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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 24, 2022
or

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

For the transition period from ______ to ______
Commission File Number: 001-33268

Central Garden & Pet Company

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

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

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

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 25, 2023	11,237,135
Class A Common Stock Outstanding as of January 25, 2023	41,165,880
Class B Stock Outstanding as of January 25, 2023	1,602,374

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

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Form 10-Q. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Form 10-Q are set forth in the Form 10-K for the fiscal year ended September 24, 2022, 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:

- high inflation, rising interest rates, a potential recession and other adverse macro-economic conditions, including any impact that could result if the U.S. government were to default on its debt obligations;
- fluctuations in market prices for seeds and grains and other raw materials;

- our inability to pass through cost increases in a timely manner;
- fluctuations in energy prices, fuel and related petrochemical costs;
- declines in consumer spending and increased inventory risk during economic downturns;
- our ability to successfully manage the continuing 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 that benefited from the COVID-19 pandemic, including the potential for reduced orders as retailers work through excess inventory;
- adverse weather conditions;
- the success of our Central to Home strategy;
- risks associated with our acquisition strategy, including our ability to successfully integrate acquisitions and the impact of purchase accounting on our financial results;
- potential restructuring activities to improve long-term profitability;
- supply chain delays and disruptions resulting in lost sales, reduced fill rates and service levels and delays in expanding capacity and automating processes;
- seasonality and fluctuations in our operating results and cash flow;
- supply shortages in pet birds, small animals and fish;
- dependence on a small number of customers for a significant portion of our business;
- consolidation trends in the retail industry;
- 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;
- impacts of tariffs or a trade war;
- access to and cost of additional capital;
- potential goodwill or intangible asset impairment;
- our dependence upon our key executives;
- our ability to recruit and retain new members of our management team to support our growing businesses and to hire and retain employees;
- our inability to protect our trademarks and other proprietary rights ;
- 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 possibility our effective tax rate will increase as a result of future changes in the corporate tax rate or other tax law changes.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 24, 2022	December 25, 2021	September 24, 2022
ASSETS			
Current assets:			
Cash and cash equivalents	$ 87,800	$ 296,038	$ 177,442
Restricted cash	14,745	12,913	14,742
Accounts receivable (less allowances of $26,115, $27,937 and $26,246)	329,129	343,659	376,787
Inventories, net	1,024,359	844,899	938,000
Prepaid expenses and other	56,590	34,213	46,883
Total current assets	1,512,623	1,531,722	1,553,854
Plant, property and equipment, net	396,675	340,133	396,979
Goodwill	546,436	369,391	546,436
Other intangible assets, net	534,207	130,190	543,210
Operating lease right-of-use assets	184,351	169,709	186,344
Other assets	54,777	576,896	55,179
Total	$ 3,229,069	$ 3,118,041	$ 3,282,002
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	$ 194,159	$ 244,826	$ 215,681
Accrued expenses	179,231	225,062	201,783
Current lease liabilities	49,353	43,051	48,111
Current portion of long-term debt	296	411	317
Total current liabilities	423,039	513,350	465,892
Long-term debt	1,186,649	1,185,057	1,186,245
Long-term lease liabilities	145,261	132,174	147,724
Deferred income taxes and other long-term obligations	150,676	58,560	147,429
Equity:			
Common stock, $0.01 par value: 11,250,162, 11,335,658 and 11,296,351 shares outstanding at December 24, 2022, December 25, 2021 and September 24, 2022	113	113	113
Class A common stock, $0.01 par value: 41,175,036, 42,205,761 and 41,336,223 shares outstanding at December 24, 2022, December 25, 2021 and September 24, 2022	412	422	413
Class B stock, $0.01 par value: 1,602,374, 1,612,374 and 1,612,374 shares outstanding at December 24, 2022, December 25, 2021 and September 24, 2022	16	16	16
Additional paid-in capital	585,127	578,917	582,056
Retained earnings	740,549	650,032	755,253
Accumulated other comprehensive loss	(3,363)	(1,273)	(4,145)
Total Central Garden & Pet Company shareholders’ equity	1,322,854	1,228,227	1,333,706
Noncontrolling interest	590	673	1,006
Total equity	1,323,444	1,228,900	1,334,712
Total	$ 3,229,069	$ 3,118,041	$ 3,282,002

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	December 24, 2022	December 25, 2021
Net sales	$ 627,663	$ 661,398
Cost of goods sold	455,964	463,202
Gross profit	171,699	198,196
Selling, general and administrative expenses	171,293	171,982
Operating income	406	26,214
Interest expense	(14,469)	(14,484)
Interest income	693	76
Other income (expense)	1,699	(209)
Income (loss) before income taxes and noncontrolling interest	(11,671)	11,597
Income tax (benefit) expense	(2,822)	2,401
Income (loss) including noncontrolling interest	(8,849)	9,196
Net income (loss) attributable to noncontrolling interest	(416)	187
Net income (loss) attributable to Central Garden & Pet Company	$ (8,433)	$ 9,009
Net income (loss) per share attributable to Central Garden & Pet Company:		
Basic	$ (0.16)	$ 0.17
Diluted	$ (0.16)	$ 0.16
Weighted average shares used in the computation of net income (loss) per share:		
Basic	52,478	53,491
Diluted	52,478	54,909

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 24, 2022	December 25, 2021
Income (loss) including noncontrolling interest	$ (8,849)	$ 9,196
Other comprehensive income (loss):		
Foreign currency translation	782	(442)
Total comprehensive income (loss)	(8,067)	8,754
Comprehensive income (loss) attributable to noncontrolling interest	(416)	187
Comprehensive income (loss) attributable to Central Garden & Pet Company	$ (7,651)	$ 8,567

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	December 24, 2022	December 25, 2021
Cash flows from operating activities:		
Net income (loss)	$ (8,849)	$ 9,196
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization	21,692	20,202
Amortization of deferred financing costs	675	640
Non-cash lease expense	12,738	11,405
Stock-based compensation	6,577	5,187
Debt extinguishment costs	—	169
Deferred income taxes	3,260	2,737
Other operating activities	(35)	(70)
Change in assets and liabilities (excluding businesses acquired):		
Accounts receivable	48,062	41,508
Inventories	(84,689)	(159,932)
Prepaid expenses and other assets	(11,620)	(3,635)
Accounts payable	(16,107)	1,150
Accrued expenses	(23,049)	(9,790)
Other long-term obligations	(5)	(53)
Operating lease liabilities	(11,952)	(11,172)
Net cash used by operating activities	(63,302)	(92,458)
Cash flows from investing activities:		
Additions to plant, property and equipment	(17,698)	(24,210)
Investments	(250)	(1,918)
Net cash used in investing activities	(17,948)	(26,128)
Cash flows from financing activities:		
Repayments of long-term debt	(88)	(767)
Repurchase of common stock, including shares surrendered for tax withholding	(9,341)	(7,775)
Payment of contingent consideration liability	(7)	(89)
Distribution to noncontrolling interest	—	(806)
Payment of financing costs	—	(2,153)
Net cash used by financing activities	(9,436)	(11,590)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1,047	(395)
Net decrease in cash, cash equivalents and restricted cash	(89,639)	(130,571)
Cash, cash equivalents and restricted cash at beginning of period	192,184	439,522
Cash, cash equivalents and restricted cash at end of period	$ 102,545	$ 308,951
Supplemental information:		
Cash paid for interest	$ 19,907	$ 19,750
New operating lease right of use assets	$ 11,022	$ 15,616

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 24, 2022 and December 25, 2021, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive income and the condensed consolidated statements of cash flows for the three months ended December 24, 2022 and December 25, 2021 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 businesses in the United Kingdom and Canada, 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 subsidiaries 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 24, 2022 are not necessarily 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 Annual Report on Form 10-K for the fiscal year ended September 24, 2022, which has previously been filed with the Securities and Exchange Commission. The September 24, 2022 balance sheet presented herein was derived from the audited financial statements.

Noncontrolling Interest

Noncontrolling interest in the Company's condensed consolidated financial statements represents the 20% interest not owned by Central in a consolidated subsidiary. Since the Company controls this subsidiary, its financial statements are consolidated with those of the Company, and the noncontrolling owner's 20% share of the subsidiary's net assets and results of operations is deducted and reported as noncontrolling interest on the consolidated balance sheets and as net income (loss) attributable to noncontrolling interest in the condensed consolidated statements of operations. See Note 7, 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 24, 2022, December 25, 2021 and September 24, 2022, respectively.

	December 24, 2022	December 25, 2021	September 24, 2022
		(in thousands)	
Cash and cash equivalents	$ 87,800	$ 296,038	$ 177,442
Restricted cash	14,745	12,913	14,742
Total cash, cash equivalents and restricted cash	$ 102,545	$ 308,951	$ 192,184

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 maintains an allowance for credit losses related to its trade accounts receivable associated with future expected credit losses resulting from 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.

Revenue Recognition

Revenue Recognition and Nature of Products and Services

The Company manufactures, markets and distributes a wide variety of 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 (approximately one percent of consolidated net sales) comprising 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. 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

Recently Issued Accounting Updates

There are no recent accounting pronouncements that are anticipated to have a material impact on the Company's 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 Company's financial assets and liabilities measured at fair value on a recurring basis consist of contingent consideration within Level 3 of the fair value hierarchy. Such amounts are not material for all periods presented.

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

The Company measures certain non-financial assets and liabilities, including long-lived assets, goodwill and intangible assets, at fair value on a non-recurring basis. Fair value measurements of non-financial assets and non-financial liabilities are used primarily in the impairment analyses of long-lived assets, goodwill and other intangible assets. During the periods ended December 24, 2022 and December 25, 2021, the Company was not required to measure any significant non-financial assets and liabilities at fair value.

Fair Value of Other Financial Instruments

In April 2021, the Company issued $ 400 million aggregate principal amount of 4.125% senior notes due April 2031 (the "2031 Notes"). The estimated fair value of the Company's 2031 Notes as of December 24, 2022, December 25, 2021 and September 24, 2022 was $329.6 million, $400.1 million and $327.6 million, respectively, compared to a carrying value of $ 395.0 million, $394.4 million and $394.8 million, respectively.

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 24, 2022, December 25, 2021 and September 24, 2022 was $420.9 million, $504.3 million and $407.6 million, respectively, compared to a carrying value of $ 493.8 million, $493.0 million and $493.6 million, respectively.

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 24, 2022, December 25, 2021 and September 24, 2022 was $281.7 million, $314.4 million and $272.2 million, respectively, compared to a carrying value of $ 297.6 million, $297.1 million and $297.5 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. Inventories, net

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

	December 24, 2022	December 25, 2021	September 24, 2022
		(in thousands)	
Raw materials	$ 296,929	$ 250,822	$ 266,695
Work in progress	140,769	100,933	99,842
Finished goods	543,971	469,819	528,481
Supplies	42,690	23,325	42,982
Total inventories, net	$ 1,024,359	$ 844,899	$ 938,000

4. 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. The qualitative assessment evaluates factors including macro-economic conditions, industry-specific and company-specific considerations, legal and regulatory environments and historical performance. 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 estimated fair value of our reporting units to their related carrying values, including goodwill. Impairment is indicated if the estimated fair value of the reporting unit is less than its carrying value, and an impairment charge is recognized for the differential. 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 24, 2022 and December 25, 2021.

5. Other Intangible Assets

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

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
	(in millions)			
December 24, 2022				
Marketing-related intangible assets – amortizable	$ 22.1	$ (20.9)	$ —	$ 1.2
Marketing-related intangible assets – nonamortizable	252.5	—	(26.0)	226.5
Total	274.6	(20.9)	(26.0)	227.7
Customer-related intangible assets – amortizable	416.4	(125.4)	(2.5)	288.4
Other acquired intangible assets – amortizable	39.7	(27.6)	—	12.2
Other acquired intangible assets – nonamortizable	7.1	—	(1.2)	5.9
Total	46.8	(27.6)	(1.2)	18.1
Total other intangible assets, net	$ 737.8	$ (173.9)	$ (29.8)	$ 534.2

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
	(in millions)			
December 25, 2021				
Marketing-related intangible assets – amortizable	$ 22.1	$ (19.4)	$ —	$ 2.6
Marketing-related intangible assets – nonamortizable	70.6	—	(26.0)	44.6
Total	92.7	(19.4)	(26.0)	47.2
Customer-related intangible assets – amortizable	143.6	(78.3)	(2.5)	62.8
Other acquired intangible assets – amortizable	37.2	(22.9)	—	14.3
Other acquired intangible assets – nonamortizable	7.1	—	(1.2)	5.9
Total	44.3	(22.9)	(1.2)	20.2
Total other intangible assets, net	$ 280.6	$ (120.6)	$ (29.8)	$ 130.2

	Gross	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
	(in millions)			
September 24, 2022				
Marketing-related intangible assets – amortizable	$ 22.1	$ (20.5)	$ —	$ 1.5
Marketing-related intangible assets – nonamortizable	252.5	—	(26.0)	226.5
Total	274.6	(20.5)	(26.0)	228.0
Customer-related intangible assets – amortizable	416.4	(117.8)	(2.5)	296.1
Other acquired intangible assets – amortizable	39.7	(26.6)	—	13.2
Other acquired intangible assets – nonamortizable	7.1	—	(1.2)	5.9
Total	46.8	(26.6)	(1.2)	19.1
Total other intangible assets, net	$ 737.8	$ (164.9)	$ (29.8)	$ 543.2

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

The Company evaluates long-lived assets, including amortizable and indefinite-lived intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The Company evaluates indefinite-lived intangible assets on an annual basis. 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 24, 2022, and accordingly, no impairment testing was performed on these assets.

The Company amortizes its acquired intangible assets with definite lives over periods ranging from two years to 25 years; over weighted average remaining lives of two years for marketing-related intangibles, 12 years for customer-related intangibles and six years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately $ 9.0 million and $4.2 million for the three months ended December 24, 2022 and December 25, 2021, 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 $35 million per year from fiscal 2023 through fiscal 2025 and $ 26 million per year from fiscal 2026 through fiscal 2027.

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6. Long-Term Debt

Long-term debt consists of the following:

	December 24, 2022	December 25, 2021	September 24, 2022
		(in thousands)	
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	500,000	500,000
Senior notes, interest at 4.125%, payable semi-annually, principal due April 2031	400,000	400,000	400,000
Unamortized debt issuance costs	(13,645)	(15,523)	(14,116)
Net carrying value	1,186,355	1,184,477	1,185,884
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 December 2026.	—	—	—
Other notes payable	590	991	678
Total	1,186,945	1,185,468	1,186,562
Less current portion	(296)	(411)	(317)
Long-term portion	$ 1,186,649	$ 1,185,057	$ 1,186,245

Senior Notes

Issuance of $400 million 4.125% Senior Notes due 2031

On April 30, 2021, the Company issued $ 400 million aggregate principal amount of 4.125% senior notes due April 2031 (the "2031 Notes"). The Company used a portion of the net proceeds from the offering to repay all outstanding borrowings under its Amended Credit Facility, with the remainder used for general corporate purposes.

The Company incurred approximately $6 million of debt issuance costs in conjunction with this issuance, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs are being amortized over the term of the 2031 Notes.

The 2031 Notes require semi-annual interest payments on April 30 and October 30. The 2031 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 Amended Credit Facility. The 2031 Notes were issued in a private placement under Rule 144A and will not be registered under the Securities Act of 1933.

The Company may redeem some or all of the 2031 Notes at any time, at its option, prior to April 30, 2026 at the principal amount plus a "make whole" premium. At any time prior to April 30, 2024, the Company may also redeem, at its option, up to 40% 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 2031 Notes at the Company’s option, at any time on or after April 30, 2026 for 102.063%, on or after April 30, 2027 for 101.375%, on or after April 30, 2028 for 100.688% and on or after April 30, 2029 for 100.0%, plus accrued and unpaid interest.

The holders of the 2031 Notes have the right to require the Company to repurchase all or a portion of the 2031 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 specific kinds of changes of control.

The 2031 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 24, 2022.

Issuance of $500 million 4.125% Senior Notes due 2030

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 used 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.

The 2030 Notes require semiannual interest payments on October 15 and April 15. 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 the Company's senior secured revolving credit facility or guarantee the Company'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 24, 2022.

$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 the Company's senior secured revolving credit facility, or which guarantee the Company's other debt.

The Company may redeem some or all of the 2028 Notes at any time, at its option, prior to January 1, 2024 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, 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 24, 2022.

Asset-Based Loan Facility Amendment

On December 16, 2021, the Company entered into a Third Amended and Restated Credit Agreement ("Amended Credit Agreement"). The Amended Credit Agreement amended and restated the previous credit agreement dated September 27, 2019 (the "Predecessor Credit Agreement"), and provides for a $750 million principal amount senior secured asset-based revolving credit facility, with up to an additional $400 million principal amount available with the consent of the Lenders, as defined, if the Company exercises the uncommitted accordion feature set forth therein (collectively, the "Amended Credit Facility"). The Amended Credit Facility matures on December 16, 2026. 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 based upon eligible receivables and inventory, and at the Company's election, eligible real property, minus certain reserves. Proceeds of the Amended Credit Facility will be used for general corporate purposes. At December 24, 2022, the Company's applicable borrowing base calculation supported access to approximately $538 million under the Amended Credit Facility. The Amended Credit Facility includes a $ 50 million sublimit for the issuance of standby letters of credit and a $75 million sublimit for short-notice borrowings. As of December 24, 2022, there were no borrowings outstanding and no letters of credit outstanding under the Amended Credit Facility. There were other letters of credit of $1.6 million outstanding as of December 24, 2022.

Borrowings under the Amended Credit Facility will bear interest at an index based on LIBOR (which will not be less than 0.00%) 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 Truist 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 24, 2022, and such applicable margin for Base Rate borrowings fluctuates between 0.00%-0.50%, and was 0% as of December 24, 2022. An unused line fee shall be payable quarterly 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 quarterly and a facing fee of 0.125% shall be payable quarterly 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. The Amended Credit Facility provides for the transition from LIBOR to Secured Overnight Financing Rate ("SOFR") and does not require an amendment in connection with such transition. As of December 24, 2022, the applicable interest rate related to Base Rate borrowings was 7.5%, and the applicable interest rate related to one-month LIBOR-based borrowings was 5.4%.

The Company incurred approximately $2.4 million of debt issuance costs in conjunction with this transaction, which included lender 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 1:1 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, including (i) pledges of 100% of the stock or other equity interest of each domestic subsidiary that is directly owned by such entity and (ii) 65% of the stock or other equity interest of each foreign subsidiary that is directly owned by such entity, in each case subject to customary exceptions. The Company was in compliance with all financial covenants under the Amended Credit Facility as of December 24, 2022.

7. 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 24, 2022 and December 25, 2021.

	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 24, 2022	$ 113	$ 413	$ 16	$ 582,056	$ 755,253	$ (4,145)	$ 1,333,706	$ 1,006	$ 1,334,712
Comprehensive loss	—	—	—	—	(8,433)	782	(7,651)	(416)	(8,067)
Amortization of share-based awards	—	—	—	4,647	—	—	4,647	—	4,647
Restricted share activity, including net share settlement	—	—	—	(590)	—	—	(590)	—	(590)
Issuance of common stock, including net share settlement of stock options	—	1	—	1,707	—	—	1,708	—	1,708
Repurchase of stock	—	(2)	—	(2,693)	(6,271)	—	(8,966)	—	(8,966)
Balance December 24, 2022	$ 113	$ 412	$ 16	$ 585,127	$ 740,549	$ (3,363)	$ 1,322,854	$ 590	$ 1,323,444

	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 25, 2021	$ 113	$ 423	$ 16	$ 576,446	$ 646,082	$ (831)	$ 1,222,249	$ 1,292	$ 1,223,541
Comprehensive income	—	—	—	—	9,009	(442)	8,567	187	8,754
Amortization of share-based awards	—	—	—	3,886	—	—	3,886	—	3,886
Restricted share activity, including net share settlement	—	—	—	(705)	—	—	(705)	—	(705)
Repurchase of stock	—	(1)	—	(1,600)	(5,059)	—	(6,660)	—	(6,660)
Issuance of common stock, including net share settlement of stock options	—	—	—	890	—	—	890	—	890
Distribution to Noncontrolling interest	—	—	—	—	—	—	—	(806)	(806)
Balance December 25, 2021	$ 113	$ 422	$ 16	$ 578,917	$ 650,032	$ (1,273)	$ 1,228,227	$ 673	$ 1,228,900

8. Stock-Based Compensation

The Company recognized share-based compensation expense of $ 6.6 million and $5.2 million for the three months ended December 24, 2022 and December 25, 2021, respectively, as a component of selling, general and administrative expenses. The tax benefit associated with share-based compensation expense for the three months ended December 24, 2022 and December 25, 2021 was $1.6 million and $1.2 million, respectively.

9. Earnings Per Share

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

	Three Months Ended December 24, 2022		
	Income	Shares	Per Share
	(in thousands, except per share amounts)		
Basic EPS:			
Net loss available to common shareholders	$ (8,433)	52,478	$ (0.16)
Effect of dilutive securities (1):			
Options to purchase common stock	—	—	—
Restricted shares	—	—	—
Performance stock units	—	—	—
Diluted EPS:			
Net loss available to common shareholders	$ (8,433)	52,478	$ (0.16)

(1) The potential effects of stock awards were excluded from the diluted earnings per share calculation for the three months ended December 24, 2022, because their inclusion in a loss period would be anti-dilutive to the earnings per share calculation.

	Three Months Ended December 25, 2021		
	Income	Shares	Per Share
	(in thousands, except per share amounts)		
Basic EPS:			
Net income available to common shareholders	$ 9,009	53,491	$ 0.17
Effect of dilutive securities:			
Options to purchase common stock	—	632	—
Restricted shares	—	786	(0.01)
Diluted EPS:			
Net income available to common shareholders	$ 9,009	54,909	$ 0.16

Options to purchase 2.1 million shares of Class A common stock at prices ranging from $ 21.37 to $51.37 per share were outstanding at December 24, 2022, and options to purchase 2.6 million shares of Class A common stock at prices ranging from $13.82 to $51.37 per share were outstanding at December 25, 2021.

For the three months ended December 24, 2022 and December 25, 2021, approximately 0.5 million and 21 thousand options outstanding, respectively, 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 24, 2022, 0.3 million options outstanding, 0.7 million restricted shares and 0.1 million performance stock units were excluded from the diluted earnings per share calculation because their inclusion in a net loss period would be anti-dilutive to the earnings per share calculation.

10. 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 the Pet segment and the Garden segment. Substantially all of the Company's assets and operations relate to its business in the United States. Financial information relating to the Company's business segments is presented in the table below.

	Three Months Ended	
	December 24, 2022	December 25, 2021
	(in thousands)	
Net sales:		
Pet segment	$ 415,820	$ 436,002
Garden segment	211,843	225,396
Total net sales	$ 627,663	$ 661,398
Operating income (loss)		
Pet segment	39,555	45,251
Garden segment	(10,820)	6,057
Corporate	(28,329)	(25,094)
Total operating income	406	26,214
Interest expense - net	(13,776)	(14,408)
Other income (expense)	1,699	(209)
Income tax (benefit) expense	(2,822)	2,401
Income (loss) including noncontrolling interest	(8,849)	9,196
Net income (loss) attributable to noncontrolling interest	(416)	187
Net income (loss) attributable to Central Garden & Pet Company	$ (8,433)	$ 9,009
Depreciation and amortization:		
Pet segment	$ 10,112	$ 9,549
Garden segment	10,842	9,620
Corporate	738	1,033
Total depreciation and amortization	$ 21,692	$ 20,202

	December 24, 2022	December 25, 2021	September 24, 2022
		(in thousands)	
Assets:			
Pet segment	$ 1,041,944	$ 992,788	$ 1,069,167
Garden segment	1,472,102	1,417,011	1,405,802
Corporate	715,023	708,242	807,033
Total assets	$ 3,229,069	$ 3,118,041	$ 3,282,002
Goodwill (included in corporate assets above):			
Pet segment	$ 277,067	$ 277,067	$ 277,067
Garden segment	269,369	92,324	269,369
Total goodwill	$ 546,436	$ 369,391	$ 546,436

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

	Three Months Ended December 24, 2022		
	Pet Segment	Garden Segment	Total
		(in millions)	
Other pet products	$ 139.5	$ —	$ 139.5
Dog and cat products	134.2	—	134.2
Other manufacturers' products	103.4	46.0	149.4
Wild bird products	38.7	59.5	98.3
Other garden supplies	—	106.3	106.3
Total	$ 415.8	$ 211.8	$ 627.7

	Three Months Ended December 25, 2021		
	Pet Segment	Garden Segment	Total
		(in millions)	
Other pet products	$ 153.6	$ —	$ 153.6
Dog and cat products	144.9	—	144.9
Other manufacturers' products	104.5	49.4	153.9
Wild bird products	33.0	54.7	87.7
Other garden supplies	—	121.3	121.3
Total	$ 436.0	$ 225.4	$ 661.4

11. 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 the resolution of which management believes could 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 filed its notice of appeal and the plaintiffs cross-appealed. On July 14, 2021, the Federal Circuit Court of Appeals issued its decision on the appeal. The Federal Circuit concluded that the Company did not infringe plaintiff's patent and determined that the breach of contract claim raised no non-duplicative damages and should be dismissed. The court affirmed the jury's liability verdict on the misappropriation of confidential information claim but ordered a new trial on damages on that single claim limited to the "head start" benefit, if any, generated by the confidential information. The Company intends to vigorously pursue its defenses in the future proceedings and believes that it will prevail on the merits as to the head start damages issue. 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; as a result, the ultimate resolution and impact on the Company's consolidated financial statements is uncertain.

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.

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

Our Company

Central Garden & Pet Company ("Central") is a market leader in the garden and pet industries in the United States. For over 40 years, Central has proudly nurtured happy and healthy homes by bringing innovative and trusted solutions to consumers and its customers. We manage our operations through two reportable segments: Pet and Garden.

Our Pet segment includes dog and cat supplies such as dog treats and chews, toys, pet beds and grooming products, waste management and training pads, pet containment; supplies for aquatics, small animals, reptiles and pet birds including toys, cages and habitats, bedding, food and supplements; products for equine and livestock, animal and household health and insect control products; live fish and small animals as well as outdoor cushions. These products are sold under brands such as Aqueon®, Cadet®, Comfort Zone®, Farnam®, Four Paws®, K&H Pet Products® ("K&H"), Kaytee®, Nylabone® and Zilla®.

Our Garden segment includes lawn and garden consumables such as grass seed, vegetable, flower and herb packet seed; wild bird feed, bird houses and other birding accessories; weed, grass, and other herbicides, insecticide and pesticide products; fertilizers and live plants. These products are sold under brands such as Amdro®, Ferry-Morse®, Pennington® and Sevin®.

In fiscal 2022, our consolidated net sales were $3.3 billion, of which our Pet segment, or Pet, accounted for approximately $1.9 billion and our Garden segment, or Garden, accounted for approximately $1.4 billion. In fiscal 2022, our operating income was $260 million consisting of income from our Pet segment of $209 million, income from our Garden segment of $154 million and corporate expenses of $103 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 2023 First Quarter Financial Performance:

- Net sales declined $33.7 million, or 5.1%, from the prior year quarter to $627.7 million. Pet segment sales decreased $20.2 million, and Garden segment sales decreased $13.5 million.
- Gross profit declined $26.5 million from the prior year quarter, and gross margin decreased 260 basis points to 27.4%.
- Selling, general and administrative expense declined $0.7 million from the prior year quarter to $171.3 million and as a percentage of net sales increased 130 basis points to 27.3%.
- Operating income decreased $25.8 million from the prior year quarter, to $0.4 million.
- The net loss in the first quarter of fiscal 2023 was $8.4 million, or $0.16 per diluted share, compared to net income of $9.0 million, or $0.16 per diluted share, in the first quarter of fiscal 2022.

Results of Operations

Three Months Ended December 24, 2022
Compared with Three Months Ended December 25, 2021

Net Sales

Net sales for the three months ended December 24, 2022 decreased $33.7 million, or 5.1%, to $627.7 million from $661.4 million for the three months ended December 25, 2021. Our branded product sales decreased $29.2 million, and sales of other manufacturers' products decreased $4.5 million. The decline in net sales was volume related and occurred despite price increases intended to mitigate the adverse impact of rising input costs and other inflationary pressures on our business.

Pet net sales decreased $20.2 million, or 4.6%, to $415.8 million for the three months ended December 24, 2022 from $436.0 million for the three months ended December 25, 2021. The decline in net sales was due primarily to a decrease in our private label pet bed business, attributable to our exit of some profit-challenged product lines in the prior fiscal year, and secondarily, to lower sales of durable items, including those in our aquatics business. These declines were partially offset by increased sales in our dog and cat treats and toys business and wild bird feed. Pet branded product sales declined $19.0 million, and sales of other manufacturers' products declined $1.2 million.

Garden net sales decreased $13.5 million, or 6.0%, to $211.9 million for the three months ended December 24, 2022 from $225.4 million for the three months ended December 25, 2021. The decrease in garden net sales was due primarily to lower sales in our controls and fertilizer business due to the high retailer inventories entering the first quarter of fiscal 2023. Higher retailer inventory and lower foot traffic at most retail lawn and garden outlets resulted in lower sales in most of our Garden categories, partially offset by increased sales in our wild bird feed and grass seed businesses. Garden branded sales decreased $10.2 million, and sales of other manufacturers' products decreased $3.3 million.

Gross Profit

Gross profit for the three months ended December 24, 2022 decreased $26.5 million, or 13.4%, to $171.7 million from $198.2 million for the three months ended December 25, 2021. Gross margin decreased 260 basis points to 27.4% for the three months ended December 24, 2022 from 30.0% for the three months ended December 25, 2021. The decline was driven primarily by the Garden segment largely due to cost inflation and unfavorable overhead absorption due to production and sales volume declines, partially offset by pricing actions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $0.7 million, or 0.4%, to $171.3 million for the three months ended December 24, 2022. As a percentage of net sales, selling, general and administrative expenses increased to 27.3% for the three months ended December 24, 2022, compared to 26.0% in the comparable prior year quarter. Decreased expense in both the Garden and Pet segments was partially offset by increased expense at corporate.

Selling and delivery expense decreased $4.1 million to $75.0 million for the three months ended December 24, 2022 as compared to $79.1 million in the prior year quarter. The decreases, in both the Garden and Pet segments, were due primarily to lower product volume delivered and a customer change from store delivery to warehouse pick-up.

Warehouse and administrative expense increased $3.4 million, or 3.7%, to $96.3 million for the three months ended December 24, 2022 from $92.9 million for the three months ended December 25, 2021. The increase in warehouse and administrative expense was due primarily to increased corporate expense. Corporate expenses increased $3.2 million due primarily to an increase in medical insurance costs and third-party expenses. 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 decreased $25.8 million to $0.4 million for the three months ended December 24, 2022. Our operating margin decreased from 4.0% in the prior year quarter to 0.1% in the current year quarter. The decrease in operating income was due to a $33.7 million decrease in sales and a 260 basis point decrease in gross margin, partially offset by $0.7 million decline in selling, general and administrative expense.

Pet operating income decreased $5.7 million, or 12.6%, to $39.6 million for the three months ended December 24, 2022 from $45.3 million for the three months ended December 25, 2021, and Pet operating margin declined 90 basis points to 9.5%. Pet operating income and margin decreased due to lower sales and gross margin partially offset by lower selling, general and administrative expense.

Garden operating income decreased $16.9 million to a loss of $10.8 million for the three months ended December 24, 2022, from income of $6.1 million for the three months ended December 25, 2021. Garden operating income decreased due to lower sales and gross margin partially offset by lower selling, general and administrative expense.

Corporate operating expense increased $3.2 million, or 12.9%, to $28.3 million for the three months ended December 24, 2022 from $25.1 million for the three months ended December 25, 2021. Corporate expense increased due primarily to increased medical insurance costs and third-party expenses.

Net Interest Expense

Net interest expense for the three months ended December 24, 2022 decreased $0.6 million, or 4.4%, to $13.8 million from $14.4 million for the three months ended December 25, 2021. The decrease in net interest expense was due to increased interest income resulting from higher rates of interest earned on our cash balance during the current quarter. Debt outstanding on December 24, 2022 was $1,186.9 million compared to $1,185.5 million at December 25, 2021.

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 (expense) was income of $1.7 million for the quarter ended December 24, 2022 compared to an expense of $0.2 million for the quarter ended December 25, 2021. The increase in other income was due primarily to foreign currency gains in the current year quarter as compared to a loss in the prior year quarter.

Income Taxes

Our effective income tax rate was 24.2% for the quarter ended December 24, 2022 and 20.7% for the quarter ended December 25, 2021. The increase in our effective income tax rate was due primarily to a reduced tax benefit from stock compensation compared to the prior year quarter.

Net Income and Earnings Per Share

Our net loss in the first quarter of fiscal 2023 was $8.4 million, or $0.16 per diluted share, compared to net income of $9.0 million, or $0.16 per diluted share, in the first quarter of fiscal 2022.

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 adjusted EBITDA. Management believes non-GAAP financial measures 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.

Adjusted EBITDA is defined by us as income before income tax, net other expense, net interest expense, depreciation and amortization and stock-based compensation (or operating income plus depreciation and amortization and stock-based compensation expense). We present adjusted EBITDA because we believe that adjusted 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. Adjusted EBITDA is used by our management to perform such evaluation. Adjusted 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 adjusted EBITDA is frequently used by investors, securities analysts and other interested parties in their evaluation of companies, many of which present adjusted EBITDA when reporting their results. Other companies may calculate adjusted EBITDA differently and it may not be comparable.

The reconciliations of adjusted EBITDA 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 adjusted EBITDA in making financial, operating and planning decisions and in evaluating our performance, and we believe it 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.

Adjusted EBITDA Reconciliation

	GAAP to Non-GAAP Reconciliation For the Three Months Ended December 24, 2022			
	Pet	Garden	Corp	Total
	(in thousands)			
Net loss attributable to Central Garden & Pet Company	$ —	$ —	$ —	$ (8,433)
Interest expense, net	—	—	—	13,776
Other income	—	—	—	(1,699)
Income tax benefit	—	—	—	(2,822)
Net loss attributable to noncontrolling interest	—	—	—	(416)
Sum of items below operating income	—	—	—	8,839
Income (loss) from operations	39,555	(10,820)	(28,329)	406
Depreciation & amortization	10,112	10,842	738	21,692
Noncash stock-based compensation	—	—	6,577	6,577
Adjusted EBITDA	$ 49,667	$ 22	$ (21,014)	$ 28,675

Adjusted EBITDA Reconciliation

	GAAP to Non-GAAP Reconciliation For the Three Months Ended December 25, 2021			
	Pet	Garden	Corp	Total
	(in thousands)			
Net income attributable to Central Garden & Pet Company	$ —	$ —	$ —	$ 9,009
Interest expense, net	—	—	—	14,408
Other expense	—	—	—	209
Income tax expense	—	—	—	2,401
Net income attributable to noncontrolling interest	—	—	—	187
Sum of items below operating income	—	—	—	17,205
Income (loss) from operations	45,251	6,057	(25,094)	26,214
Depreciation & amortization	9,549	9,620	1,033	20,202
Noncash stock-based compensation	—	—	5,187	5,187
Adjusted EBITDA	$ 54,800	$ 15,677	$ (18,874)	$ 51,603

Inflation

Our revenues and margins are dependent on various economic factors, including rates of inflation, energy costs, consumer behavior, 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 fertilizers. 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.

The inflationary pressure, including notable increases in costs for key commodities, labor and freight, that we experienced in fiscal 2022 is continuing into fiscal 2023.

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 2022, approximately 66% of our Garden segment’s net sales and 59% 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 66% of our Garden segment’s net sales occurring during the second and third fiscal quarters. This seasonality requires the shipment of large quantities of product well ahead of the peak consumer buying periods. To encourage retailers and distributors to stock large quantities of inventory, industry practice has been for manufacturers to give extended credit terms and/or promotional discounts.

Operating Activities

Net cash used by operating activities decreased by $29.2 million, from $92.5 million for the three months ended December 25, 2021, to $63.3 million for the three months ended December 24, 2022. The decrease in cash used by operating activities was due primarily to changes in our working capital accounts for the period ended December 24, 2022, as compared to the prior year period, predominantly related to inventory.

Investing Activities

Net cash used in investing activities decreased $8.2 million, from $26.1 million for the three months ended December 25, 2021 to $17.9 million during the three months ended December 24, 2022. The decrease in cash used in investing activities was due primarily to lower capital expenditures in the current year compared to the prior year.

Financing Activities

Net cash used by financing activities decreased $2.2 million, from $11.6 million for the three months ended December 25, 2021, to $9.4 million for the three months ended December 24, 2022. The decrease in cash used by financing activities during the current year was due primarily to the payment of financing costs associated with our Amended Credit Facility and a distribution to our noncontrolling interest in the prior year period, as well as lower repayments of long term debt in the current year period, partially offset by increased open market purchases of our common stock during the current year as compared to the prior year. During the three months ended December 24, 2022, we repurchased approximately 0.1 million shares of our voting common stock (CENT) on the open market at an aggregate cost of approximately $2.0 million, or approximately $37.26 per share, and approximately 0.2 million shares of our non-voting Class A common stock (CENTA) on the open market at an aggregate cost of approximately $6.9 million, or approximately $35.29 per share. During the three months ended December 25, 2021, we repurchased approximately 0.2 million shares of our non-voting Class A common stock (CENTA) on the open market at an aggregate cost of approximately $6.7 million, or approximately $43.44 per share.

We expect that our principal sources of funds will be cash generated from our operations and, if necessary, borrowings under our $750 million Amended 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 Amended Credit 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 $70 million to $80 million in fiscal 2023, of which we have invested approximately $18 million through December 24, 2022.

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 24, 2022, our total debt outstanding was $1,186.9 million, as compared with $1,185.5 million at December 25, 2021.

Senior Notes

Issuance of $400 million 4.125% Senior Notes due 2031

In April 2021, we issued $400 million aggregate principal amount of 4.125% senior notes due April 2031 (the "2031 Notes"). We used the net proceeds from the offering to repay all outstanding borrowings under our Amended Credit Facility, with the remainder used for general corporate purposes.

We incurred approximately $6 million of debt issuance costs in conjunction with this issuance, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs are being amortized over the term of the 2031 Notes.

The 2031 Notes require semi-annual interest payments on April 30 and October 30. The 2031 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 Amended Credit Facility. The 2031 Notes were issued in a private placement under Rule 144A and will not be registered under the Securities Act of 1933.

We may redeem some or all of the 2031 Notes at any time, at our option, prior to April 30, 2026 at the principal amount plus a "make whole" premium. At any time prior to April 30, 2024, we may also redeem, at our option, up to 40% 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 2031 Notes at our option, at any time on or after April 30, 2026 for 102.063%, on or after April 30, 2027 for 101.375%, on or after April 30, 2028 for 100.688% and on or after April 30, 2029 for 100.0%, plus accrued and unpaid interest.

The holders of the 2031 Notes have the right to require us to repurchase all or a portion of the 2031 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 specific kinds of changes of control.

The 2031 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 24, 2022.

Issuance of $500 million 4.125% Senior Notes due 2030

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 used 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.

The 2030 Notes require semiannual interest payments on October 15 and April 15. 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 24, 2022.

$300 Million 5.125% Senior Notes due 2028

In December 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, at any time 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 24, 2022.

Asset-Based Loan Facility Amendment

On December 16, 2021, we entered into a Third Amended and Restated Credit Agreement (“Amended Credit Agreement”). The Amended Credit Agreement amended and restated the previous credit agreement dated September 27, 2019 (the "Predecessor Credit Agreement"), and provides for a $750 million principal amount senior secured asset-based revolving credit facility, with up to an additional $400 million principal amount available with the consent of the Lenders, as defined, if we exercise the uncommitted accordion feature set forth therein (collectively, the “Amended Credit Facility”). The Amended Credit Facility matures on December 16, 2026. We may borrow, repay and reborrow amounts under the Amended Credit Facility until its maturity date, at which time all amounts outstanding under the Amended Credit Facility must be repaid in full.

The Amended Credit Facility is subject to a borrowing base that is calculated using a formula based upon eligible receivables and inventory, and at our election, eligible real property, minus certain reserves. Proceeds of the Amended Credit Facility will be used for general corporate purposes. At December 24, 2022, the Company's applicable borrowing base calculation supported access to approximately $538 million under the Amended Credit Facility. The Amended Credit Facility includes a $50 million sublimit for the issuance of standby letters of credit and a $75 million sublimit for short-notice borrowings. As of December 24, 2022, there were no borrowings outstanding and no letters of credit outstanding under the Amended Credit Facility. There were other letters of credit of $1.6 million outstanding as of December 24, 2022.

Borrowings under the Amended Credit Facility will bear interest at an index based on LIBOR (which will not be less than 0.00%) or, at our option, the Base Rate, plus, in either case, an applicable margin based on our usage under the credit facility. Base Rate is defined as the highest of (a) the Truist 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 24, 2022, and such applicable margin for Base Rate borrowings fluctuates between 0.00%-0.50%, and was 0% as of December 24, 2022. An unused line fee shall be payable quarterly 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 quarterly and a facing fee of 0.125% shall be payable quarterly 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. The Amended Credit Facility provides for the transition from LIBOR to SOFR and does not require an amendment in connection with such transition. As of December 24, 2022, the applicable interest rate related to Base Rate borrowings was 7.5%, and the applicable interest rate related to one-month LIBOR-based borrowings was 5.4%.

We incurred approximately $2.4 million of debt issuance costs in conjunction with this transaction, which included lender 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 us to maintain a minimum fixed charge coverage ratio of 1:1 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, including (i) pledges of 100% of the stock or other equity interest of each domestic subsidiary that is directly owned by such entity and (ii) 65% of the stock or other equity interest of each foreign subsidiary that is directly owned by such entity, in each case subject to customary exceptions. We were in compliance with all financial covenants under the Amended Credit Facility during the period ended December 24, 2022.

Summarized Financial Information for Guarantors and the Issuer of Guaranteed Securities

Central (the "Parent/Issuer") issued $400 million of 2031 Notes in April 2021, $500 million of 2030 Notes in October 2020, and $300 million of 2028 Notes in December 2017. The 2031 Notes, 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 guarantors of our senior secured revolving credit facility ("Credit Facility"). The 2031 Notes, 2030 Notes and 2028 Notes are unsecured senior obligations and are subordinated to all of our existing and future secured debt, including our Amended 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 2031, 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 2031, 2030 and 2028 Notes when due, whether at stated maturity of the 2031, 2030 and 2028 Notes, by acceleration, call for redemption or otherwise, and all other obligations of the Company to the holders of the 2031, 2030 and 2028 Notes and to the trustee under the indenture governing the 2031, 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 well, 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 24, 2022		Fiscal Year Ended September 24, 2022	
	Parent/Issuer	Guarantors	Parent/Issuer	Guarantors
	(in thousands)			
Net sales	$ 167,918	$ 408,686	$ 819,213	$ 2,198,460
Gross profit	$ 37,111	$ 132,841	$ 183,090	$ 709,635
Income (loss) from operations	$ (11,425)	$ 25,185	$ (12,305)	$ 243,293
Equity in earnings of Guarantor subsidiaries	$ 18,800	$ —	$ 189,228	$ —
Net income (loss)	$ (19,076)	$ 18,800	$ (53,968)	$ 189,228

Summarized Balance Sheet Information

	As of December 24, 2022		As of September 24, 2022	
	Parent/Issuer	Guarantors	Parent/Issuer	Guarantors
	(in thousands)			
Current assets	$ 368,444	$ 940,250	$ 455,381	$ 904,090
Intercompany receivable from Non-guarantor subsidiaries	313,930	62,140	309,238	61,794
Other assets	3,142,232	2,401,665	3,124,526	2,458,823
Total assets	$ 3,824,606	$ 3,404,055	$ 3,889,145	$ 3,424,707
Current liabilities	$ 152,191	$ 230,330	$ 162,793	$ 267,872
Long-term debt	1,186,361	—	1,185,891	—
Other liabilities	1,392,756	219,022	1,450,702	220,990
Total liabilities	$ 2,731,308	$ 449,352	$ 2,799,386	$ 488,862

New Accounting Pronouncements

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

Critical Accounting Policies, Estimates and Judgments

There have been no material changes to our critical accounting policies, estimates and assumptions or the judgments affecting the application of those accounting policies since our Annual Report on Form 10-K for the fiscal year ended September 24, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in our exposure to market risk from that discussed in our Annual Report on Form 10-K for the fiscal year ended September 24, 2022.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* Our Chief Executive Officer and principal financial officer have reviewed, as of the end of the period covered by this report, the "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) that ensure that information relating to the Company required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported in a timely and proper manner and that such information is accumulated and communicated to our management, including our Chief Executive Officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based upon this review, such officers concluded that our disclosure controls and procedures were effective as of December 24, 2022.

(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 2023. There were no changes in our internal control over financial reporting during the first quarter of fiscal 2023 that have materially affected, or are 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 filed its notice of appeal and the plaintiffs cross-appealed. On July 14, 2021, the Federal Circuit Court of Appeals issued its decision on the appeal. The Federal Circuit concluded that the Company did not infringe plaintiff's patent and determined that the breach of contract claim raised no non-duplicative damages and should be dismissed. The court affirmed the jury's liability verdict on the misappropriation of confidential information claim but ordered a new trial on damages on that single claim limited to the "head start" benefit, if any, generated by the confidential information. The Company intends to vigorously pursue its defenses in the future proceedings and believes that it will prevail on the merits as to the head start damages issue. 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 24, 2022.

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

The following table sets forth the repurchases of any equity securities during the fiscal quarter ended December 24, 2022 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 25, 2022 - October 29, 2022	174,625	(2) (3)	$ 35.43	171,054	$ 97,493,000	(4)
October 30, 2022 - November 26, 2022	6,069	(3)	$ 39.03	1,602	$ 97,432,000	
November 27, 2022 - December 24, 2022	85,812	(2) (3)	$ 36.50	78,255	$ 94,591,000	
Total	266,506		$ 35.86	250,911	$ 94,591,000	

(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 24, 2022, we had $94.6 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) During the period September 25 through October 29, 2022, we repurchased 171,054 shares under the two plans. We repurchased 100,977 shares under the Equity Dilution Authorization and 70,077 shares under the 2019 Repurchase Authorization.

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		
10.1*	Employment Agreement Amendment effective September 29, 2022 between Central Garden & Pet Company and Timothy P. Cofer.	8-K	001-33268	10.1	10/3/2022		
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	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended December 24, 2022, formatted in Inline XBRL: (i) Condensed Consolidated Statements of Cash Flows, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Balance Sheets, and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags.					X	
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended December 24, 2022, formatted in Inline XBRL (included as Exhibit 101)						

* 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 1, 2023

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

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

Exhibit 22

LIST OF GUARANTOR SUBSIDIARIES

The following subsidiaries of Central Garden & Pet Company (the "Company") were, as of December 24, 2022, guarantors of the Company's $400 million aggregate principal amount of 4.125% senior notes due April 2031, $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
A.E. McKenzie Co. ULC	British Columbia, Canada
All-Glass Aquarium Co., Inc.	Wisconsin
Aquatica Tropicals, Inc.	Delaware
Arden Companies, LLC	Michigan
B2E Biotech, LLC	Delaware
B2E Corporation	New York
B2E Manufacturing, LLC	Delaware
B2E Microbials, LLC	Delaware
Blue Springs Hatchery, Inc.	Delaware
C&S Products Co., Inc.	Iowa
Farnam Companies, Inc.	Arizona
Ferry_Morse Seed Company	Delaware
Flora Parent, Inc.	Delaware
Florida Tropical Distributors International, Inc.	Delaware
Four Paws Products, Ltd.	New York
Gro Tec, Inc.	Georgia
Gulfstream Home & Garden, Inc.	Florida
Hydro-Organics Wholesale	California
IMS Southern, LLC	Utah
IMS Trading, LLC	Utah
K&H Manufacturing, LLC	Delaware
Kaytee Products, Incorporated	Wisconsin
Livingston Seed Company	Delaware
Marteal, Ltd.	California
Matson, LLC	Washington
Midwest Tropicals LLC	Utah
New England Pottery, LLC	Delaware
Nexgen Turf Research, LLC	Oregon
P&M Solutions, LLC	Georgia
Pennington Seed, Inc.	Delaware
Pets International, Ltd.	Illinois
Plantation Products, LLC	Delaware
Quality Pets, LLC	Utah
Seed Holdings, Inc.	Delaware

Segrest, Inc.	Delaware
Segrest Farms, Inc.	Delaware
Sun Pet, Ltd.	Delaware
Sustainable Agrico LLC	Delaware
T.F.H. Publications, Inc.	Delaware
Wellmark International	California

EXHIBIT 31.1

I, Timothy P. Cofer, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended December 24, 2022 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 1, 2023

/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 24, 2022 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 1, 2023

/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 24, 2022 (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 1, 2023

/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 24, 2022 (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 1, 2023

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