

Table of Contents

Blue Buffalo Pet Products, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

3.82% and no outstanding borrowings under the revolving credit facility. Principal payments on the term loan borrowings are due and payable in quarterly installments of approximately \$1.0 million with the then expected remaining balance of \$373.2 million due on August 8, 2019.

During the three-month periods ended March 31, 2014 and March 31, 2015, the Company recorded amortization expense for deferred debt issuance costs of approximately \$30,000.

The Amended Facility contains and defines financial covenants, including a secured leverage ratio (defined as, with certain adjustments, the ratio of (i) the Company's indebtedness less unrestricted cash and cash equivalents up to \$40 million to (ii) consolidated net income before interest, taxes, depreciation, and amortization) not to exceed (a) December 31, 2014 and March 31, 2015, 4.25:1.00, (b) June 30, 2015 and September 30, 2015, 4.00:1.00, and (c) if such periods ends on or after December 31, 2015, 3.75:1.00. The Amended Facility also sets forth mandatory and optional prepayment conditions, including an annual excess cash flow requirement, as defined, that may result in our use of cash to reduce our debt obligations. For the year ended December 31, 2014, the Company was not required to make an excess cash flow payment. As of March 31, 2015, the Company believes it was in compliance with its financial debt covenants.

Note 7 – Fair Value Measurements

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, other current liabilities, deferred compensation, and debt, none of which are measured at fair value on a recurring basis. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and other current liabilities approximate their fair value due to the short-term nature of these financial instruments. The Company's long-term financial liabilities consist of the long-term portion of deferred compensation and long-term debt. The long-term portion of deferred compensation is recorded at the present value of the liability (which approximates fair value) under the Blue Buffalo Company, Ltd. Phantom Equity Plan and is included in other liabilities on the accompanying unaudited condensed consolidated balance sheets. Long-term debt is recorded on the unaudited condensed consolidated balance sheets at issuance price and adjusted for any applicable unamortized discounts or premiums.

The Company accounts for its fair value measurements in accordance with accounting guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value hierarchy for disclosure of fair value measurements is as follows:

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

Level 2- Quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3- Inputs that are unobservable (for example, cash flow modeling inputs based on assumptions)

At December 31, 2014 and March 31, 2015, we had approximately \$90.1 million and \$125.2 million, respectively, of cash invested in money market deposit accounts which were included in cash and cash equivalents on the accompanying unaudited condensed consolidated balance sheets (Level 1).

The Company reports transfers in and out of Levels 1, 2, and 3, as applicable, using the fair value of the individual securities as of the beginning of the reporting period in which the transfer(s) occurred. There were no transfers in or out of Level 1, 2, or 3 at the year ended December 31, 2014 and during the three months ended March 31, 2015.