company was in compliance with all financial covenants as of December 26, 2020.

$300 million 5.125% Senior Notes due 2028

On December 14, 2017, the Company issued $ 300 million aggregate principal amount of 5.125% senior notes due February 2028 (the "2028 Notes"). The Company used the net proceeds from the offering to finance acquisitions and for general corporate purposes.

The Company incurred approximately $ 4.8 million of debt issuance costs in conjunction with this transaction, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs are being amortized over the term of the 2028 Notes.

The 2028 Notes require semiannual interest payments on February 1 and August 1. The 2028 Notes are unconditionally guaranteed on a senior basis by the Company's existing and future domestic restricted subsidiaries which are borrowers under or guarantors of Central's senior secured revolving credit facility, or which guarantee Central's other debt.

The Company may redeem some or all of the 2028 Notes at any time, at its option, prior to January 1, 2023 at the principal amount plus a “make whole” premium. The Company may redeem some or all of the 2028 Notes, at its option, at any time on or after January 1, 2023 for 102.563%, on or after January 1, 2024 for 101.708%, on or after January 1, 2025 for 100.854%, and on or after January 1, 2026 for 100.0%, plus accrued and unpaid interest.

The holders of the 2028 Notes have the right to require the Company to repurchase all or a portion of the 2028 Notes at a purchase price equal to 101.0% of the principal amount of the notes repurchased, plus accrued and unpaid interest upon the occurrence of a change of control.

The 2028 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions. The Company was in compliance with all financial covenants as of December 26, 2020.

Asset-Based Loan Facility Amendment

On September 27, 2019, the Company entered into a Second Amended and Restated Credit Agreement (“Amended Credit Agreement”). The Amended Credit Agreement amended and restated the previous credit agreement dated April 22, 2016 and continues to provide 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, as defined, if the Company exercises the accordion feature set forth therein (collectively, the “Amended Credit Facility”). The Amended Credit Facility matures on September 27, 2024. 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.

The Amended Credit Facility is subject to a borrowing base that is calculated using a formula initially based upon eligible receivables and inventory minus certain reserves and adjustments. The Amended Credit Facility also allows the Company to add real property to the borrowing base so long as the real property is subject to a first priority lien in favor of the Administrative Agent for the benefit of the Lenders. Net availability under the Amended Credit Facility was $400 million as of December 26, 2020. The Amended Credit Facility includes a $50 million sublimit for the issuance of standby letters of credit and a $ 40 million sublimit for short-notice borrowings. As of December 26, 2020, there were no borrowings outstanding and no letters of credit outstanding under the Credit Facility. There were other letters of credit of $2.4 million outstanding as of December 26, 2020.

Borrowings under the Amended Credit Facility will bear interest at an index based on LIBOR or, at the option of the Company, the Base Rate, plus, in either case, an applicable margin based on the Company's usage under the credit facility. Base Rate is defined as the highest of (a) the SunTrust prime rate, (b) the Federal Funds Rate plus 0.50%, (c) one-month LIBOR plus 1.00%) and (d) 0.00%. The applicable margin for LIBOR-based borrowings fluctuates between 1.00%-1.50%, and was 1.00% as of December 26, 2020, and such applicable margin for Base Rate borrowings fluctuates between 0.00%-0.50%, and was 0% as of December 26, 2020. An unused line fee shall be payable monthly in respect of the total amount of the unutilized Lenders’ commitments and short-notice borrowings under the Amended Credit Facility. Letter of credit fees at the applicable margin on the average undrawn and unreimbursed amount of letters of credit shall be payable monthly and a facing fee of 0.125% shall be paid on demand for the stated amount of each letter of credit. The Company is also required to pay certain fees to the administrative agent under the Amended Credit Facility. As of December 26, 2020, the applicable interest rate related to Base Rate borrowings was 3.3%, and the applicable interest rate related to one-month LIBOR-based borrowings was 1.1%.

Banks currently reporting information used to set LIBOR will stop doing so after 2021. Various parties, including government agencies, are seeking to identify an alternative rate to replace LIBOR. The Company is monitoring their efforts, and it will likely amend contracts to accommodate any replacement rate where it is not already provided. The Company's Amended Credit Facility already anticipates the potential loss of LIBOR and defines procedures for establishing a replacement rate.

The Company incurred approximately $1.6 million of debt issuance costs in conjunction with this transaction, which included underwriter fees and legal expenses. The debt issuance costs are being amortized over the term of the Amended Credit Facility.

The Amended Credit Facility continues to contain customary covenants, including financial covenants which require the Company to maintain a minimum fixed charge coverage ratio of 1.00:1.00 upon triggered quarterly testing (e.g. when availability falls below certain thresholds established in the agreement), reporting requirements and events of default. The Amended Credit Facility is secured by substantially all assets of the borrowing parties. The Company was in compliance with all financial covenants under the Amended Credit Facility during the period ended December 26, 2020.

9. Supplemental Equity Information

The following table provides a summary of the changes in the carrying amounts of equity attributable to controlling interest and noncontrolling interest through the three months ended December 26, 2020 and December 28, 2019.

	Controlling Interest								
	Common Stock	Class A Common Stock	Class B Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Noncontrolling Interest	Total
					(in thousands)				
Balance September 26, 2020	$ 113	$ 419	$ 16	$ 566,883	$ 510,781	$ (1,409)	$ 1,076,803	$ 871	$ 1,077,674
Comprehensive income	—	—	—	—	5,613	377	5,990	29	6,019
Amortization of share-based awards	—	—	—	3,225	—	—	3,225	—	3,225
Restricted share activity, including net share settlement	—	3	—	(364)	—	—	(361)	—	(361)
Distribution to Noncontrolling interest	—	—	—	—	—	—	—	(478)	(478)
Issuance of common stock, including net share settlement of stock options	—	—	—	934	—	—	934	—	934
Balance December 26, 2020	$ 113	$ 422	$ 16	$ 570,678	$ 516,394	$ (1,032)	$ 1,086,591	$ 422	$ 1,087,013

	Controlling Interest								
	Common Stock	Class A Common Stock	Class B Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Noncontrolling Interest	Total
					(in thousands)				
Balance September 28, 2019	$ 115	$ 430	$ 16	$ 575,380	$ 421,742	$ (1,676)	$ 996,007	$ 170	$ 996,177
Comprehensive income	—	—	—	—	(4,417)	436	(3,981)	(122)	(4,103)
Amortization of share-based awards	—	—	—	2,804	—	—	2,804	—	2,804
Restricted share activity, including net share settlement	—	—	—	(318)	—	—	(318)	—	(318)
Repurchase of stock		(8)		(8,488)	(13,632)		(22,128)		(22,128)
Issuance of common stock, including net share settlement of stock options	—	1	—	739	—	—	740	—	740
Balance December 28, 2019	$ 115	$ 423	$ 16	$ 570,117	$ 403,693	$ (1,240)	$ 973,124	$ 48	$ 973,172

10. Stock-Based Compensation

The Company recognized share-based compensation expense of $ 4.7 million and $4.2 million for the three months ended December 26, 2020 and December 28, 2019, 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 26, 2020 and December 28, 2019 was $1.1 million and $1.0 million, respectively.

11. Earnings Per Share

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

	Three Months Ended December 26, 2020		
	Income	Shares	Per Share
	(in thousands, except per share amounts)		
Basic EPS:			
Net income available to common shareholders	$ 5,613	53,734	$ 0.10
Effect of dilutive securities:			
Options to purchase common stock	—	414	—
Restricted shares	—	538	—
Diluted EPS:			
Net income available to common shareholders	$ 5,613	54,686	$ 0.10

	Three Months Ended December 28, 2019		
	Income	Shares	Per Share
	(in thousands, except per share amounts)		
Basic EPS:			
Net income available to common shareholders	$ (4,417)	54,755	$ (0.08)
Effect of dilutive securities (1):			
Options to purchase common stock	—	—	—
Restricted shares	—	—	—
Diluted EPS:			
Net income available to common shareholders	$ (4,417)	54,755	$ (0.08)

(1) The potential effects of stock awards were excluded from the diluted earnings per share calculation for the three months ended December 28, 2019, because their inclusion in a net loss period would be anti-dilutive to the earnings per share calculation.

Options to purchase 3.0 million shares of common stock at prices ranging from $ 10.63 to $38.97 per share were outstanding at December 26, 2020, and options to purchase 2.6 million shares of common stock at prices ranging from $ 8.56 to $38.10 per share were outstanding at December 28, 2019.

For the three months ended December 26, 2020 and December 28, 2019, 0.5 million and 1.0 million options outstanding were not included in the computation of diluted earnings per share because the option exercise prices were greater than the average market price of the common shares and therefore, the effect of including these options would be antidilutive.

For the three months ended December 28, 2019, 0.4 million options outstanding and 0.3 million restricted shares were excluded in the diluted earnings per share calculation because their inclusion in a net loss period would be anti-dilutive to the earnings per share calculation.

12. Segment Information

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

During the first quarter of fiscal year 2021, the Company began reporting the results of its outdoor cushion operations in the Pet segment as a result of a change in internal management reporting lines due to potential synergies in sourcing, manufacturing and innovation and to be consistent with the reporting of financial information used to assess performance and allocate resources. These operations were previously reported in the Garden segment and are now managed and reported in the Pet segment. All prior period segment disclosures have been recast to reflect this segment change.

	Three Months Ended	
	December 26, 2020	December 28, 2019
	(in thousands)	
Net sales:		
Pet segment	$ 436,410	$ 366,591
Garden segment	155,820	116,237
Total net sales	$ 592,230	$ 482,828
Operating Income		
Pet segment	43,525	28,737
Garden segment	4,651	(6,883)
Corporate	(21,136)	(19,789)
Total operating income	27,040	2,065
Interest expense - net	(20,769)	(8,637)
Other income	752	305
Income tax expense (benefit)	1,381	(1,728)
Income (loss) including noncontrolling interest	5,642	(4,539)
Net income (loss) attributable to noncontrolling interest	29	(122)
Net income (loss) attributable to Central Garden & Pet Company	$ 5,613	$ (4,417)
Depreciation and amortization:		
Pet segment	$ 9,085	$ 9,072
Garden segment	2,638	2,713
Corporate	1,192	1,355
Total depreciation and amortization	$ 12,915	$ 13,140

	December 26, 2020	December 28, 2019	September 26, 2020
		(in thousands)	
Assets:			
Pet segment	$ 911,787	$ 884,564	$ 877,901
Garden segment	599,097	470,413	481,401
Corporate	935,215	780,180	980,062
Total assets	$ 2,446,099	$ 2,135,157	$ 2,339,364
Goodwill (included in corporate assets above):			
Pet segment	$ 277,067	$ 276,966	$ 277,067
Garden segment	12,888	12,888	12,888
Total goodwill	$ 289,955	$ 289,854	$ 289,955

The tables below presents the Company's disaggregated revenues by segment:

	Three Months Ended December 26, 2020		
	Pet Segment	Garden Segment	Total
		(in millions)	
Other pet products	$ 182.2	$ —	$ 182.2
Dog and cat products	155.5	—	155.5
Other manufacturers' products	98.7	44.0	142.7
Garden controls and fertilizer products	—	29.1	29.1
Other garden supplies	—	82.7	82.7
Total	$ 436.4	$ 155.8	$ 592.2

	Three Months Ended December 28, 2019		
	Pet Segment	Garden Segment	Total
		(in millions)	
Other pet products	$ 150.9	$ —	$ 150.9
Dog and cat products	129.9	—	129.9
Other manufacturers' products	85.8	29.8	115.6
Garden controls and fertilizer products	—	23.1	23.1
Other garden supplies	—	63.3	63.3
Total	$ 366.6	$ 116.2	$ 482.8

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 are likely to have a material effect on the Company's financial position or results of operations with the potential exception of the proceeding below.

In 2012, Nite Glow Industries, Inc and its owner, Marni Markell, ("Nite Glow") filed suit in the U.S. District Court for New Jersey against the Company alleging that the applicator developed and used by the Company for certain of its branded topical flea and tick products infringes a patent held by Nite Glow and asserted related claims for breach of contract and misappropriation of confidential information based on the terms of a Non-Disclosure Agreement. On June 27, 2018, a jury returned a verdict in favor of Nite Glow on each of the three claims and awarded damages of approximately $ 12.6 million. The court ruled on post-trial motions in early June 2020, reducing the judgment amount to $12.4 million and denying the plaintiff's request for attorneys' fees. The Company has filed its notice of appeal and the plaintiffs have cross-appealed. The Company intends to vigorously pursue its rights on appeal and believes that it will prevail on the merits. While the Company believes that the ultimate resolution of this matter will not have a material impact on the Company's consolidated financial statements, the outcome of litigation is inherently uncertain and the final resolution of this matter may result in expense to the Company in excess of management's expectations.

During fiscal 2013, the Company received notices from several states stating that they have appointed an agent to conduct an examination of the books and records of the Company to determine whether it has complied with state unclaimed property laws. In addition to seeking unclaimed property subject to escheat laws, the states may seek interest, penalties and other relief. The examinations are continuing; however, the ultimate resolution and impact on the Company's consolidated financial statements is uncertain.

In November 2019, the DMC business unit in the Company's Pet Segment experienced a fire in one of its leased properties located in Athens, Texas, which resulted in inventory, property-related and business interruption losses in the estimated range of $35 million to $40 million. In April 2020, DMC experienced an additional fire in the same leased property in Athens, Texas, which resulted in inventory and property-related losses estimated to be approximately $10 million.

As of December 26, 2020, the Company had approximately $ 10 million of cost in excess of insurance proceeds related to these losses recorded on its balance sheet. The Company currently believes its insurance coverage is sufficient to cover the remaining asset-related losses as well as the business interruption loss associated with this event.

The Company has experienced, and may in the future experience, issues with products that may lead to product liability, recalls, withdrawals, replacements of products, or regulatory actions by governmental authorities. The Company has not experienced recent issues with products, the resolution of which management believes would have a material effect on the Company's financial position or results of operations.

14. Subsequent Events

On December 31, 2020, the Company purchased substantially all of the assets of Hopewell Nursery, a leading live goods wholesale grower serving retail nurseries, landscape contractors, wholesalers and garden centers across the Northeast, for approximately $81 million. The addition of Hopewell to the Central portfolio strengthens the Company's position as a leading live goods provider in the garden category.

On December 30, 2020, the Company entered into a definitive agreement to acquire Green Garden Products, a leading provider of vegetable, herb and flower seed packets, seed starters and plant nutrients in North America, for approximately $532 million. The acquisition is expected to be consummated in February 2021. The addition of Green Garden Products is intended to expand the Company's portfolio into an adjacent garden category.

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

Our Company

Central Garden & Pet Company ("Central") is a leading innovator, producer and distributor of branded and private label products for the lawn & garden and pet supplies markets in the United States. Founded initially as a distribution company, we grew our business through a succession of over 50 acquisitions and created a broad portfolio which allows for economies of scale and market advantages.

Our pet supplies include products for dogs and cats like premium edible chews and treats, dog chew toys, dog play toys, natural dog treats and chews, pet dental chews and solutions, dog training pads, pet containment, 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, products for horses and livestock, as well as outdoor cushions and pillows. These products are sold under the brands including Aqueon®, Cadet®, Comfort Zone®, Farnam®, Four Paws®, Kaytee®, K&H Pet Products®, Nylabone®, and Zilla® as well as a number of other brands including Adams™, Altosid®, Arden Companies™, Coralife®, C&S Products®, Interpet®, Pet Select®, TFH™, 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, and other herbicides, insecticide and pesticide products; fertilizers; and decorative outdoor lifestyle products including pottery, as well as live plants. These products are sold under the brands AMDRO®, Ironite®, Pennington®, and Sevin®, as well as a number of other brand names including Bell Nursery, Lilly Miller® and Over-N-Out®.

In fiscal 2020, our consolidated net sales were $2.7 billion, of which our Pet segment, or Pet, accounted for approximately $1.6 billion and our Garden segment, or Garden, accounted for approximately $1.1 billion. In fiscal 2020, our operating income was $198 million consisting of income from our Pet segment of $154 million, income from our Garden segment of $133 million and corporate expenses of $89 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 quarterly report.

Recent Developments

Fiscal 2021 First Quarter Financial Performance:

- Net sales increased $109.4 million, or 22.7%, from the prior year quarter to $592.2 million due to an increase in organic sales. Pet segment sales increased $69.8 million, and Garden segment sales increased $39.6 million.
- Organic net sales increased 23.0%, including 19.6% in our Pet segment and 33.8% in our Garden segment.
- Gross profit increased $34.1 million from the prior year quarter, and gross margin increased 70 basis points to 27.9%.
- Selling, general and administrative expense increased $9.2 million from the prior year quarter to $138.4 million, but declined as a percentage of net sales 340 basis points to 23.4%.
- Operating income increased $25.0 million from the prior year quarter, to $27.0 million.
- Net income in the first quarter of fiscal 2021 was $5.6 million, or $0.10 per diluted share, compared to a net loss of $4.4 million, or $0.08 loss per diluted share, in the first quarter of fiscal 2020.

Financing

In October 2020, we issued $500 million aggregate principal amount of 4.125% senior notes due October 2030. We used a portion of the proceeds to redeem all of our outstanding 6.125% senior notes due 2023 at a redemption price of 101.531% plus accrued and unpaid interest, and to pay related fees and expenses, with the remainder available for general corporate purposes. As a result of our redemption of the 2023 Notes, we recognized incremental expenses in our fiscal 2021 first quarter of approximately $10 million related to the payment of the call premium, the payment of overlapping interest expense between the issuance of the 2030 Notes and redemption of the 2023 Notes and a non-cash charge for the write-off of unamortized financing costs, which are included in interest expense.

Acquisition

On December 18, 2020, we acquired DoMyOwn, a leading, fast-growing online retailer of professional-grade control products, for approximately $83 million. The acquisition strengthens our position in the control products category and adds a leading online platform for eCommerce fulfillment and digital capabilities.

Divestiture

In December 2020, we sold our Breeder's Choice business unit, a manufacturer of branded and private label pet food, after concluding it was not a strategic business for our Pet segment. We recognized a loss on the sale of approximately $2.6 million in the quarter ended December 26, 2020, which is included in selling, general and administrative expense. The business represented approximately $28 million in revenue in fiscal 2020.

Change in Segment Components

During the first quarter of fiscal year 2021, we began reporting the results of our outdoor cushion operations in the Pet segment as a result of a change in internal management reporting lines due to potential synergies in sourcing, manufacturing and innovation and to be consistent with the reporting of financial information used to assess performance and allocate resources. These operations were previously reported in the Garden segment and are now managed and reported in the Pet segment. All prior period segment disclosures have been recast to reflect this segment change.

COVID-19 Impact

The outbreak of COVID-19 has led to adverse impacts on human health, the global economy and society at large. The impact of COVID-19 and measures to prevent its spread are affecting our business in a number of ways. Central is considered an essential business in most jurisdictions and almost all of our employees continue to work to meet essential needs. We have been actively addressing the COVID-19 situation and its impact on our employees, customers and business.

From the beginning, our priority has been the safety of our employees, customers and consumers. Our employees have prioritized the health and safety of fellow team members while collaborating across our business to ensure we operate as safely and seamlessly as possible in order to provide a steady supply of product to our customers. We have a cross-functional task force to monitor the continually evolving situation to recommend action and mitigation of potential impacts to our people and business. Our facility maintenance of health and safety standards remains paramount.

Our teams have worked hard to do the following:

- Ensure constant communication and regularly share pertinent information around health, safety and benefits;
- Take extra precautions in our manufacturing facilities, distribution centers and offices with guidance from health authorities including social distancing, staggering shifts, procuring necessary personal protection equipment, partitions, sanitation supplies and investing in regular deep cleanings of our facilities;
- Implement travel restrictions and work-from-home policies for employees who have the ability to work from home in accordance with shelter-in-place orders; and
- Adhere to all local, state and federal requirements.

Central has seen varying impacts to our Garden and Pet businesses due to COVID-19. In March and April of 2020, we experienced increased demand in pet consumables due to consumers stocking up on products as the COVID-19 shelter-in-place mandates were implemented. We also saw reduced consumption on other items, such as live fish and live plants, due to in-store curtailments of foot traffic and limited access to outdoor garden departments. In May 2020, many state and county governments began phased re-openings of their local economies and access to outdoor garden departments resulted in increased demand for our products in May and June 2020. Additionally, during shelter-in-place requirements, pet ownership significantly increased and sales continued to increase across our Pet segment portfolio. We also experienced a rapid increase in demand in the eCommerce channel. During July through September 2020, our fiscal 2020 fourth quarter, most of our businesses continued to experience high sales. This same trend continued during October through December 2020, our first quarter of fiscal 2021. The increased demand for our products continues to place challenges on our supply chain and our ability to procure and manufacture enough product to meet the continued high levels of demand.

Our facilities have largely been exempt or partially exempt from government closure orders. We have experienced temporary closures of certain facilities, though there has not been a material impact from a plant closure to date. At some of our facilities, we have experienced reduced productivity and increased employee absences, which we expect to continue during the current pandemic. Recently, new cases of COVID-19 have been on the rise in the United States, and we have seen a similar rise in our employee population. Our manufacturing facilities and distribution centers are currently open and fully operational. We have incurred and will continue to incur additional costs including personal protective equipment and sanitation costs. The pandemic and near-term increase in demand have created operational challenges for our distribution network, although none have had a material impact on our results to date. In our supply chain, it is possible we will continue to experience increased operational and logistics costs, although these did not have a material impact on our first fiscal quarter results. We may also experience additional disruptions in our supply chain as the pandemic continues, although we cannot reasonably estimate the potential impact or timing of those events, and we may not be able to mitigate such impact.

We believe we have sufficient liquidity to satisfy our cash needs with our cash and revolving credit facility as we manage through the current economic and health environment. Our revolving credit facility provides up to a $400 million principal amount with an additional $200 million available with the consent of the lenders. As of December 26, 2020, there were no borrowings outstanding under our revolving credit facility. Additionally, in October 2020, we issued $500 million aggregate principal amount 4.125% senior notes due October 2030 to replace $400 million in senior notes with the remainder available for general corporate purposes.

It is possible many small customers may permanently close, and we may experience collection delinquencies as customers seek to preserve liquidity. Additionally, we have small company equity method investees, intangible assets and other long-lived assets whose value is dependent on cash flow. These investments and other assets could be impacted by the COVID-19 pandemic and, therefore, may be more susceptible to impairment. Management's assessment of possible asset impairment involves numerous assumptions that involve significant judgment. As a result of the uncertainties associated with the COVID-19 pandemic, the shelter-in-place orders and the post-COVID-19 economic recovery, these factors will be even more difficult to estimate. We recorded an impairment charge of $3.6 million in fiscal 2020 and may be required to write off certain assets that could be material in future periods.

While the unfavorable impact of COVID-19 began to adversely affect the performance in certain portions of our business in March and April 2020, thereafter we have continued to see a large increase in demand in most areas of our business. Our net sales increased 22.7% in our first fiscal quarter of 2021 but a few of our businesses continue to experience demand or profitability headwinds, including our pet bedding business. The volatility in demand, changing consumer consumption patterns and uncertainty regarding the duration of shelter-in-place requirements make it difficult to predict when more normal order patterns may return. Forecasting and planning remain challenging in the current environment and will continue to be challenging as the pandemic eases in the future. In the current uncertain environment, our employees, customers and consumers will continue to be our priority as we manage our business to deliver long-term growth.

Subsequent Events

On December 31, 2020, we purchased substantially all of the assets of Hopewell Nursery, a leading live goods wholesale grower serving garden centers, retail nurseries, landscape contractors and wholesalers across the Northeast, for approximately $81 million. The addition of Hopewell to the Central portfolio strengthens our position as a leading live goods provider in the garden segment

On December 30, 2020, we entered into a definitive agreement to acquire Green Garden Products, a leading provider of vegetable, herb and flower seed packets, seed starters and plant nutrients in North America, for approximately $532 million. The acquisition is expected to be consummated in February 2021. The addition of Green Garden Products is intended to expand our garden portfolio into an adjacent category.

Results of Operations

Three Months Ended December 26, 2020
Compared with Three Months Ended December 28, 2019

Net Sales

Net sales for the three months ended December 26, 2020 increased $109.4 million, or 22.7%, to $592.2 million from $482.8 million for the three months ended December 28, 2019. Organic net sales, which exclude the impact of acquisitions and divestitures in the last 12 months, increased $111.0 million, or 23.0%, as compared to the fiscal 2020 quarter. Our branded product sales increased $82.3 million, and sales of other manufacturers’ products increased $27.1 million.

Pet net sales increased $69.8 million, or 19.0%, to $436.4 million for the three months ended December 26, 2020 from $366.6 million for the three months ended December 28, 2019. The increase was broad-based across our entire Pet portfolio. Increased sales in our Pet segment were aided by COVID-19 shelter-in-place restrictions, which have led to increased pet ownership in dog, cat, small animals and reptiles. Organic sales gains were primarily in our dog and cat business, third-party products, wild bird feed and our animal health business. Pet branded product sales increased $56.9 million, and sales of other manufacturers' products increased $12.9 million.

Garden net sales increased $39.6 million, or 34.1%, to $155.8 million for the three months ended December 26, 2020 from $116.2 million for the three months ended December 28, 2019. The increase in net sales in the Garden segment was driven by increased consumer home gardening related to COVID-19 shelter-in-place restrictions, listing gains and favorable fall garden season weather. The increase in net sales was broad-based across our Garden portfolio including volume-based sales increases in third-party products, wild bird feed, grass seed and controls and fertilizers. Garden branded sales increased $25.4 million, and sales of other manufacturers' products increased $14.2 million.

Gross Profit

Gross profit for the three months ended December 26, 2020 increased $34.1 million, or 26.0%, to $165.4 million from $131.3 million for the three months ended December 28, 2019. Gross margin increased 70 basis points to 27.9% for the three months ended December 26, 2020 from 27.2% for the three months ended December 28, 2019. Gross profit and gross margin increased in both operating segments with the consolidated gross margin increase due primarily to the improvement in the Garden segment gross margin.

In the Pet segment, both gross profit and gross margin improved. Gross profit increased due to increased sales and margin improvement. Gross margin improved due primarily to a favorable sales mix, volume-related efficiencies and increased pricing. These improvements were partially offset by increased commodity costs in our wild bird feed business, increased ocean freight costs, which impacted our aquatics and dog bedding businesses and increased labor costs.

In the Garden segment, both gross profit and gross margin increased. Gross profit improved due to the increased sales and gross margin gains. The Garden gross margin improved in most of the Garden business units due primarily to increased sales which leveraged fixed production costs. This impact was especially noteworthy in our live plant and in our grass seed businesses. The increased gross margin was partially offset by a decline in gross margin in our wild bird feed business, which was adversely impacted by increased commodity costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $9.2 million, or 7.1%, to $138.4 million for the three months ended December 26, 2020 from $129.2 million for the three months ended December 28, 2019. Selling, general and administrative expense increased in both operating segments and in corporate. As a percentage of net sales, selling, general and administrative expenses decreased to 23.4% for the three months ended December 26, 2020, compared to 26.8% in the comparable prior year quarter impacted by improved operating leverage and reduced travel and entertainment expense.

Selling and delivery expense increased to $66.4 million for the three months ended December 26, 2020 as compared to $62.6 million in the prior year quarter. The increase was due primarily to increased delivery expense, as a result of increased sales volumes, and increased payroll-related costs. These increases were partially offset by reduced travel and entertainment expense, due to COVID-19 safety measures reducing our in-store merchandising presence and travel in general.

Warehouse and administrative expense increased $5.4 million, or 8.1%, to $72.0 million for the three months ended December 26, 2020 from $66.6 million for the three months ended December 28, 2019. The increase was due primarily to the $2.6 million loss in our Pet segment resulting from the sale of the Breeder’s Choice business. Additionally, both operating segments experienced increased labor and payroll-related expense. Corporate expenses increased $1.3 million due primarily to increased variable compensation, payroll expense and increased M&A expense. 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 $25.0 million to $27.0 million for the three months ended December 26, 2020. The increase in operating income was attributable to increased sales and an improved gross margin partially offset by increased selling, general and administrative expense. Our operating margin increased from 0.4% in the prior year quarter to 4.6% in the current year quarter due to a 70 basis point improvement in gross margin, improved overhead leverage, and a 340 basis point decline in selling, general and administrative expense as a percentage of net sales.

Pet operating income increased $14.8 million, or 51.5%, to $43.5 million for the three months ended December 26, 2020 from $28.7 million for the three months ended December 28, 2019. Pet operating income increased due to increased sales and gross profit partially offset by higher selling, general and administrative expense. Pet operating margin improved 220 basis points due to increased sales, an improved gross margin and lower selling, general and administrative expense as a percentage of net sales.

Garden operating income increased $11.5 million to $4.7 million for the three months ended December 26, 2020 from a $6.9 million loss for the three months ended December 28, 2019. Garden operating income increased due to increased sales and gross profit partially offset by higher selling, general and administrative expense. Garden operating margin improved to 3.0% due to increased sales, an improved gross margin and lower selling, general and administrative expense as a percentage of net sales.

Corporate operating expense increased $1.3 million, or 6.8%, to $21.1 million for the three months ended December 26, 2020 from $19.8 million for the three months ended December 28, 2019. Corporate expense increased due primarily to increased variable compensation, payroll expense and increased M&A expense, but declined as a percentage of net sales.

Net Interest Expense

Net interest expense for the three months ended December 26, 2020 increased $12.2 million, or 140.5%, to $20.8 million from $8.6 million for the three months ended December 28, 2019. In October 2020, we issued $500 million aggregate principal amount of 4.125% senior notes due October 2030 and used the proceeds to redeem all of our outstanding aggregate principal amount 6.125% senior notes due 2023 with the remainder available for general corporate purposes. As a result of our redemption of the 2023 Notes, we recognized incremental interest expense of approximately $10.0 million in the fiscal 2021 quarter. Also contributing to the increase in net interest expense was reduced interest income resulting from lower rates of interest earned on our cash balance during the quarter.

Debt outstanding on December 26, 2020 was $789.0 million compared to $693.4 million at December 28, 2019.

Other Income (Expense)

Other income (expense) is comprised of income or losses from investments accounted for under the equity method of accounting and foreign currency exchange gains and losses. Other income was $0.8 million for the quarter ended December 26, 2020 compared to income of $0.3 million for the quarter ended December 28, 2019, due primarily to increased earnings from investments during the quarter.

Income Taxes

Our effective income tax rate was 19.7% for the quarter ended December 26, 2020 compared to 27.6% for the quarter ended December 28, 2019. Both periods had a similar excess tax benefit from stock compensation (a discrete tax item). The quarter ended December 26, 2020 had pre-tax income and the discrete tax item decreased the tax expense rate while the quarter ended December 28, 2019 had a pre-tax loss and the discrete tax item increased the tax benefit rate in that quarter.

Net Income and Earnings Per Share

Our net income in the first quarter of fiscal 2021 was $5.6 million, or $0.10 per diluted share, compared to a net loss of $4.4 million, or $(0.08) per diluted share, in the first quarter of fiscal 2020.

Use of Non-GAAP Financial Measures

We report our financial results in accordance with accounting principles generally accepted in the United States (GAAP). However, to supplement the financial results prepared in accordance with GAAP, we use non-GAAP financial measures including non-GAAP net income and diluted net income per share, EBITDA and organic sales. 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.

EBITDA is defined by us as income before income tax, net other expense, net interest expense and depreciation and amortization (or operating income plus depreciation and amortization expense). We present EBITDA because we believe that EBITDA is a useful supplemental measure in evaluating the cash flows and performance of our business and provides greater transparency into our results of operations. EBITDA is used by our management to perform such evaluation. EBITDA should not be considered in isolation or as a substitute for cash flow from operations, income from operations or other income statement measures prepared in accordance with GAAP. We believe that EBITDA is frequently used by investors, securities analysts and other interested parties in their evaluation of companies, many of which present EBITDA when reporting their results. Other companies may calculate EBITDA differently and it may not be comparable.

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.

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.

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

- Incremental expenses from note redemption and issuance: we have excluded the impact of the incremental expenses incurred from the note redemption and issuance as they represent an infrequent transaction that occurs in limited circumstances that impacts the comparability between operating periods. We believe the adjustment of these expenses supplements the GAAP information with a measure that may be used to assess the sustainability of our operating performance.
- Loss on sale of business: we have excluded the impact of the loss on the sale of a business as it represents an infrequent transaction that occurs in limited circumstances that impacts the comparability between operating periods. We believe the adjustment of this loss supplements the GAAP information with a measure that may be used to assess the sustainability of our operating performance.

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 2021, we issued $500 million aggregate principal amount of 4.125% senior notes due October 2030. We used the proceeds to redeem all of our outstanding 6.125% senior notes due 2023. As a result of our redemption of the 2023 Notes, we incurred incremental expenses of approximately $10.0 million, comprised of a call premium payment of $6.1 million, overlapping interest expense of approximately $1.4 million and a $2.5 million non-cash charge for the write-off of unamortized financing costs in interest expense. These amounts are included in Interest expense in the consolidated statements of operations.

(2) During the first quarter of fiscal 2021, we recognized a loss of $2.6 million, included in selling, general and administrative expense in the consolidated statement of operations, from the sale of our Breeder’s Choice business unit after concluding it was not a strategic business for our Pet segment.

Net Income and Diluted Net Income Per Share Reconciliation		GAAP to Non-GAAP Reconciliation For the Three Months Ended December 26, 2020	December 28, 2019
		(in thousands, except per share amounts)	
GAAP net income (loss) attributable to Central Garden & Pet Company		$ 5,613	$ (4,417)
Incremental expenses from note redemption and issuance	(1)	9,952	—
Loss on sale of business	(2)	2,611	—
Tax effect of incremental expenses and loss on sale		(2,470)	—
Non-GAAP net income (loss) attributable to Central Garden & Pet Company		$ 15,706	$ (4,417)
GAAP diluted net income (loss) per share		$ 0.10	$ (0.08)
Non-GAAP diluted net income (loss) per share		$ 0.29	$ (0.08)
Shares used in GAAP and non-GAAP diluted net earnings per share calculation		54,686	54,755

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.

GAAP to Non-GAAP Reconciliation
For the Three Months Ended December 26 2020

	Consolidated		Pet Segment		Garden Segment	
		Percent change		Percent change		Percent change
	(in millions)					
Reported net sales - Q1 FY21 (GAAP)	$ 592.2		$ 436.4		$ 155.8	
Reported net sales - Q1 FY20 (GAAP)	482.8		366.6		116.2	
Increase in net sales	109.4	22.7 %	69.8	19.0 %	39.6	34.1 %
Effect of acquisition and divestitures on increase in net sales	1.6		1.9		(0.3)	
Increase in organic net sales - Q1 FY21	$ 111.0	23.0 %	$ 71.7	19.6 %	$ 39.3	33.8 %

EBITDA Reconciliation

GAAP to Non-GAAP Reconciliation
For the Three Months Ended December 26, 2020

	Garden	Pet	Corp	Total
	(in thousands)			
Net income attributable to Central Garden & Pet Company	—	—	—	$ 5,613
Interest expense, net	—	—	—	20,769
Other income	—	—	—	(752)
Income tax expense	—	—	—	1,381
Net income attributable to noncontrolling interest	—	—	—	29
Sum of items below operating income	—	—	—	21,427
Income (loss) from operations	$ 4,651	$ 43,525	$ (21,136)	$ 27,040
Depreciation & amortization	2,638	9,085	1,192	12,915
EBITDA	$ 7,289	$ 52,610	$ (19,944)	$ 39,955

EBITDA Reconciliation

	GAAP to Non-GAAP Reconciliation For the Three Months Ended December 28, 2019			
	Garden	Pet	Corp	Total
	(in thousands)			
Net loss attributable to Central Garden & Pet Company	—	—	—	$ (4,417)
Interest expense, net	—	—	—	8,637
Other income	—	—	—	(305)
Income tax benefit	—	—	—	(1,728)
Net loss attributable to noncontrolling interest	—	—	—	(122)
Sum of items below operating income	—	—	—	6,482
Income (loss) from operations	$ (6,883)	$ 28,737	$ (19,789)	$ 2,065
Depreciation & amortization	2,713	9,072	1,355	13,140
EBITDA	$ (4,170)	$ 37,809	$ (18,434)	$ 15,205

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 domestic 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 2020 and in the first quarter of fiscal 2021, commodity costs as well as freight and labor costs increased. In fiscal 2020, tariffs implemented during the year did have a negative impact in instances where we were unable to pass through the incremental costs.

Weather and Seasonality

Our sales of lawn and garden products are influenced by weather and climate conditions in the different markets we serve. Our Garden segment’s business is highly seasonal. In fiscal 2020, approximately 67% of our Garden segment’s net sales and 57% of our total net sales occurred during our second and third fiscal quarters. Substantially all of the Garden segment’s operating income is typically generated in this period, which has historically offset the operating loss incurred during the first fiscal quarter of the year.

Liquidity and Capital Resources

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

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

We service two broad markets: pet supplies and lawn and garden supplies. Our pet supplies businesses involve products that have a year round selling cycle with a slight degree of seasonality. As a result, it is not necessary to maintain large quantities of inventory to meet peak demands. Our lawn and garden businesses are highly seasonal with approximately 67% 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 $18.1 million, from $18.0 million for the three months ended December 28, 2019, to $36.1 million for the three months ended December 26, 2020. The increase in cash used was due primarily to changes in our working capital accounts for the period ended December 26, 2020, as compared to the prior year period, primarily an increase in inventory, due to our seasonal build in preparation for the lawn and garden season and the overall increased demand for our products.

Investing Activities

Net cash used in investing activities increased $83.0 million, from $10.4 million for the three months ended December 28, 2019 to $93.4 million during the three months ended December 26, 2020. The increase in cash used in investing activities was due primarily to acquisition activity in the current year and increased capital expenditures in the current year compared to the prior year, partially offset by proceeds received from the sale of our Breeder's Choice business during the first quarter of fiscal 2021. During the first quarter of fiscal 2021, we acquired DoMyOwn for approximately $81 million.

Financing Activities

Net cash provided by financing activities increased $108.4 million, from $24.0 million of cash used for the three months ended December 28, 2019, to $84.4 million of cash provided for the three months ended December 26, 2020. The increase in cash provided by financing activities during the current year was due primarily to the issuance of $500 million of our 2030 Notes, partially offset by the repayment of our 2023 Notes and the corresponding premium paid on extinguishment as well as debt issuance costs incurred on the issuance of the 2030 Notes. There were also decreased open market purchases of our common stock during the current year period as compared to the prior year. During the three months ended December 26, 2020, we did not make any open market purchases of our common stock. During the three months ended December 28, 2019, we repurchased approximately 0.1 million shares of our voting common stock (CENT) at an aggregate cost of approximately $1.7 million, or approximately $26.63 per share, and 0.8 million shares of our non-voting Class A common stock (CENTA) at an aggregate cost of approximately $20.4 million, or approximately $26.69 per share.

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 revolving credit facility. Based on our anticipated cash needs, availability under our asset backed revolving credit 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 $75 million in fiscal 2021, of which we have invested approximately $15 million year to date.

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.

Total Debt

At December 26, 2020, our total debt outstanding was $789.0 million, as compared with $693.4 million at December 28, 2019.

Senior Notes

Issuance of $500 million 4.125% Senior Notes due 2030 and Redemption of $400 million 6.125% Senior Notes due 2023

In October 2020, we issued $500 million aggregate principal amount of 4.125% senior notes due October 2030 (the "2030 Notes"). In November 2020, we used a portion of the net proceeds to redeem all of our outstanding 6.125% senior notes due November 2023 (the "2023 Notes") at a redemption price of 101.531% plus accrued and unpaid interest, and to pay related fees and expenses, with the remainder for general corporate purposes.

We incurred approximately $8.0 million of debt issuance costs associated with this transaction, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs are being amortized over the term of the 2030 Notes.

As a result of our redemption of the 2023 Notes, we incurred a call premium payment of $6.1 million, overlapping interest expense for 30 days of approximately $1.4 million and a $2.5 million non-cash charge for the write-off of unamortized deferred financing costs related to the 2023 Notes. These amounts are included in interest expense in the condensed consolidated statements of operations.

The 2030 Notes require semiannual interest payments on October 15 and April 15, commencing April 15, 2021. The 2030 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 or guarantee our other debt.

We may redeem some or all of the 2030 Notes at any time, at our option, prior to October 15, 2025 at a price equal to 100% of the principal amount plus a “make-whole” premium. Prior to October 15, 2023, we may redeem up to 40% of the original aggregate principal amount of the notes with the proceeds of certain equity offerings at a redemption price of 104.125% of the principal amount of the notes. We may redeem some or all of the 2030 Notes, at our option, in whole or in part, at any time on or after October 15, 2025 for 102.063%, on or after October 15, 2026 for 101.375%, on or after October 15, 2027 for 100.688% and on or after October 15, 2028 for 100.0%, plus accrued and unpaid interest.

The holders of the 2030 Notes have the right to require us to repurchase all or a portion of the 2030 Notes at a purchase price equal to 101.0% of the principal amount of the notes repurchased, plus accrued and unpaid interest upon the occurrence of a change of control.

The 2030 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions. We were in compliance with all financial covenants as of December 26, 2020.

$300 Million 5.125% Senior Notes due 2028

On December 14, 2017, we issued $300 million aggregate principal amount of 5.125% senior notes due February 2028 (the "2028 Notes"). We used the net proceeds from the offering to finance acquisitions and for general corporate purposes.

We incurred approximately $4.8 million of debt issuance costs in conjunction with this transaction, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs are being amortized over the term of the 2028 Notes.

The 2028 Notes require semiannual interest payments on February 1 and August 1. The 2028 Notes are unconditionally guaranteed on a senior basis by our existing and future domestic restricted subsidiaries who are borrowers under or guarantors of our senior secured revolving credit facility or who guarantee the 2030 Notes.

We may redeem some or all of the 2028 Notes at any time, at our option, prior to January 1, 2023 at the principal amount plus a “make whole” premium. We may redeem some or all of the 2028 Notes, at our option, at any time on or after January 1, 2023 for 102.563%, on or after January 1, 2024 for 101.708%, on or after January 1, 2025 for 100.854% and on or after January 1, 2026 for 100.0%, plus accrued and unpaid interest.

The holders of the 2028 Notes have the right to require us to repurchase all or a portion of the 2028 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 2028 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions. We were in compliance with all financial covenants as of December 26, 2020.

Asset-Based Loan Facility Amendment

On September 27, 2019, we entered into a Second Amended and Restated Credit Agreement (“Amended Credit Agreement”). The Amended Credit Agreement amended and restated the previous credit agreement dated April 22, 2016 and continues to provide up to a $400.0 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, as defined, if we exercise the accordion feature set forth therein (collectively, the “Amended Credit Facility”). The Amended Credit Facility matures on September 27, 2024. We may borrow, repay and reborrow amounts under the Amended Credit Facility until its maturity date, at which time all amounts outstanding under the Credit Facility must be repaid in full.

The Amended Credit Facility is subject to a borrowing base that is calculated using a formula initially based upon eligible receivables and inventory minus certain reserves and adjustments. The Amended Credit Facility also allows us to add real property to the borrowing base so long as the real property is subject to a first priority lien in favor of the Administrative Agent for the benefit of the Lenders. Net availability under the Amended Credit Facility was $400 million as of December 26, 2020. The Amended Credit Facility includes a $50 million sublimit for the issuance of standby letters of credit and an increased $40 million sublimit for short-notice borrowings. We incurred approximately $1.6 million of debt issuance costs in conjunction with this transaction, which included underwriter fees and legal expenses. The debt issuance costs are being amortized over the term of the Amended Credit Facility. As of December 26, 2020, there were no borrowings outstanding and no letters of credit outstanding under the Credit Facility. There were other letters of credit of $2.4 million outstanding as of December 26, 2020.

Borrowings under the Amended Credit Facility bear interest at an index based on LIBOR or, at our option, the Base Rate (defined as the highest of (a) the SunTrust prime rate, (b) the Federal Funds Rate plus 0.50%, (c) one-month LIBOR plus 1.00%), plus, in either case, an applicable margin based on our consolidated senior leverage ratio and (d) 0.00%. Such applicable margin for LIBOR-based borrowings fluctuates between 1.00%-1.50%, and was 1.00% as of December 26, 2020, and such applicable margin for Base Rate borrowings fluctuates between 0.00%-0.50%, and was 0.00% as of December 26, 2020. An unused line fee shall be payable monthly in respect of the total amount of the unutilized Lenders’ commitments and short-notice borrowings under the Amended Credit Facility. Letter of credit fees at the applicable margin on the average undrawn and unreimbursed amount of letters of credit shall be payable monthly and a facing fee of 0.125% shall be paid on demand for the stated amount of each letter of credit. We are also required to pay certain fees to the administrative agent under the Amended Credit Facility. As of December 26, 2020, the applicable interest rate related to Base Rate borrowings was 3.3%, and the applicable interest rate related to LIBOR-based borrowings was 1.1%.

Banks currently reporting information used to set LIBOR will stop doing so after 2021. Various parties, including government agencies, are seeking to identify an alternative rate to replace LIBOR. We are monitoring their efforts, and we will likely amend contracts to accommodate any replacement rate where it is not already provided. Our Amended Credit Facility already anticipates the potential loss of LIBOR and defines procedures for establishing a replacement rate.

In July 2017, the Financial Conduct Authority in the United Kingdom, the governing body responsible for regulating LIBOR, announced that it no longer will compel or persuade financial institutions and panel banks to make LIBOR submissions after 2021. This decision is expected to result in the end of the use of LIBOR as a reference rate for commercial loans and other indebtedness. We have both LIBOR-denominated and Euro Interbank Offer Rate (EURIBOR)-denominated indebtedness. The transition to alternatives to LIBOR could be modestly disruptive to the credit markets, and while we do not believe that the impact would be material to us, we do not yet have insight into what the impacts might be.

The Amended Credit Facility continues to contain customary covenants, including financial covenants which require us to maintain a minimum fixed charge coverage ratio of 1.00:1.00 upon triggered quarterly testing (e.g. when availability falls below certain thresholds established in the agreement), reporting requirements and events of default. The Amended Credit Facility is secured by substantially all assets of the borrowing parties. We were in compliance with all financial covenants under the Credit Facility during the period ended December 26, 2020.

Summarized Financial Information for Guarantors and the Issuer of Guaranteed Securities

In October 2020, Central (the "Parent/Issuer") issued $ 500 million of 2030 Notes and in November 2020, we redeemed our $400 million of 2023 Notes at price of 101.531% plus accrued and unpaid interest. In December 2017, Central issued $300 million of 2028 Notes. The 2030 Notes and 2028 Notes are fully and unconditionally guaranteed on a joint and several senior basis by each of our existing and future domestic restricted subsidiaries (the "Guarantors") which are borrowers under or guarantors of our senior secured revolving credit facility ("Credit Facility"). The 2030 Notes and 2028 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. There are no significant restrictions on the ability of the Guarantors to make distributions to the Parent/Issuer. Certain subsidiaries and operating divisions of the Company do not guarantee the 2030 or 2028 Notes and are referred to as the Non-Guarantors.

The Guarantors jointly and severally, and fully and unconditionally, guarantee the payment of the principal and premium, if any, and interest on the 2030 and 2028 Notes when due, whether at stated maturity of the 2030 and 2028 Notes, by acceleration, call for redemption or otherwise, and all other obligations of the Company to the holders of the 2030 and 2028 Notes and to the trustee under the indenture governing the 2030 and 2028 Notes (the "Guarantee"). The Guarantees are senior unsecured obligations of each Guarantor and are of equal rank with all other existing and future senior indebtedness of the Guarantors.

The obligations of each Guarantor under its Guarantee shall be limited to the maximum amount as will, after giving effect to all other contingent and fixed liabilities of such Guarantor and to any collections from or payments made by or on behalf of any other Guarantor in respect of the obligations of such Guarantor under the guarantee not constituting a fraudulent conveyance or fraudulent transfer under Federal or state law.

The Guarantee of a Guarantor will be released:

(1) upon any sale or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger or consolidation), in accordance with the governing indentures, to any person other than the Company;

(2) if such Guarantor merges with and into the Company, with the Company surviving such merger;

(3) if the Guarantor is designated as an Unrestricted Subsidiary; or

(4) if the Company exercises its legal defeasance option or covenant defeasance option or the discharge of the Company's obligations under the indentures in accordance with the terms of the indentures.

The following tables present summarized financial information of the Parent/Issuer subsidiaries and the Guarantor subsidiaries. All intercompany balances and transactions between subsidiaries under Parent/Issuer and subsidiaries under the Guarantor have been eliminated. The information presented below excludes eliminations necessary to arrive at the information on a consolidated basis. In presenting the summarized financial statements, the equity method of accounting has been applied to the Parent/Issuer's interests in the Guarantor Subsidiaries. The summarized information excludes financial information of the Non-Guarantors, including earnings from and investments in these entities.

Summarized Statements of Operations

	Three Months Ended December 26, 2020		Fiscal Year Ended September 26, 2020	
	Parent/Issuer	Guarantors	Parent/Issuer	Guarantors
	(in thousands)			
Net sales	$ 202,760	$ 374,499	$ 839,425	$ 1,720,279
Gross profit	$ 44,825	$ 118,602	$ 195,893	$ 555,616
Income (loss) from operations	$ (5,236)	$ 37,003	$ 2,724	$ 187,114
Equity in earnings of Guarantor subsidiaries	$ 29,889	$ —	$ 148,349	$ —
Net income (loss)	$ (20,955)	$ 29,889	$ (33,326)	$ 148,349

Summarized Balance Sheet Information

	As of December 26, 2020		As of September 26, 2020	
	Parent/Issuer	Guarantors	Parent/Issuer	Guarantors
	(in thousands)			
Current assets	$ 873,199	$ 603,166	$ 900,416	$ 560,919
Intercompany receivable from Non-guarantor subsidiaries	121,397	61,511	36,329	61,595
Other assets	2,069,449	1,605,206	$ 2,042,206	$ 1,631,167
Total assets	$ 3,064,045	$ 2,269,883	$ 2,978,951	$ 2,253,681
Current liabilities	$ 175,722	$ 232,309	$ 170,378	$ 247,810
Long-term debt	788,921	—	693,956	—
Other liabilities	1,066,864	101,783	1,095,288	101,912
Total liabilities	$ 2,031,507	$ 334,092	$ 1,959,622	$ 349,722

Off-Balance Sheet Arrangements

There have been no material changes to the information provided in our Annual Report on Form 10-K for the fiscal year ended September 26, 2020 regarding off-balance sheet arrangements.

Contractual Obligations

Except as discussed in Note 8. Long Term Debt, related to our issuance of 2030 Notes and redemption of 2023 Notes, there have been no material changes outside the ordinary course of business in our contractual obligations set forth in the Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources in our Annual Report on Form 10-K for the fiscal year ended September 26, 2020.

New Accounting Pronouncements

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

Critical Accounting Policies, Estimates and Judgments

There have been no material changes to our critical accounting policies, estimates and assumptions or the judgments affecting the application of those accounting policies since our Annual Report on Form 10-K for the fiscal year ended September 26, 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in our exposure to market risk from that discussed in our Annual Report on Form 10-K for the fiscal year ended September 26, 2020.

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 26, 2020.

(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 2021. There were no other changes in our internal control over financial reporting during the first quarter of fiscal 2021 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

In 2012, Nite Glow Industries, Inc and its owner, Marni Markell, (“Nite Glow”) filed suit in the U.S. District Court for New Jersey against the Company alleging that the applicator developed and used by the Company for certain of its branded topical flea and tick products infringes a patent held by Nite Glow and asserted related claims for breach of contract and misappropriation of confidential information based on the terms of a Non-Disclosure Agreement. On June 27, 2018, a jury returned a verdict in favor of Nite Glow on each of the three claims and awarded damages of approximately $12.6 million. The court ruled on post-trial motions in early June 2020, reducing the judgment amount to $12.4 million and denying the plaintiff's request for attorneys' fees. The Company has filed its notice of appeal and the plaintiffs have cross-appealed. The Company intends to vigorously pursue its rights on appeal and believes that it will prevail on the merits. While the Company believes that the ultimate resolution of this matter will not have a material impact on the Company's consolidated financial statements, the outcome of litigation is inherently uncertain and the final resolution of this matter may result in expense to the Company in excess of management's expectations.

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

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Item 1A to Part I of our Form 10-K for the fiscal year ended September 26, 2020.

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

The following table sets forth the repurchases of any equity securities during the fiscal quarter ended December 26, 2020 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) (2)	
September 27, 2020 - October 31, 2020	1,786	(3)	$ 36.73	—	$ 100,000,000	
November 1, 2020 - November 28, 2020	3,844	(3)	$ 35.65	—	$ 100,000,000	
November 29, 2020 - December 26, 2020	4,264	(3)	$ 37.16	—	$ 100,000,000	
Total	9,894		$ 36.50	—	$ 100,000,000	(4)

(1) During the fourth quarter of fiscal 2019, our Board of Directors authorized a $100 million share repurchase program, (the "2019 Repurchase Authorization"). The 2019 Repurchase Authorization has no fixed 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 that restrict our ability to repurchase our stock. As of December 26, 2020, we had $100 million of authorization remaining under our 2019 Repurchase Authorization.

(2) In February 2019, our Board of Directors authorized us to make supplemental stock purchases to minimize dilution resulting from issuances under our equity compensation plans (the "Equity Dilution Authorization"). In addition to our regular share repurchase program, we are permitted to purchase annually a number of shares equal to the number of shares of restricted stock and stock options granted in the prior fiscal year, to the extent not already repurchased, and the current fiscal year. The Equity Dilution Authorization has no fixed expiration date and expires when the Board withdraws its authorization.

(3) Shares purchased during the period indicated represent withholding of a portion of shares to cover taxes in connection with the vesting of restricted stock and do not reduce the dollar value of shares that may be purchased under our stock repurchase plan.

(4) Excludes 1.0 million shares remaining under our Equity Dilution Authorization as of December 26, 2020.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. **Exhibits**

Exhibit Number	Exhibit	Incorporated by Reference				Filed Herewith	Filed, Not Furnished
		Form	File No.	Exhibit	Filing Date		
4.1	Eleventh Supplemental Indenture, dated as of October 16, 2020, by and among the Company, certain guarantors named therein and Wells Fargo Bank National Association, as trustee, relating to the 4.125% Senior Notes due 2030	8-K	001-33268	4.1	10/16/2020		
10.1*	Nonemployee Director Equity Incentive Plan, as amended and restated effective October 7, 2020	10-K	001-33268	10.7	11/24/2020		
10.2*	Employment Agreement between the Company and John E. Hanson, effective August 6, 2019.					X	
22	List of Guarantor Subsidiaries					X	
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X	
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X	
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.					X	
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.					X	
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X	
101.SCH	XBRL Taxonomy Extension Schema Document					X	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X	
*	Management contract or compensatory plan or arrangement						

SIGNATURES

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

CENTRAL GARDEN & PET COMPANY
Registrant

Dated: February 4, 2021

/s/ TIMOTHY P. COFER

Timothy P. Cofer
Chief Executive Officer
(Principal Executive Officer)

/s/ NICHOLAS LAHANAS

Nicholas Lahanas
Chief Financial Officer
(Principal Financial Officer)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), made this 1st day of August, 2019 is entered into by Central Garden & Pet Company and/or any of its wholly owned subsidiaries, successors and assigns (collectively called "the Company") and John E. Hanson ("Executive").

WHEREAS, the Company desires to employ Executive and Executive desires to become employed by the Company;

THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Effective Date: This Agreement shall become effective on August 6, 2019 ("Effective Date").

2. Term of Employment: Executive will be employed by the Company for an indefinite term, subject to termination as set forth below.

3. Position: Executive shall serve as President -Pet Consumer Products He shall perform those duties and responsibilities consistent with such position that are assigned to him by the Chief Executive Officer. Executive's position and related terms and conditions of employment may from time to time be modified by the Company in its discretion.

4. Full Time Performance of Duties: During the Term of Employment, except for periods of absence occasioned by illness, reasonable vacation periods, and reasonable leaves of absence, Executive agrees to devote substantially all his business time, attention, skill, and efforts to the faithful and loyal performance of his duties under this Agreement and shall not during his employment with the Company engage in any other business activities, duties or pursuits, render any services of a business, commercial, or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of Company. However, the expenditure of reasonable amounts of time for educational, charitable, or professional activities for which Executive will not receive additional compensation from the Company, shall not be considered a breach of this Agreement if those activities do not materially interfere with the services required of Executive under this Agreement.

5. Salary: The Company will pay Executive an annualized base salary of $450,000 in accordance with the Company's payroll practices for executives. Executive will be eligible for periodic salary reviews consistent with the Company's salary review practices for executives. Upon Executive's relocation to the San Francisco Bay Area, Executive's annualized base salary shall be increased in an amount deemed appropriate in the discretion of the Compensation Committee of the Company's Board of Directors..

6. Bonus: Executive will be paid a signing bonus in the amount of $300,000. The Company shall pay $100,000 of this amount upon the Effective Date and the remaining $200,000 upon Executive's relocation to the San Francisco bay area. If Executive terminates his employment within one year of the Effective Date, Executive shall repay this sign-on bonus in its entirety to the extent it has been paid to Executive. If Executive terminates his employment after one year but before two years from the Effective date, Executive will be obligated to repay $200,000 if Executive has relocated to the San Francisco Bay area and been paid the portion of the sign-on bonus contingent upon such relocation. If Executive terminates his employment after two years but prior to three years from the Effective Date, Executive will be obligated to repay $100,000 to the Company if Executive has relocated to the San Francisco Bay area and has been paid the portion of the sign-on bonus contingent upon such relocation. Executive will also be eligible for a discretionary performance bonus each year during the Term of Employment with a target amount of fifty percent (50%) of

Executive's base salary in effect at the beginning of the year in question, to be awarded upon attainment of the annual operating goals and the personal goals established by the Chief Executive Officer of Central Operating Companies. The award and amount of any such bonus shall be in the discretion of the Company. For FY2019, Executive shall be paid a bonus of not less than **$37,500** for his period of employment during that fiscal year payable when bonuses are paid to other named executive officers for that year.

7. Options: On the Effective Date, Executive will be granted a non-qualified stock option to purchase a number of shares of Company Common Stock (CENT A) with a Black Scholes value, as determined by the Company in its sole discretion, equal to $200,000. The exercise price of such options will be equal to the "fair market value" upon the date of grant. The options shall vest over a four (4) year period at a rate of twenty-five percent (25%) per year with the first tranche vesting on the first anniversary of the date of grant. All options shall expire on the sixth anniversary of date of grant. The right to exercise the options shall be consistent with the terms of the Central Garden & Pet Company 2003 Omnibus Equity Incentive Plan. All determinations as to fair market value, Black Scholes value or numbers of shares required by this Section 7 shall be made by the Board of Directors in its sole discretion. At the time of the Companywide option grant for each subsequent fiscal year during which Executive is employed hereunder, Executive will receive a similar grant of a non-qualified stock option to purchase a number of shares of Company Common Stock (CENT A) with a Black Scholes value, as determined by the Company in its sole discretion, equal to $200,000. If Executive terminates his employment as set forth in Section 15 or the Company terminates Executive's employment without cause as set forth in Section 16, and in either case, Executive executes a general release as contemplated by such Section, all options not yet vested shall continue to vest in accordance with the terms of Section 15 or Section 16; provided, however, that in the fiscal year of termination, only a prorated portion of the options granted with respect to that fiscal year - measured by the portion of the fiscal year during which Executive is employed by the Company - will continue to vest.

8. Restricted Stock: The Executive will receive restricted shares of Central Garden & Pet Company Stock (CENT A) with a value of $450,000 on the grant date which shall be granted within thirty (30) days of the Effective Date of this Agreement. These shares shall vest at the rate of 33% per year, beginning at the end of year three (3) and being fully vested at the end of year five (5). Executive shall be eligible for a grant of additional restricted stock during the initial quarter of the 2020 fiscal year.

9. Benefits: Subject to all applicable eligibility requirements Executive will be eligible to participate in any and all 401(k), medical, dental, life and long-term disability insurance and/or other benefit plan which, from time to time, may be established as generally applicable to other similarly situated Company executives. If Executive elects not to participate in the Company's group health plan for any period of his employment, he shall receive an allowance to cover medical expenses equal to $15,000 per year for such period. When Executive relocates to the San Francisco bay area, he shall be entitled to full relocation benefits, in accordance with the Company's relocation benefits policy.

10. Vacation: Executive will earn four (4) weeks vacation annually. Executive's maximum vacation accrual will be six (6) weeks. Once Executive has accrued six (6) weeks vacation, he will stop earning vacation until he has taken vacation and reduced his accrual below six (6) weeks.

11. Automobile: During the Term of Employment, the Company will provide Executive with a monthly automobile allowance of $1000.00. Executive is responsible for taxes, if any, associated with this allowance.

12. Reimbursement of Expenses: The Company will reimburse Executive for all reasonable travel, entertainment and other expenses incurred or paid by the Executive in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement in accordance with the Company's policies, upon presentation by Executive of documentation, expense statements, vouchers and/or other supporting information as the Company may request. Such reimbursable expenses shall include Executive's temporary living expenses and associated travel during the period before his relocation to the San Francisco Bay Area. In no event shall reimbursements be made for expenses incurred by Executive after the end of the calendar year following the calendar year in which Executive incurs the expense.

13. Incapacity or Death: In the event that Executive becomes physically or mentally disabled or incapacitated such that it is the reasonable, good faith opinion of the Company that Executive is unable to perform the services required under this Agreement with or without reasonable accommodation, then after four (4) months of continuous physical or mental disability, this Agreement will terminate; provided, however, that during this four (4) month period, Executive shall be entitled to the continuation of his compensation as provided by this Agreement; however such continued payments by the Company shall be integrated with any disability, workers' compensation, or other insurance payments received, such that the total amount does not exceed the compensation as provided by this Agreement. For purposes of this Agreement, physical or mental disability does not include any disability arising from current use of alcohol, drugs or related issues. Notwithstanding the foregoing, if the Company terminates Executive's employment due to incapacity, all previously granted stock options and restricted stock shall continue to vest notwithstanding such incapacity or termination of employment, and with respect to stock options, shall remain exercisable until the expiration date of each such stock option set forth in Section 7 hereof. In the event of Executive's death during the term of this Agreement: (a) all previously granted stock options shall immediately vest and be exercisable by his estate until the applicable stock option expiration date; and (b) the service requirements of any previously granted restricted stock shall be waived, but the performance requirements, if any, shall still be applicable. Further, if the Company terminates Executive's employment due to incapacity or in the event of Executive's death during the term of this Agreement, all restricted stock previously earned will be immediately released to Executive or his estate, as the case may be.

14. Termination by the Company For Cause: The Company may terminate Executive for cause. If Executive is terminated for cause, he will receive only his compensation earned pro rata to the date of his termination. All other benefits will cease on the date of Executive's termination. Cause shall be defined as:

(a) An act or omission constituting negligence or misconduct which is materially injurious to the Company;

(b) Failure to comply with the lawful directives of the Board of Directors;

(c) A material breach of this Agreement by Executive, which is not cured within thirty (30) days after written notice thereof;

(d) Failure to perform in a manner acceptable to the Company after written notice and an opportunity to cure;

(e) The abuse of alcohol or drugs;

(f) Fraud, theft or embezzlement of Company assets, criminal conduct or any other act of moral turpitude by which is materially injurious to the Company;

(0) A material violation of any securities law, regulation or compliance policy of the Company;

(h) Executive's death or incapacity exceeding four (4) months as provided in Section 13 above.

15. Termination By Executive For Cause: Executive may terminate this Agreement at any time in the event of a material breach by the Company by giving thirty (30) days written notice to the Company's Vice President of Human Resources if the Company fails to cure such material breach or take meaningful steps towards cure of such breach within such 30 day period. If Executive properly terminates his employment under this section, within ten (10) days after a general release signed by Executive and the Company substantially in the form of the general release attached hereto as Exhibit C becomes irrevocable, Executive will be entitled to continued vesting of previously granted stock options and restricted stock to the extent provided in Sections 7 and 8 hereof and subject to his compliance with the terms of the Post Employment Consulting Agreement attached hereto as Exhibit B. Such continued vesting shall be Executive's sole and exclusive remedy in the event of a termination of this Agreement by Executive pursuant to this Section 15.

16. Termination By The Company Without Cause: The Company may terminate Executive's employment under this Agreement at any time without cause by giving Executive thirty (30) days written notice of termination. If the Company terminates Executive under this section, within 10 days after Executive signs a general release of claims in a form acceptable to the Company that becomes irrevocable, provided a later payment is not required by Section 17 below, the Company will pay Executive a severance consisting of a continuation of Executive's base salary for a nine (9) month period, subject to applicable payroll deductions, and health insurance continuation for nine (9) months, with the COBRA continuation period to commence at the end of the nine (9) month's salary and health insurance continuation period. Executive will be provided, at most, sixty (60) days to consider whether to sign such release. Severance payments shall cease, and no further severance obligation will be owed, in the event Executive obtains other equivalent employment during the severance period. Executive will be entitled to continued vesting of previously-granted stock options and restricted stock to the extent provided in Sections 7 and 8 hereof and subject to his compliance with the terms of the Post Employment Consulting Agreement attached hereto as Exhibit B. However, such reduction in severance shall not apply and Executive's severance will not be reduced by any income executive receives under the Post-Employment Consulting Agreement. Such severance payments shall be Executive's sole and exclusive remedy in the event of a termination of this Agreement by the Company without cause. At its option, the Company may pay Executive thirty (30) days additional salary and benefits provided in this Agreement in lieu of giving Executive the thirty (30) days notice as provided above.

17. Section 409A Delay: Each payment hereunder subject to Section 409A will be considered a separate payment for purposes of Section 409A. To the extent that it is determined by the Company in good faith that all or a portion of any payments hereunder subject to Section 409A made in connection with Executive's separation from service are not exempt from Section 409A and that Executive is a "specified employee" (within the meaning of Section 409A) at the time of his separation from service, then payment of such non-exempt payments shall not be made until the date that is six (6) months and one day after his separation from service (or, if earlier, his death), with any payments that are required to be delayed being accumulated during the six-month period and paid in a lump sum on the date that is six (6) months and one day following his separation from service and any subsequent payments, if any, being paid in accordance with the dates and terms set forth herein.

18. Termination by Executive Without Cause: Executive may terminate his employment without cause by giving the Company thirty (30) days written notice of termination. If Executive terminates his employment without cause under this section, he will receive only his salary and benefits earned pro rata to the date of his termination. All other salary and benefits will cease on the date of Executive's termination. At its option, the Company may pay Executive his salary and benefits provided in this Agreement through the effective date of his written notice of termination and immediately accept his termination.

19. Confidential Business Information: The Company has and will continue to spend significant time, effort and money to develop proprietary information which is vital to the Company's business. During Executive's employment with the Company, Executive has and will have access to the Company's confidential, proprietary and trade secret information including but not limited to information and strategy relating to the Company's products and services including customer lists and files, product description and pricing, information and strategy regarding profits, costs, marketing, purchasing, sales, customers, suppliers, contract terms, employees, salaries; product development plans; business, acquisition and financial plans and forecasts and marketing and sales plans and forecasts (collectively called "Company Confidential Information"). Executive will not, during his employment with the Company or thereafter, directly or indirectly disclose to any other person or entity, or use for Executive's own benefit or for the benefit of others besides the Company, any Company Confidential Information. Upon termination of this Agreement, Executive agrees to promptly return all Company Confidential Information.

20. Non-Solicitation of Employees: While Executive is employed by the Company and for twelve (12) months after such employment terminates, Executive will not (acting either directly or indirectly, or through any other person, firm, or corporation) induce or attempt to induce or influence any employee of the Company to terminate employment with the Company when the Company desires to retain that person's services.

21. Duty of Loyalty: During term of this Agreement, Executive agrees that he will not, nor will he permit any entity or other person under his control, to directly or indirectly hold, manage operate or control, or participate in the ownership, management, operation or control of, or render executive, managerial, market research, advice or consulting services, either directly or indirectly, to any business engaged in or about to be engaged in developing, producing, marketing, distributing or selling lawn, garden, animal health, nutrition or pet related products.

22. Separability: Each provision of this Agreement is separable and independent of the other provisions. If any part of this Agreement is found to be invalid, the remainder shall be given full force and effect as permitted by law.

23. Complete Agreement: This Agreement constitutes the entire agreement between Executive and the Company regarding the subjects covered by this Agreement. No other agreement, understanding, statement or promise other than those contained in this Agreement is part of their employment agreement or will be effective. Any modification of this Agreement will be effective only if it is in writing and signed by the Chief Executive Officer of the Company.

24. Notice: All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given (except as may otherwise be specifically provided herein to the contrary) if delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed or mailed by certified or registered mail with postage prepaid:

(a) If to the Company to:

Central Garden & Pet Company
1340 Treat Blvd., Suite 600
Walnut Creek, CA 94597
Attention:

with a copy to:

Central Garden & Pet Company
1340 Treat Blvd., Suite 600
Walnut Creek, CA 94597
Attention: George Yuhas, General Counsel

(b) If to the Executive to:

25. **Related Agreements:** As an inducement to the Executive and to the Company to enter into this Agreement, Executive has executed Exhibit A, Agreement to Protect Confidential Information, Intellectual Property and Business Relationships, attached and incorporated by reference and Exhibit B, Post Consulting Agreement. Exhibits A and B shall survive the termination of this Employment Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year referenced above.

/s/ John E. Hanson

Central Garden & Pet Company
By
/s/ George Yuhas

EXHIBIT A

AGREEMENT TO PROTECT CONFIDENTIAL INFORMATION, INTELLECTUAL PROPERTY AND BUSINESS RELATIONSHIPS

This Agreement is made this 15th day of April, 2019 (the "Effective Date") by and between Central Garden & Pet Company and/or any of its wholly owned subsidiaries, successors and assigns (collectively called "the Company") and John E. Hanson ("Executive," "I" or "Me").

I RECOGNIZE that during my employment as a key executive with Central Garden & Pet Company and/or any of its wholly owned subsidiaries, successors and assigns (collectively called "the Company"), I have had and will continue to have access to Confidential Information (as defined below) and valuable business relationships;

I RECOGNIZE that my employment in certain capacities with a competitor could involve the use or disclosure of Company Confidential Information;

I RECOGNIZE that the Company's Confidential Information and business relationships are critical to its success in the marketplace. The Company operates on a nationwide-basis, and therefore, the Company's commitment to protecting its Confidential Information and business relationships is nationwide;

I RECOGNIZE that the law regarding restrictive covenants varies from state to state and the law that will apply to this Agreement after I terminate will depend on factors such as where I live, where I work, the location of my employer, the location of my former employer and other factors, many which are unknown at this time;

THEREFORE, in consideration for the compensation provided to me, to prevent the use or disclosure of Company Confidential Information, and to protect the valuable business relationships of the Company, I agree to the following:

1. Definitions.

(a) Confidential Information. For purposes of this Agreement, "Confidential Information" shall mean any information, including third-party information, provided to the Company in confidence, regarding the Company, its business, its plans, its customers, its contracts, its suppliers, or its strategies, that is not generally known and provides the Company with an actual or potential competitive advantage over those who do not know it. Confidential Information includes, but is not limited to, all such information I learned or developed during any previous employment with the Company or its predecessors in interest and all of the Company's confidential, proprietary and trade secret information, which may include information and strategies relating to the Company's products, processes and services, including customer lists and files, product description and pricing, information and strategy regarding profits, costs, marketing, purchasing, sales, customers, suppliers, contract terms, employees, salaries, product development plans, business, acquisition and financial plans and forecasts, and marketing and sales plans and forecasts. I acknowledge that requiring me to enter into this Agreement is one of the measures that the Company uses to maintain the secrecy of its Confidential Information.

(b) Relevant Territory. For purposes of this Agreement, "Relevant Territory" shall mean any territory or region in which I performed services on behalf of the Company or about which I learned Confidential Information regarding the Company during the two (2) years prior to my separation from the Company for any reason.

(c) Services. For purposes of this Agreement, "Services" shall mean the same or similar activities in which I engaged during the two (2) years prior to my separation from the Company for any reason.

2. **Confidentiality.** I agree that I will not, during my employment with the Company (except in furtherance of the Company's interests), or at any time after employment terminates, without the prior written consent of the Company Vice President of Human Resources, disclose any Confidential Information to or use any Confidential Information for, any third party or entity. This restriction prohibits me from, among other activities, engaging in or preparing to engage in developing, producing, marketing, distributing or selling lawn, garden, animal health, animal nutrition or pet related products for any business entity if that activity in any way involves the use or disclosure of Company Confidential Information and diverting or attempting to divert any business or customers from the Company using Confidential Information. To the extent that any Confidential Information is determined by a court of competent jurisdiction to be confidential information rather than a trade secret under applicable law, the prohibition on use and disclosure of that specific information shall be in effect for a period of three years after the termination of my employment with the Company; otherwise the prohibition shall last until the information ceases to be a trade secret (other than through any breach of secrecy by me or other third parties under a duty of secrecy to the Company). In the event that after my employment with the Company ceases, if I have any doubt about whether particular information may be used of disclosed, I will contact the Company Vice President of Human Resources.

3. **Post-Employment Activities.**

(a) Non-Competition. For twelve (12) months after the termination of my employment with the Company, I will not render executive, managerial, market research, advice or consulting services, either directly or indirectly, to any business engaged in or about to be engaged in developing, producing, marketing, distributing or selling lawn, garden, animal health, animal nutrition or pet related products or which would otherwise conflict with my obligations to the Company. This paragraph shall only apply in those jurisdictions where restrictions such as contained in this paragraph are enforceable.

(b) Non-Solicitation of Customers. For twelve (12) months after the termination of my employment with the Company, I will not solicit directly or indirectly, on behalf of any business entity described in paragraph (a) of this section or which otherwise competes with the Company, any customer I solicited or serviced, or any customer about whom I learned Confidential Information, while in the employ or service of the Company. This paragraph shall apply in those jurisdictions where restrictions such as contained in this paragraph are enforceable.

(c) Non-Solicitation of Employees. For twelve (12) months after the termination of my employment with the Company, I will not recruit, solicit or induce, or attempt to recruit, solicit or induce, any employee of the Company to terminate their employment with the Company or otherwise cease their relationship with the Company.

(d) Duty to Present Contract. For twelve (12) months after the termination of my employment with the Company, before I accept employment with any person or organization that is engaged in or about to be engaged in developing, producing, marketing, distributing or selling lawn, garden, animal health, animal nutrition or pet related products, I agree (1) to advise that prospective employer about the existence of this Agreement; (2) to provide that potential employer a copy of this Agreement; and (3) to advise the Company's Vice President of Human Resources in writing, within five (5) business days, to whom I have provided a copy of this Agreement.

4. **Reformation/Severability.** If any restriction set forth in this Agreement is found by a court to be unenforceable for any reason, the court is empowered and directed to interpret the restriction to extend only so broadly as to be enforceable in that jurisdiction. Additionally, should any of the provisions of this Agreement be determined to be invalid by a court of competent jurisdiction, it is agreed that such determination shall not affect the enforceability of the other provisions herein.

5. Further Acknowledgments. I understand that the restrictions contained in this Agreement are necessary and reasonable for the protection of the Company's business, goodwill and its Confidential Information. I understand that any breach of this Agreement will cause the Company substantial and irrevocable damage and therefore, in the event of any such breach, in addition to such other remedies which may be available, including the return of consideration paid for this Agreement, I agree that the Company shall have the right to seek specific performance and injunctive relief. Any business entity that employs me in a capacity in which I violate this Agreement shall be liable for damages and injunctive relief. Further, I understand that the Company intends to install the full measure of protections permitted by the law to protect its Confidential Information and business relationships, but does not intend to impose any greater protections on me than those permitted by law. I acknowledge that the law that governs restrictive covenants such as this, is important, rapidly changing and varies from state to state. I also understand that the law that will apply to this Agreement after I terminate will depend on factors such as where I live, where I work, the location of my employer, the location of my former employer and other factors, many which are unknown at the time I enter this Agreement. I understand that I have been advised to consult with an attorney of my choice to discuss this agreement and my legal obligations under this agreement after my termination of employment. **I understand that Paragraphs 3(a) and 3(b) do not apply and will not be enforced in California or other states where restrictions such as contained in those paragraphs are not permitted.**

6. Separability. Courts should treat each numbered paragraph as a separate and severable contractual obligation intended to protect the legitimate interests of the Company and to which I intend to be bound.

7. Non Waiver. I agree that the Company's determination not to enforce this or similar agreements as to specific violations shall not operate as a waiver or release of my obligations under this Agreement.

8. Fiduciary Duty. This Agreement is in addition to any fiduciary duty and obligation that may exist under statutory or common law.

9. Entire Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. It cannot be modified or waived except in a writing signed by me and the Chief Executive Officer of the Company. I enter into this Agreement voluntarily.

AGREED AND ACCEPTED BY:

John E. Hanson

____

George A. Yuhas
General Counsel
Central Garden & Pet Company

EXHIBIT B

POST EMPLOYMENT CONSULTING AGREEMENT

This Agreement is made as of April 15, 2019 (the "Effective Date") by and between Central Garden & Pet Company and/or any of its wholly owned subsidiaries, successors and assigns (collectively called "the Company") and John E. Hanson ("Executive").

WHEREAS, Executive recognizes that in his capacity as a key executive with the Company he will provide unique services that will be exceedingly difficult to replace after termination of his employment;

WHEREAS, Executive recognizes that the Company desires continued access to Executive's unique services, knowledge and a reasonable transition after the termination of Executive's employment;

WHEREAS, Executive recognizes that he has been provided adequate consideration for entering into this Consulting Agreement ("Agreement");

THEREFORE, in consideration of the employment of Executive and other good and adequate consideration, Executive and the Company agree to the following:

1. Right to Receive Consulting Services. Executive hereby grants the Company the right to receive continuing Consulting Services on the terms provided herein following termination of Executive's employment with the Company.

2. Consulting Services. Executive will provide continuing strategic advice and counsel related to the business issues and projects Executive was involved in while employed by the Company ("Consulting Services"). Consulting Services shall perform at such times and in a manner as are mutually agreed and shall, on average, consist of ten (10) hours per month during the Term of Agreement.

3. Term of Agreement. Executive will provide Consulting Services effective upon termination of Executive's employment with the Company and continuing for a period through December 31, 2024 or two (2) years from the termination of employment, whichever is later ("Term of Agreement").

4. Compensation. Executive shall be paid ten percent (10%) of his base salary at the time of termination of Executive's employment with the Company for each of the years during the Term of Agreement. This amount shall be paid one-twelfth (1/12) at the end of each month.

5. Expenses. During the Term of Agreement, Executive will be reimbursed by the Company for all expenses necessarily incurred in the performance of this Agreement.

6. Termination. Notwithstanding the Term of Agreement specified above, this Agreement shall terminate under any of the following circumstances: (a) in the event Executive dies, this Agreement shall terminate immediately; (b) if due to physical or mental disability, Executive is unable to perform the services called for under this Agreement with or without reasonable accommodation, either the Company or Executive may terminate this Agreement by providing thirty (30) days' written notice; provided, however, that in the event of termination of Executive by the Company under this clause (b) the Company shall accelerate the vesting of any employee stock options previously granted to Executive which would otherwise cease to vest as a result of such termination; (c) Executive materially breaches the terms of this Agreement; (d) the Company terminates Executive's employment for cause pursuant to Section 14 of the Employment Agreement dated April

15, 2019, between the Company and Executive; and (e) the parties may terminate this Agreement by mutual written agreement.

7. Unique Services. Duty of Loyalty. Executive acknowledges and agrees that the services he performs under this Agreement are of a special, unique, unusual, extraordinary, or intellectual character, which have a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Executive further acknowledges and agrees that during his employment and, provided the Company exercises its option to engage Executive to provide Consulting Services and compensate him under the terms of this Agreement, then during the Term of Agreement he will have a continuing fiduciary duty and duty of loyalty to the Company. He agrees that during the Term of Agreement, he will not render executive, managerial, market research, advice or consulting services, either directly or indirectly, to any business engaged in or about to be engaged in developing, producing, marketing, distributing or selling lawn, garden, animal health, animal nutrition or pet related products or which would otherwise conflict with his obligations to the Company. Notwithstanding the foregoing, nothing contained in this Section 7 shall prevent Executive from serving on the Board of Directors of one or more companies or other entities which are not principally engaged in developing, producing, marketing, distributing or selling lawn, garden, animal health, animal nutrition or pet-related products during the Term of Agreement.

8. Confidential Information or Materials. During the Term of Agreement, Executive will have access to the Company's confidential, proprietary and trade secret information including but not limited to information and strategy regarding the Company's products and services including customer lists and files, product description and pricing, information and strategy regarding profits, costs, marketing, purchasing, sales, customers, suppliers, contract terms, employees, salaries; product development plans; business, acquisition and financial plans and forecasts and marketing and sales plans and forecasts (collectively called "Company Confidential Information"). Executive will not, during the Term of Agreement or thereafter, directly or indirectly disclose to any other person or entity, or use for Executive's own benefit or for the benefit of others besides Company, Company Confidential Information. Upon termination of this Agreement, Executive agrees to promptly return all Company Confidential Information.

9. Remedies. Executive understands and acknowledges that Company's remedies at law for any material breach of this Agreement by Executive are inadequate and that any such breach will cause the Company substantial and irrevocable damage and therefore, in the event of any such breach, in addition to such other remedies which may be available, including the return of consideration paid for this Agreement, Executive agrees that the Company shall have the right to seek specific performance and injunctive relief. It is also expressly agreed that, in the event of such a breach, Company shall also be entitled to recover all of its costs and expenses (including attorneys' fees) incurred in enforcing its rights hereunder.

10. Independent Contractor Status. For all purposes, during the Term of Agreement, Executive shall be deemed to be an independent contractor, and not an employee or agent of the Company. Accordingly, Executive shall not be entitled to any rights or benefits to which any employee of Company may be entitled.

11. Other Employment. Nothing in this Agreement shall prevent Executive from performing services for other employers or business entities, consistent with the terms of this Agreement, during the Term of Agreement.

12. Intellectual Property Rights. Company shall" have sole ownership of and all right, title and interest, to all data, drawings, designs, analyses, graphs, reports, products, tooling, physical property, computer programs, software code, trade secrets and all inventions, discoveries and improvements or other items or concepts, whether patentable or not, (collectively, "Intellectual Property") which are conceived or reduced to practice during the Term of Agreement and arising out of or relating to the services performed hereunder or using the equipment or resources of the Company. To the extent any such Intellectual Property qualifies as a "work for hire" under the United States Copyright Act (17 U.S.C. Sec. 101), Executive agrees that the Company is the author for copyright purposes. To the extent that any Intellectual Property is not a work for hire, Executive agrees to assign, and hereby does assign, its entire right, title and interest in such Intellectual Property, including the right to sue for past infringements.

13. No Authority to Bind Company. During the Term of Agreement, Executive will not have any authority to commit or bind Company to any contractual or financial obligations without the Company's prior written consent.

14. Assignment. This is a personal services agreement and Executive may not assign this Agreement, or any interest herein, without the prior written consent of the Company.

15. Entire Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. It cannot be modified or waived except in a writing signed by both parties.

16. Agreement Enforceable to Full Extent Possible. If any restriction set forth in this Agreement is found by a court to be unenforceable for any reason, the court is empowered and directed to interpret the restriction to extend only so broadly as to be enforceable in that jurisdiction. Additionally, should any of the provisions of this Agreement be determined to be invalid by a court of competent jurisdiction, it is agreed that such determination shall not affect the enforceability of the other provisions herein.

17. The parties agree to all of the terms and conditions set forth above.

Dated: ______________________________

(John E. Hanson)

Dated: ______________________________ Central Garden & Pet Company

By: ______________________________

Exhibit 22

LIST OF GUARANTOR SUBSIDIARIES

The following subsidiaries of Central Garden & Pet Company (the "Company") were, as of December 26, 2020, guarantors of the Company's $500 million aggregate principal amount of 4.125% senior notes due October 2030, and the Company's $300 million aggregate principal amount of 5.125% senior notes due February 2028.

NAME OF GUARANTOR SUBSIDIARY	JURISDICTION OF FORMATION
All-Glass Aquarium Co., Inc.	Wisconsin
B2E Biotech, LLC	Delaware
B2E Corporation	New York
Farnam Companies, Inc.	Arizona
Four Paws Products, Ltd.	New York
Gro Tec, Inc.	Georgia
Gulfstream Home & Garden, Inc.	Florida
Kaytee Products, Incorporated	Wisconsin
Matson, LLC	Washington
New England Pottery, LLC	Delaware
Pennington Seed, Inc.	Delaware
Pets International, Ltd.	Illinois
T.F.H. Publications, Inc.	Delaware
Wellmark International	California
IMS Southern, LLC	Utah
IMS Trading, LLC	Utah
Hydro-Organics Wholesale	California
Segrest, Inc.	Delaware
Blue Springs Hatchery, Inc.	Delaware
Segrest Farms, Inc.	Delaware
Florida Tropical Distributors International, Inc.	Delaware
Sun Pet, Ltd.	Delaware
Aquatica Tropicals, Inc.	Delaware
K&H Manufacturing, LLC	Delaware
Quality Pets, LLC	Utah
Midwest Tropicals LLC	Utah
Nexgen Turf Research, LLC	Oregon
B2E Microbials, LLC	Delaware
B2E Manufacturing, LLC	Delaware
Fourstar Microbial Products LLC	Delaware
Arden Companies, LLC	Michigan
C&S Products Co., Inc.	Iowa

EXHIBIT 31.1

I, Timothy P. Cofer, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended December 26, 2020 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 4, 2021

/s/ TIMOTHY P. COFER
Timothy P. Cofer
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

I, Nicholas Lahanas, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended December 26, 2020 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 4, 2021

/s/ Nicholas Lahanas
Nicholas Lahanas
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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 26, 2020 (the “Report”), I, Timothy P. Cofer, 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 4, 2021

/s/ TIMOTHY P. COFER

Timothy P. Cofer
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

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 26, 2020 (the "Report"), I, Nicholas Lahanas, 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 4, 2021

/s/ NICHOLAS LAHANAS
Nicholas Lahanas
Chief Financial Officer
(Principal Financial Officer)