

CENTRAL GARDEN & PET CO  
Form 10-K  
December 12, 2013  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended September 28, 2013

Commission File Number 1-33268

**CENTRAL GARDEN & PET COMPANY**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**68-0275553**  
(IRS Employer Identification Number)

**1340 Treat Boulevard, Suite 600, Walnut Creek, California 94597**

(Address of principal executive offices) (Zip Code)

**Telephone Number: (925) 948-4000**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

Edgar Filing: CENTRAL GARDEN & PET CO - Form 10-K

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	Nasdaq
Class A Common Stock	Nasdaq

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At March 30, 2013, the aggregate market value of the registrant's Common Stock, Class A Common Stock and Class B Stock held by non-affiliates of the registrant was approximately \$90.7 million, \$257.1 million and \$53,900, respectively.

At December 1, 2013, the number of shares outstanding of the registrant's Common Stock was 12,246,751 and the number of shares of Class A Common Stock was 35,385,956. In addition, on such date, the registrant had outstanding 1,652,262 shares of its Class B Stock, which are convertible into Common Stock on a share-for-share basis.

**DOCUMENTS INCORPORATED BY REFERENCE**

Definitive Proxy Statement for the Company's 2014 Annual Meeting of Stockholders Part III of this Form 10-K.

**Table of Contents**

**Central Garden & Pet Company Index to Annual Report on Form 10-K**

For the fiscal year ended September 28, 2013

	<b>Page</b>
<b><u>PART I</u></b>	
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors.</u>	14
Item 1B. <u>Unresolved Staff Comments</u>	23
Item 2. <u>Properties</u>	23
Item 3. <u>Legal Proceedings</u>	25
Item 4. <u>Mine Safety Disclosures</u>	25
<b><u>PART II</u></b>	
Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	26
Item 6. <u>Selected Financial Data</u>	29
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 7A. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	46
Item 8. <u>Financial Statements and Supplementary Data</u>	47
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	48
Item 9A. <u>Controls and Procedures</u>	48
Item 9B. <u>Other Information</u>	48
<b><u>PART III</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	48
Item 11. <u>Executive Compensation</u>	48
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	49
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	49
Item 14. <u>Principal Accountant Fees and Services</u>	49
<b><u>PART IV</u></b>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	49

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This Form 10-K 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 industry and economies in which we operate and other information that is not historical information. When used in this Form 10-K, 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-K. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Form 10-K are set forth in this Form 10-K, including the factors described in the section entitled Item 1A Risk Factors. If any of these risks or uncertainties materialize, or if any of our underlying assumptions are incorrect, our actual results may differ significantly from the results that we express in or imply by any of our forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances. Presently known risk factors include, but are not limited to, the following factors:

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

increased costs and expenses associated with our transformational change initiatives;

seasonality and fluctuations in our operating results and cash flow;

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

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

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

declines in consumer spending during economic downturns;

inflation, deflation and other adverse macro-economic conditions;

supply shortages in small animals and pet birds;

adverse weather conditions;

Edgar Filing: CENTRAL GARDEN & PET CO - Form 10-K

fluctuations in energy prices, fuel and related petrochemical costs;

access to and cost of additional capital;

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

consolidation trends in the retail industry;

competition in our industries;

risks associated with our acquisition strategy;

potential goodwill or intangible asset impairment;

dependence upon our key executives;

**Table of Contents**

implementation of a new enterprise resource planning information technology system;

our ability to protect our intellectual property rights;

potential environmental liabilities;

risk associated with international sourcing;

litigation and product liability claims;

regulatory issues;

the impact of product recalls;

potential costs and risks associated with actual or anticipated cyber attacks;

the voting power associated with our Class B stock; and

potential dilution from issuance of authorized shares.

**Table of Contents**

**MARKET, RANKING AND OTHER DATA**

The data included in this Form 10-K regarding markets and ranking, including the size of certain markets and our position and the position of our competitors and products within these markets, are based on both independent industry publications, including Packaged Facts, Lawn & Garden Products in the U.S. 2012; Packaged Facts, U.S. Pet Market Outlook, 2013-2014; Packaged Facts Pet Food in the U.S. 10<sup>th</sup> Edition; American Pet Products Association (APPA) National Pet Owners Survey 2013-2014; U.S. Census Bureau and our estimates based on management's knowledge and experience in the markets in which we operate. Our estimates have been based on information provided by customers, suppliers, trade and business organizations and other contacts in the markets in which we operate. We believe these estimates to be accurate as of the date of this Form 10-K. However, this information may prove to be inaccurate because of the method by which we obtained some of the data for our estimates or because this information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in a survey of market size. As a result, you should be aware that market, ranking and other similar data included in this Form 10-K, and estimates and beliefs based on that data, may not be reliable.

---

**Table of Contents**

**PART I**

**Item 1. Business**

**Business**

**Our Company**

Central Garden & Pet Company ( Central ) is a leading innovator, marketer and producer, of quality branded products and distributor of third-party products. We are one of the largest suppliers in the pet and lawn and garden supplies industries in the United States. The total pet food and supplies industry is estimated to be over \$30 billion in annual retail sales. We estimate the annual retail sales of the pet supplies and super premium pet food markets in the categories in which we participate to be approximately \$19.5 billion. The total lawn and garden industry in the United States, which includes equipment, supplies and services, is estimated to be approximately \$21 billion in annual retail sales. We estimate the annual retail sales of the lawn and garden supplies markets in the categories in which we participate to be approximately \$6 billion. In addition, we participate in the pottery and seasonal décor markets.

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

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

In fiscal 2013, our consolidated net sales were \$1.7 billion, of which our Pet segment, or Pet, accounted for approximately \$888 million and our Lawn and Garden segment, or Garden, accounted for approximately \$765 million. Fiscal 2013 included one less week than fiscal 2012. In fiscal 2013, our income from operations before corporate expenses and eliminations of \$64 million was \$104 million, of which the Pet segment accounted for \$96 million and the Garden segment accounted for \$8 million. See Note 19 to our consolidated financial statements for financial information about our two operating segments.

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

**Recent Developments**

*Fiscal 2013 Operating Performance.* Our operating earnings decreased 46% and we incurred a net loss for the fiscal year due primarily to our Garden segment which was impacted by both a charge for the costs related to certain new products introduced during fiscal 2013 that did not sell through as expected and a goodwill impairment charge.



---

## **Table of Contents**

### Financial summary:

Net sales for fiscal 2013 decreased \$46.4 million, or 2.7%, to \$1,653.6 million. Our Garden segment sales decreased 0.5%, and our Pet segment sales decreased 4.6%. Fiscal 2013 and fiscal 2012 were 52 and 53 week years, respectively.

Gross margin decreased 210 basis points in fiscal 2013 to 28.1%, from 30.2% in 2012.

Our operating earnings decreased \$34.2 million, or 46.0%, to \$40.2 million in fiscal 2013, and decreased as a percentage of net sales to 2.4% from 4.4%. Garden segment operating earnings were impacted by an \$11.2 million charge related to certain new products introduced in fiscal 2013 and a \$7.7 million noncash goodwill impairment charge.

We incurred a net loss in fiscal 2013 of \$1.9 million, or \$0.04 per share on a diluted basis. Net earnings in fiscal 2012 were \$21.2 million, or \$0.44 per share on a diluted basis.

Our net cash used in operating activities was \$28.3 million during fiscal 2013. In fiscal 2012, we had \$89.2 million of cash provided by operating activities. Our cash and short term investments at September 28, 2013 were approximately \$33 million, compared with approximately \$71 million at September 29, 2012.

*Leadership Change.* In February 2013, John Ranelli was elected President and Chief Executive Officer. William E. Brown resigned as Chief Executive Officer, but continued as Chairman.

*Asset Backed Loan Facility.* On December 5, 2013, we entered into a Credit Agreement which provides for a \$390 million principal amount senior secured asset based revolving credit facility, with up to an additional \$200 million principal amount available with the consent of the Lenders if the Company exercises the accordion feature set forth therein (collectively, the Credit Facility). The Credit Facility matures on December 5, 2018. The Company may borrow, repay and reborrow amounts under the Credit Facility until its maturity date, at which time all amounts outstanding under the Credit Facility must be repaid in full.

The Credit Facility is subject to a borrowing base, calculated using a formula based upon eligible receivables and inventory minus certain reserves and subject to restrictions. We did not draw down under the Credit Facility upon closing. Borrowings under the Credit Facility will bear interest at an index based on LIBOR or, at the option of the Company, the Base Rate (defined as the highest of (a) the SunTrust prime rate, (b) the Federal Funds Rate plus 0.5% and (c) one-month LIBOR plus 1.00%), plus, in either case, an applicable margin based on our total outstanding borrowings. The applicable margin for LIBOR-based borrowings fluctuates between 1.25%-1.75% (and was 1.25% at the time of closing) and the applicable margin for Base Rate borrowings fluctuates between 0.25%-0.75% (and was 0.25% at closing).

*Organizational Change.* In fiscal 2011 and 2012, we were focused on transforming the Company from a portfolio of separately run businesses into an integrated, multi-brand company.

During fiscal 2013, we adopted a more balanced approach to improving profitability through a focus on increasing sales and improving margins, providing superior customer service, delivering innovative new products and building our master brands. We expect to continue this balanced approach in the future and to continue to focus on eliminating inefficiencies and improving what is not working as planned.

### **Competitive Strengths**

We believe we have the following competitive strengths, which serve as the foundation of our business strategy:

*Market Leadership Positions Built on a Strong Brand Portfolio.* We are one of the leaders in the premium branded U.S. pet supplies market and in the U.S. consumer lawn and garden supplies market. We have a diversified portfolio of brands, many of which we

## Edgar Filing: CENTRAL GARDEN & PET CO - Form 10-K

believe are among the leading brands in their respective U.S. market categories. The majority of our brands have been marketed and sold for more than 25 years.

---

**Table of Contents**

*History of Innovative New Products and Customer Service.* We continuously seek to introduce new products at a reasonable cost, both as complementary extensions of existing product lines and as new product categories. Our company received a number of awards over the last three years. The National Agri-Marketing Association (NAMA) recognized our professional products group for outstanding marketing communications for the new product introduction of Centynal. The Pet segment received a Product of the Year award for the Adams Smart Shield innovation as well as a W3 Award in the Consumer Goods category for the Adams website, and PetSmart Vendor of the Year in Canada for Specialty (Aquatics, Small Animal and Pet Bird).

*Strong Relationships with Retailers.* We have developed strong relationships with major and independent retailers through product innovation, premium brands, broad product offerings, proprietary sales and logistics capabilities and a high level of customer service. Major retailers value the efficiency of dealing with suppliers with national scope and strong brands. These strengths have made us one of the largest pet supplies vendors to PetSmart, PETCO and Wal\*Mart and among the largest lawn and garden supplies vendors to Wal\*Mart, Home Depot and Lowe's. In 2013, Wal\*Mart named us its Outdoor Living Supplier of the Year and awarded us the People Award for its home division. Also in 2013, we earned PETCO's 2013 Best Business Performance Award for Aqueon & Zilla brands. In 2012, we were named the Wal\*Mart Home Division Replenishment Team of the Year and in 2011, we were named Home Depot's Partner of the Year in the Outdoor Garden Category and the Ace Hardware Lawn & Garden Vendor of the Year. Our ability to service large retailers, to meet their unique needs for packaging and point of sale displays and to offer new innovative products provides us with a competitive advantage. Independent retailers value our high level of customer service and broad array of premium branded products. We are a leading supplier to independent pet supplies retailers in the United States.

*Favorable Long-Term Industry Characteristics.* The pet and lawn and garden supplies markets in the U.S. have grown and are expected to continue to grow over the long-term due to favorable demographic and leisure trends. The key demographics bolstering our markets are the growth rates in the number of children under 18 and the number of adults over age 55. Households with children tend to own more pets, and adults over 55 are more likely to be empty nesters that keep pets as companions and have more disposable income and leisure time available for both pets and garden activities. According to the 2013-2014 APPA National Pet Owners Survey, the number of U.S. pet owners in recent years has reached record highs, with 82.5 million households, or 68%, owning a pet.

*Sales and Logistics Networks.* We are a leading supplier to independent specialty retailers for the pet and lawn and garden supplies markets through our sales and logistics networks. We believe our sales and logistics networks give us a significant competitive advantage over other suppliers. These networks provide us with key access to independent pet specialty retail stores and retail lawn and garden customers that require two-step distribution for our branded products facilitating:

acquisition and maintenance of premium shelf placement;

prompt product replenishment;

customization of retailer programs;

quick responses to changing customer and retailer preferences;

rapid deployment and feedback for new products; and

immediate exposure for new internally developed and acquired brands.

We plan to continue to utilize our team of dedicated sales people and our sales and logistics networks to expand sales of our branded products.

*Experienced and Incentivized Management Team.* Our senior management team has significant experience in the consumer goods, pet, and lawn and garden supplies industries. John R. Ranelli, our President, Chief Executive Officer and President Pet Segment, has extensive experience leading mid-

## **Table of Contents**

to large-sized consumer companies. William E. Brown, our Chairman, has over 30 years of industry experience. Mr. Brown also owns approximately 13% of our outstanding stock.

### **Business Strategy**

Our objective is to increase market share, revenue, and cash flow by enhancing our position as one of the leading companies in the U.S. pet supplies and lawn and garden supplies industries. To achieve our objective, we plan to capitalize on our strengths and favorable industry trends by implementing the following key elements of our business strategy:

*Balanced Organizational Change.* During fiscal 2013, we adopted a balanced approach to improving profitability through a focus on increasing sales and improving margins, providing superior customer service and innovative new products while improving our operations and reducing costs. We expect to continue this balanced approach in the future and to continue to focus on profit, our customers, and eliminating inefficiencies.

*Build Existing Brands.* With our broad product assortment, strong brand names, strong sell-through and innovative products and packaging, we believe we can further strengthen our relationships with existing retailers to increase shelf space and sales. Under our master branding strategy, we are moving to consolidate certain brands and expand others. We are utilizing some of our strongest brands to drive new products and brand extensions as we did during fiscal 2013 with our Nylabone brand's introduction of the Advanced Oral Care line and NutriDent Complete Dental Chews to fight tartar and freshen breath. We believe that the strength of our major customers provides us with a solid foundation for future growth. We intend to gain market share in the home centers, mass market, grocery, specialty pet store and independent channels. We intend to add new retailers through marketing and sales personnel dedicated to these channels, as well as our innovative product introductions and packaging. We will continue to focus on using our sales and logistics network to emphasize sales of our higher margin, proprietary brands and to use efficient supply chain capabilities that enable us to provide retailers with high service levels and consistent in-stock positions.

*Continue New Product and Packaging Innovation.* We will continue to build and leverage the strength of our leading brand names by introducing innovative new products and packaging, extending existing product lines and entering new product categories. Our product strategy seeks to capitalize on fulfilling consumer needs, leveraging our strong brand names, utilizing our established customer relationships and continuing our history of product innovation.

*Improve Margins.* We believe there are opportunities to improve our gross and operating margins through increased sales of our higher margin, innovative branded products, timely price increases and cost reductions and leveraging our existing infrastructure. Since fiscal 2004, we have continued to consolidate our sales and logistics centers, made capital improvements and consolidated some of our manufacturing facilities to reduce costs and improve manufacturing efficiencies. We have reduced the number of sales and logistics warehouses from 34 in 2008 to 28 at the end of fiscal 2013. Although gross margins improved from fiscal 2004 through fiscal 2010, they have declined significantly since then as we continued to experience the impact of the rising costs of raw materials and costs associated with our transformational change initiatives. During fiscal 2013, we conducted a systematic review of pricing in our Pet segment and selectively raised prices consistent with market conditions. We will continue to work with our key retail partners to implement appropriate price increases on our products as we strive to strike the right balance between pricing and delivering value to the consumer.

*Pursue Strategic Acquisitions.* We plan to continue to make selected strategic acquisitions of branded product companies that complement our existing brands and product offerings. Management has substantial experience in acquiring branded products companies. By leveraging our marketing, manufacturing and sales and logistics capabilities, we believe we can increase the sales and improve the operating efficiencies of acquired companies. We look for companies with the potential to have the top one or two brands in their respective categories. The characteristics we generally seek when

**Table of Contents**

evaluating target companies are strong brand names, high quality and innovative product offerings, an experienced management team and a history of organic earnings growth.

*Reduce Our Investment In Working Capital.* We believe there are opportunities to reduce our investment in working capital over the long term by focusing on specific balance sheet metrics. In particular, we believe that the improvement in our fill rates as a result of tighter linkage between our businesses and supply chain will enable us to substantially reduce our investment in inventory without compromising the level of the service we provide to our customers.

**Products General**

The following table indicates each class of similar products which represented more than 10% of our consolidated net sales in the fiscal years presented (in millions).

Category	2013	2012	2011
Pet supplies (excluding wild bird feed)	\$ 807.4	\$ 847.1	\$ 773.1
Garden controls and fertilizer products	274.9	281.7	260.0
Wild bird feed	210.8	205.1	197.5
Other garden supplies	183.5	185.7	212.1
Grass seed	177.0	180.4	185.9
Total	\$ 1,653.6	\$ 1,700.0	\$ 1,628.6

**Pet Segment***Overview*

We are one of the leading marketers and producers of premium branded pet supplies in the United States. In addition, our Pet segment operates one of the largest sales and logistics networks in the industry strategically supporting its brands. In fiscal 2013, the Pet segment accounted for \$888 million of our consolidated net sales and \$96 million of our consolidated income from operations before corporate expenses and eliminations.

*Industry Background*

According to the 2013-2014 APPA National Pet Owners Survey, U.S. pet ownership is at its highest level, with 82.5 million households, or 68%, owning a pet.

The pet industry includes food, supplies, veterinarian care and services and live animals. We operate primarily in the pet supplies segment of the industry. This segment includes: products for dogs and cats, including edible bones, premium healthy edible and non-edible chews, toys, pet carriers, grooming supplies and other accessories; products for birds, small animals and specialty pets, including food, cages and habitats, toys, chews and related accessories; animal and household health and insect control products; products for fish, reptiles and other aquarium-based pets, including aquariums, furniture and lighting fixtures, pumps, filters, water conditioners and supplements, and information and knowledge resources; and products for horses and livestock. According to Packaged Facts, Pet food and supplies in 2017 are expected to total approximately \$39.3 billion, an increase from approximately \$31.5 billion in 2010. We also operate in the super premium category of dog and cat food and treats. Packaged Facts estimates the total pet food market to be approximately \$24.7 billion in 2017. We believe the pet food market is experiencing an upscale thrust, featuring products that are natural, functional and address specific dietary needs of animals, primarily dogs and cats. We estimate the current applicable market opportunity for the high-end, premium and super-premium dog and cat food and treats to be approximately \$8 billion.

We believe this growth is due in significant part to favorable demographic and leisure trends, which we expect to continue, albeit potentially at a slower rate due to recessionary pressures in the broader U.S. economy. The key demographics bolstering the U.S. pet supplies market are the growth rates in the number of children



---

## **Table of Contents**

under 18 and the number of adults over age 55. According to 2010 U.S. census data, approximately 40% of the population is 45 years or older. Households with children tend to own more pets, and adults over 55 are more likely to be empty nesters, who keep pets as companions and have more disposable income and leisure time available for pets. In addition, many pet supplies products (e.g., dog and cat food, dog chews, bird food, grooming supplies, pest control, etc.) are routinely consumed and replenished.

The U.S. pet supplies market is highly fragmented with approximately 1,400 manufacturers, consisting primarily of small companies with limited product lines. The majority of these manufacturers do not have a captive sales and logistics network and must rely on us or other independent distributors to supply their products to regional pet specialty chains and independent retailers. According to Packaged Facts, pet supplies sales are up 14 percent over the last five years. Sales are expected to increase an additional 26 percent by 2017, indicating the strength of this category.

The pet food and supplies industry retail channel also remains fragmented, with approximately 7,600 independent pet supply stores in the United States and only two national specialty retailers, PetSmart and PETCO. These two pet superstores have grown rapidly, and pet products have also become a growing category in mass merchandisers, discounters and grocery outlets. PetSmart and PETCO typically offer the broadest product selection with competitive prices and a growing array of pet services. Mass merchandisers, supermarkets and discounters have historically carried a limited product assortment that features primarily pet food, but we believe these retailers are devoting more shelf space to meet increased consumer demand for premium pet supplies. Independent pet stores typically have a relatively broad product selection and attempt to differentiate themselves by offering premier brands and knowledgeable service.

### ***Proprietary Branded Pet Products***

Our principal pet supplies categories are dog & cat, aquatics, bird & small animal food and animal health products.

*Dog & Cat.* We are a leading marketer and producer of premium healthy edible and non-edible chews, super premium dog and cat food, toys, grooming supplies, pet carriers and other accessories, and information and knowledge resources featuring the brands Nylabone, Four Paws, TFH, Pet Select, Interpet, Pet Love and Mikki®. Nylabone has a strong history of developing innovative new products such as the NutriDent® Edible Dental Brush Chews as well as numerous other award winning dog toys. Four Paws products include industry leaders in grooming and waste management products under the Wee Wee and Magic Coat Brands, and TFH is a leading publisher of pet books and magazines. Breeder's Choice is a manufacturer of super premium natural pet food and treats. Breeder's Choice brands include Pinnacle®, Avoderm®, Simply Natural® and Active Care®.

*Aquatics.* We are a leading supplier of aquariums and related fixtures and furniture, water conditioners and supplements, sophisticated lighting systems and accessories featuring the brands Aqueon, Zilla, Oceanic Systems, Kent Marine, Coralife and Blagdon.

*Small Animal & Wild Bird Feed.* We are a leading marketer and producer of specialty pet food for pet and wild birds and small animals, vitamins and nutritional supplements, bird and small animal cages, habitats, transportation devices, toys and other accessories designed for the small animal marketplace featuring the brands Kaytee®, Super Pet®, Critter Trail® and Canopy Scientific®. Kaytee is one of the largest producers of specialty bird feed.

*Animal Health.* We are a leading marketer and producer of flea, tick, mosquito and other insect control products produced by Wellmark International and sold primarily under the BioSpot, Adams, Altosid, Pre Strike and Extinguish® brand names. Wellmark is the only domestic producer of (S)-Methoprene, which is an active ingredient to control mosquitoes, fleas, ticks, ants and mites in many professional and consumer insect control applications. We also sell (S)-Methoprene to manufacturers of other insect control products, including Frontline Plus. In addition, through our Farnam operations, we are a leading manufacturer and marketer of innovative health care products for horses. Farnam's portfolio of industry leading brands includes the Farnam umbrella brand, IverCare®, Bronco®e, Super Mask® II, Endure®, Horseshoer's Secret® and Vetrolin®.



## **Table of Contents**

### ***Sales Network***

Our domestic sales network exists primarily to promote our proprietary brands and provides value-added service to approximately 4,500 independent specialty retail stores for our branded products. This includes acquisition and maintenance of premium shelf placement, prompt product replenishment, customization of retailer programs, quick response to changing customer and retailer preferences, rapid deployment and feedback for new products and immediate exposure for acquired brands. The network also sells many other manufacturers' brands of pet supplies and combines these products with our branded products into single shipments enabling our independent customers to deal with us on a cost effective basis to meet their pet supplies requirements. We also operate a sales and logistics facility in the United Kingdom.

### ***Sales and Marketing***

Our sales strategy is multi-tiered and designed to capture maximum market share with retailers. Our customers include retailers, such as regional and national specialty pet stores, independent pet retailers, mass merchants, grocery and drug stores. In addition, we also serve the professional market with insect control and health and wellness products for use by veterinarians, municipalities, farmers and equine product suppliers. PetSmart accounted for approximately 11% of our Pet segment's net sales in fiscal 2013 and 12% in both fiscal 2012 and fiscal 2011. PETCO is also a significant customer.

To optimize our product placement and visibility in retail stores, our focused sales resources are segmented as follows:

a sales organization operating by category and channel;

dedicated account teams servicing our largest customers;

a group of account managers focused on regional chains;

a geographic based group of territory managers dedicated to the independent retailer; and

a specialized group of account managers dedicated to the professional and equine markets.

These sales teams deliver our marketing strategy that is consumer, brand and channel driven. We provide value creation with a focus on innovation, product quality and performance, premium packaging, product positioning and consumer value. We collaborate closely with our customers to identify their needs, jointly develop strategies to meet those needs and deliver programs that include print, broadcast, direct mail and digital execution.

### ***Competition***

The pet supplies industry is highly competitive and has experienced considerable consolidation in recent years. Our branded pet products compete against national and regional branded products and private label products produced by various suppliers. Our largest competitors in most product categories are Spectrum Brands and Hartz Mountain. The Pet segment competes primarily on the basis of brand recognition, innovation, upscale packaging, quality and service. Our Pet segment's sales and logistics operations compete with Animal Supply Co., Phillips Pet Food & Supplies and a number of smaller local and regional distributors, with competition based on product selection, price, value-added services and personal relationships.

### ***Garden Segment***

#### ***Overview***

We are a leading company in the consumer lawn and garden market in the United States and offer both premium and value-oriented branded products. We market and produce a broad array of premium brands, including Pennington, The Rebels, AMDRO, Grants, Lilly Miller, Ironite,

Sevin, Over-N-Out, Norcal Pottery,

## **Table of Contents**

New England Pottery, GKI/Bethlehem Lighting and Matthews Four Seasons. We also produce value brands at lower prices, including numerous private label brands. In addition, our Garden segment operates a sales and logistics network that strategically supports its brands. In fiscal 2013, the Garden segment accounted for \$765 million of our consolidated net sales and \$8 million of our consolidated income from operations before corporate expenses and eliminations.

### ***Industry Background***

We believe that gardening is one of the most popular leisure activities in the United States, although in recent years our garden segment has been adversely impacted by fluctuations in input costs and weather. Packaged Facts asserts that the economy has brought more homeowners into their yards. The key demographic bolstering our lawn and garden market is the growth rate in the number of adults over age 55, who are more likely to be empty nesters and have more disposable income and leisure time available for garden activities. As the baby boom generation ages, this segment is expected to grow faster than the total population. According to 2010 U.S. census data, approximately 40% of the population is 45 years or older. We believe that this demographic should increase the number of lawn and garden product users. With more people gardening in their yards and the potential trends of food gardening and organic gardening, we perceive this market as staying intact and showing slow positive growth. We estimate the retail sales of the lawn and garden supplies industry in the categories in which we participate to be approximately \$6 billion. In addition, we participate in the pottery and seasonal décor markets. We believe that the industry will continue to grow, albeit at a slower rate in the near term due to industry dynamics.

Lawn and garden products are sold to consumers through a number of distribution channels, including home centers, mass merchants, independent nurseries and hardware stores. Home and garden centers and mass merchants often carry one or two premium product lines or brands and one value brand. Due to the rapid expansion and consolidation of mass merchants and home and garden centers in the last 15 years, the concentration of purchasing power for the lawn and garden category has increased dramatically. We expect the growth of home and garden centers, such as Home Depot and Lowes, and mass merchants, such as Wal-Mart, to continue to concentrate industry distribution.

### ***Proprietary Branded Lawn and Garden Products***

Our principal lawn and garden product lines are grass seed, wild bird feed, insect control products, lawn and garden care products, decorative outdoor patio products and Christmas products and lighting. Our Pennington brand is one of the largest in grass seed and wild bird feed, and our Amdro brand is a leading portfolio of fire ant bait products. We are also a leading marketer of indoor and outdoor pottery products through our Norcal Pottery and New England Pottery brands.

*Grass Seed.* We are a leading marketer and producer of numerous mixtures and blends of cool and warm season turf grass for both the residential and professional markets, as well as forage and wild game seed mixtures. We sell these products under the Pennington Seed, Pennington, Penkoted®, Max-Q®, ProSelect, Tournament Quality CM, MasterTuft, The Rebels and Smart Seed® brand names. We also produce numerous private label brands of grass seed. The Pennington grass seed manufacturing facilities are some of the largest and most modern seed conditioning facilities in the industry.

*Wild Bird Products.* We are a leading marketer and producer of wild bird feed, bird feeders, bird houses and other birding accessories in the United States. These products are sold primarily under the Pennington brand name. Most of our wild bird feed is treated with Bird-Kote®, a nutritious coating made up of vegetable oil fortified with oil-soluble vitamins and elements needed by wild birds.

*Fertilizers and Controls.* We are a leading marketer of lawn and garden weed, moss, insect and pest control products and soil supplements and stimulants. We sell these products under the Knockout®, Strike®, Lilly Miller,

---

## **Table of Contents**

Alaska Fish Fertilizer<sup>®</sup>, IMAGE<sup>®</sup>, Sevin, Over-N-Out and RooTone<sup>®</sup> brand names and the Eliminator private label for Wal\*Mart. We are also a leading marketer of fire ant bait, sold primarily in the southern United States, under the AMDRO brand name. In addition, we market ant baits, animal repellents and garden aid products under the Grant's brand name. We manufacture several lines of lawn and garden fertilizers and soil supplements, in granular and liquid form, under the Pennington, Pro Care, Ironite and other private and controlled labels.

*Outdoor & Seasonal Decor.* We are a leading marketer of decorative indoor and outdoor pottery products in the United States. We sell these products under the Pennington, Norcal Pottery and New England Pottery brand names which include terra cotta, stoneware, ceramic and porcelain pots. We also market seasonal Christmas products and lighting under the brand name GKI/Bethlehem Lighting and we manufacture a complete line of wooden garden products, including planters, barrel fountains, arbors and trellises that are sold under the Pennington brand name.

### ***Sales Network***

Our sales and logistics network exists primarily to promote our proprietary brands and provides us with key access to retail stores for our branded products, acquisition and maintenance of premium shelf placement, prompt product replenishment, customization of retailer programs, quick responses to changing customer and retailer preferences, rapid deployment and feedback for new products, immediate exposure for acquired brands and comprehensive and strategic information. The network also sells other manufacturers' brands of lawn and garden supplies and combines these products with our branded products into single shipments enabling our customers to deal with us on a cost-effective basis to meet their lawn and garden supplies requirements.

### ***Sales and Marketing***

The marketing strategy for our premium products is focused on meeting consumer needs through product performance, innovation, quality, upscale packaging and retail shelf placement. The marketing strategy for our value products is focused on promotion of the quality and efficacy of our value brands at a lower cost relative to premium brands. Our customers include retailers, such as mass merchants, home improvement centers, independent lawn and garden nurseries, drug and grocery stores, and professional end users. Sales to Wal\*Mart represented approximately 30%, 30% and 28%, sales to Home Depot represented approximately 18%, 16% and 15%, and sales to Lowe's represented approximately 17%, 20% and 24%, of our Garden segment's net sales in fiscal 2013, 2012 and 2011, respectively.

To maximize our product placement and visibility in retail stores, we market our products through the following four complementary strategies:

dedicated sales forces represent our combined brand groups;

retail sales and logistics network, which provides in-store training and merchandising for our customers, especially during the prime spring and summer seasons;

dedicated account-managers and sales teams located near and dedicated to serve several of our largest customers; and

selected independent distributors who sell our brands.

### ***Competition***

The lawn and garden products industry is highly competitive. Our lawn and garden products compete against national and regional products and private label products produced by various suppliers. Our turf and forage grass seed products, fertilizers, pesticides and combination products compete principally against products marketed by The Scotts Miracle-Gro Company (Scotts'). Scotts' dominant position in the lawn and garden industry is a significant competitive disadvantage for our garden products. In addition, Spectrum Brands is a strong competitor in yard and household insecticides. Our Garden segment competes primarily on the basis of its

## **Table of Contents**

strong premium and value brands, quality, service, price and low cost manufacturing. Our Garden segment's sales and logistics operations also compete with a large number of distributors, with competition based on price, service and personal relationships.

### **Supply Chain**

We operate an integrated supply chain responsible for manufacturing, logistics, purchasing and sales and operations planning for both our Pet and Garden segments.

### ***Manufacturing***

We manufacture the majority of our branded products in 30 manufacturing facilities, located primarily in the United States. In addition, certain of our proprietary branded products are manufactured by contract manufacturers. We have also entered into an exclusive arrangement with a third party to manufacture one of our registered active ingredients, (S)-Methoprene, for use in that third party's flea and tick control products.

### ***Purchasing***

We purchase most of our raw materials from a number of different suppliers. In addition, we purchase one of the raw materials used to manufacture (S)-Methoprene from a single source of supply. We maintain an inventory of this raw material (in addition to our (S)-Methoprene inventory) to reduce the possibility of any interruption in the availability of (S)-Methoprene, but a prolonged delay in obtaining (S)-Methoprene or this raw material could result in a temporary delay in product shipments and have an adverse effect on our Pet segment's financial results.

The key ingredients in our fertilizer and insect and weed control products are commodity and specialty chemicals, including phosphates, urea, potash, herbicides, insecticides and fungicides.

The principal raw materials required for the wild bird feed operations are bulk commodity grains, including millet, milo and sunflower seeds, which are generally purchased from large national commodity companies and local grain cooperatives. In order to ensure an adequate supply of grains and seed to satisfy expected production volume, we enter into contracts to purchase a portion of our expected grain and seed requirements at future dates by fixing the quantity, and often the price, at the commitment date. Although we have never experienced a severe interruption of supply, we are exposed to price risk with respect to the portion of our supply which is not covered by contracts with a fixed price.

During fiscal 2011 and fiscal 2012, prices for some of our key inputs increased substantially. In fiscal 2013, prices continued to increase due in part to drought conditions throughout much of the United States although by the end of the year, prices began to decline for certain commodities. Our weighted average cost per pound for our primary bird feed grains increased approximately 15% for fiscal year 2013 compared to fiscal 2012. Although we have been able to negotiate some price increases with our retailers, it is possible that price increases may not fully offset rising costs in the future, resulting in margin erosion.

### **Logistics Network**

Our distribution network consists of 27 facilities strategically placed across the United States and one facility in the United Kingdom to allow us to service both our mass market customers as well as our independent specialty retail stores for our branded products. This network also supports distribution of many other manufacturers' brands and combines these products with our branded products into single shipments, enabling us to serve our customers in an effective and cost efficient manner.

## **Table of Contents**

### **Significant Customers**

Wal\*Mart, our largest customer, represented approximately 16%, 17% and 16% of our total company net sales in fiscal 2013, 2012 and 2011, respectively, and represented approximately 30% of our Garden segment's net sales in fiscal 2013 and fiscal 2012 and 28% of our Garden segment's net sales in fiscal 2011. Sales to Home Depot represented approximately 8% of our total company net sales in fiscal 2013 and 7% of our total company net sales in each of the fiscal years 2012 and 2011, and represented approximately 18%, 16% and 15% of our Garden segment's net sales in fiscal 2013, 2012 and 2011, respectively. Sales to Lowe's represented approximately 8%, 9% and 12% of our total company net sales in fiscal 2013, 2012 and 2011, respectively, and represented approximately 17%, 20% and 24% of our Garden segment's net sales in fiscal 2013, 2012 and 2011, respectively. PetSmart represented 11% of our Pet segment's net sales in fiscal 2013 and approximately 12% in fiscal 2012 and fiscal 2011. PETCO is also a significant customer.

### **Patents and Other Proprietary Rights**

Our branded products companies hold numerous patents in the United States and in other countries and have several patent applications pending. We consider the development of patents through creative research and the maintenance of an active patent program to be advantageous to our business, but we do not regard the holding of any particular patent as essential to our operations.

In addition to patents, we have numerous active ingredient registrations, end-use product registrations and trade secrets, including certain technology used in the Wellmark operations for the production of (S)-Methoprene, which has been licensed to us from Novartis. This license is perpetual but non-exclusive. In addition, we have developed certain proprietary improvements to us relating to the synthesis of (S)-Methoprene. The success of certain portions of our business, especially our Wellmark operations, partly depends on our ability to continue to maintain trade secret information which has been licensed to us, and to keep both licensed and owned trade secret information confidential.

Along with patents, active ingredient registrations, end use product registrations and trade secrets, we own a number of trademarks, service marks, trade names and logotypes. Many of our trademarks are registered but some are not. We are not aware of any reason we cannot continue to use our trademarks, service marks and trade names in the way that we have been using them.

### **Employees**

As of September 28, 2013, we had approximately 3,300 employees of which approximately 3,100 were full-time employees and 200 were temporary or part-time employees. We also hire substantial numbers of additional temporary employees for the peak lawn and garden shipping season of February through June to meet the increased demand experienced during the spring and summer months. The majority of our temporary employees are paid on an hourly basis. None of our employees is represented by a labor union. We consider our relationships with our employees to be good.

### **Environmental and Regulatory Considerations**

Many of the products that we manufacture or distribute are subject to local, state, federal and foreign laws and regulations relating to environmental matters. Such regulations are often complex and are subject to change. In the United States, all pesticides must be registered with the United States Environmental Protection Agency (the EPA), in addition to individual state and/or foreign agency registrations, before they can be sold. Fertilizer products are also subject to state Department of Agriculture registration and foreign labeling regulations. Grass seed is also subject to state, federal and foreign labeling regulations.

The Food Quality Protection Act (FQPA), establishes a standard for food-use pesticides, which is a reasonable certainty that no harm will result from the cumulative effect of pesticide exposures. Under this Act,

**Table of Contents**

the EPA is evaluating the cumulative risks from dietary and non-dietary exposures to pesticides. The pesticides in our products, which are also used on foods, will be evaluated by the EPA as part of this non-dietary exposure risk assessment.

In addition, the use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may include requirements that only certified or professional users apply the product or that certain products be used only on certain types of locations (such as not for use on sod farms or golf courses ), may require users to post notices on properties to which products have been or will be applied, may require notification of individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients. We believe we are operating in substantial compliance with, or taking action aimed at ensuring compliance with, these laws and regulations.

Various federal, state and local laws, including the federal Food Safety Modernization Act, also regulate pet food products and give regulatory authorities the power to recall or require re-labeling of products. We believe we are in substantial compliance or are taking steps to ensure that we are in compliance with these provisions.

Various local, state, federal and foreign environmental laws also impose obligations on various entities to clean up contaminated properties or to pay for the cost of such remediation, often upon parties that did not actually cause the contamination. Accordingly, we may become liable, either contractually or by operation of law, for remediation costs even if the contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. With our extensive acquisition history, we have acquired a number of manufacturing and distribution facilities, and most of these facilities have not been subjected to Phase II environmental tests to determine whether they are contaminated.

Environmental regulations may affect us by restricting the manufacturing or use of our products or regulating their disposal. Regulatory or legislative changes may cause future increases in our operating costs or otherwise affect operations. Although we believe we are and have been in substantial compliance with such regulations and have strict internal guidelines on the handling and disposal of our products, there is no assurance that in the future we may not be adversely affected by such regulations or incur increased operating costs in complying with such regulations. However, neither the compliance with regulatory requirements nor our environmental procedures can ensure that we will not be subject to claims for personal injury, property damages or governmental enforcement.

**Executive Officers**

The following table sets forth the name, age and position of our executive officers as of December 1, 2013.

<b>Name</b>	<b>Age</b>	<b>Position</b>
John R. Ranelli	67	President, Chief Executive Officer and President - Pet Segment
William E. Brown	72	Chairman of the Board
Paul Hibbert	44	Senior Vice President, Supply Chain
Steven LaMonte	57	Executive Vice President and President - Garden Segment
Michael A. Reed	65	Executive Vice President
George Yuhas	61	General Counsel
Lori A. Varlas	52	Senior Vice President, Chief Financial Officer and Secretary

## **Table of Contents**

*John R. Ranelli.* Mr. Ranelli has been our President and Chief Executive Officer since February 2013. Since March 2013, Mr. Ranelli has also been our President – Pet Segment. From 2011 to 2012, Mr. Ranelli was President and CEO of Woolrich Inc., an outdoor clothing company. From 2008 to 2011, Mr. Ranelli was an advisor to a number of companies and private equity firms. From 2007 to 2008, Mr. Ranelli was President and CEO of Mikasa Inc., a global dinnerware, crystal and home accessories company. From 1999 to 2006, Mr. Ranelli was Chairman, Chief Executive Officer and President of FGX International, a global optical and jewelry company. Previously, he served in senior executive capacities with Stride Rite Corporation, Deckers Outdoor Corporation, TLC Beatrice and The Timberland Company. Mr. Ranelli is a director of Woolrich, Inc. and serves as its non-executive Chairman.

*William E. Brown.* Mr. Brown has been our Chairman since 1980. From 1980 to June 2003 and from October 2007 to February 2013, Mr. Brown served as our Chief Executive Officer. From 1977 to 1980, Mr. Brown was Senior Vice President of the Vivitar Corporation with responsibility for Finance, Operations, and Research & Development. From 1972 to 1977, he was with McKesson Corporation where he was responsible for its 200-site data processing organization. Prior to joining McKesson Corporation, Mr. Brown spent the first 10 years of his business career at McCormick, Inc. in manufacturing, engineering and data processing.

*Paul Hibbert.* Mr. Hibbert has been Senior Vice President, Supply Chain since October 2011 and for the prior two years served as Vice President, Supply Chain Garden Products. In 2009, Mr. Hibbert served as a supply chain consultant for BioLab, Inc/Chemtura. From 2007 to 2008, Mr. Hibbert was the Vice President Supply Chain for United Industries. From 2003 to 2007, he was the Director of Supply Chain with Biolab, Inc.

*Steven LaMonte.* Mr. LaMonte has been our Executive Vice President, President – Garden Segment since May 2012. From 2009 to May 2012, Mr. LaMonte served as VP Latin America & Asia Pacific Regions for Johnson & Johnson's McNeil Laboratories division. From 2006 to 2009, Mr. LaMonte was Worldwide Vice President, RX-OTC Switch & Innovation at Johnson & Johnson. Mr. LaMonte previously held numerous leadership positions at Pfizer Consumer Healthcare, Schering-Plough, Nestle Foods and other consumer products companies.

*Michael A. Reed.* Mr. Reed has been Executive Vice President since June 2000 and was President of the Garden Products division from October 2007 to May 2012. Mr. Reed served as President of the Pet Products division from 2003 to 2004. Previously, Mr. Reed served as President and CEO of PM Ag Products, Inc., a wholly owned subsidiary of global agri-business Tate & Lyle, PLC.

*George Yuhas.* Mr. Yuhas has been our General Counsel since March 2011. From 1984 to March 2011, he was a partner specializing in litigation at Orrick, Herrington & Sutcliffe LLP.

*Lori A. Varlas.* Ms. Varlas has been Senior Vice President, Chief Financial Officer and Secretary since December 2010. From 2006 to 2010, Ms. Varlas served as Vice President Finance at Sun Microsystems. Prior to joining Sun, Ms. Varlas was Vice President of Finance at PeopleSoft and held a variety of senior finance positions from 1998 to 2005. Ms. Varlas also held positions at Chiron Corporation, Specialty Foods and Price Waterhouse.

## **Available Information**

Our web site is [www.central.com](http://www.central.com). We make available free of charge, on or through our web site, our annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing or furnishing such reports with the Securities and Exchange Commission. Information contained on our web site is not part of this report.



## **Table of Contents**

### **Item 1A. Risk Factors.**

This Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of factors both in and out of our control, including the risks faced by us described below and elsewhere in this Form 10-K.

You should carefully consider the risks described below. In addition, the risks described below are not the only ones facing us. We have only described the risks we consider to be material. However, there may be additional risks that are viewed by us as not material at the present time or are not presently known to us. Conditions could change in the future, or new information may come to our attention that could impact our assessment of these risks.

If any of the events described below were to occur, our business, prospects, financial condition and/or results of operations could be materially adversely affected. When we say below that something could or will have a material adverse effect on us, we mean that it could or will have one or more of these effects. In any such case, the price of our common stock could decline, and you could lose all or part of your investment in our company.

#### ***The implementation of our change initiative has resulted in increased expenses during the last few years that could continue.***

In fiscal 2011 and 2012, we were engaged in a process of transformational change which was focused on transforming the Company from a portfolio of separately run businesses into an integrated, multi-brand company.

During fiscal 2013, we adopted a more balanced approach to improving profitability through a focus on increasing sales and improving margins, providing superior customer service, and innovative new products all while improving our operations and reducing costs. We expect to continue this balanced approach in the future and to continue to focus on profitability, our customers and eliminating inefficiencies.

During fiscal 2012 and 2013, we closed 15 distribution and manufacturing facilities, while opening and upgrading others, leaving us with a net reduction of eight facilities at the end of fiscal year 2013. The operational issues associated with the closures, along with other supply chain issues, resulted in significant disruptions during 2012 that delayed fulfilling orders for some customers as we transitioned certain operational activities. These disruptions adversely affected our revenues and operating earnings. While we believe we have resolved these particular issues, we may experience other operational issues as we continue to implement our change initiatives. These operational issues could have a material adverse effect on our performance and financial results.

There can be no assurance that we will be able to successfully execute our change initiatives or that we will be able to do so within the anticipated time period or without incurring substantial transitional costs. We anticipate that these investments and transitional costs will adversely affect our operating results.

#### ***Our operating results and cash flow are susceptible to fluctuations.***

We expect to continue to experience variability in our net sales, net income and cash flow on a quarterly basis. Factors that may contribute to this variability include:

fluctuations in prices of commodity grains and other input costs;

seasonality and adverse weather conditions;

costs or operational problems arising from our change initiatives;

shifts in demand for lawn and garden and pet products;



**Table of Contents**

changes in product mix, service levels, marketing and pricing by us and our competitors;

the effect of acquisitions; and

economic stability of and strength of our relationship with retailers.

These fluctuations could negatively impact our business and the market price of our common stock.

***Seeds and grains we use to produce bird feed and grass seed are commodity products subject to price volatility that has had, and could have, a negative impact on us.***

Our financial results are partially dependent upon the cost of raw materials and our ability to pass along increases in these costs to our customers. In particular, our Pennington and Kaytee businesses are exposed to fluctuations in market prices for commodity seeds and grains used to produce bird feed. Historically, market prices for commodity seeds and grains have fluctuated in response to a number of factors, including changes in United States government farm support programs, changes in international agricultural and trading policies and weather conditions during the growing and harvesting seasons.

To mitigate our exposure to changes in market prices, we enter into purchase contracts for grains, bird feed and grass seed to cover a limited portion of our purchase requirements for a selling season. Since these contracts cover only a portion of our purchase requirements, as market prices for such products increase, our cost of production increases as well. In contrast, if market prices for such products decrease, we may end up purchasing grains and seeds pursuant to the purchase contracts at prices above market.

In fiscal 2011 and fiscal 2012, prices for some of our key crops increased substantially. Our weighted average cost per pound for our primary bird feed grains increased approximately 11% for fiscal year 2012 compared to fiscal 2011. In fiscal 2013, our weighted average cost per pound for our primary bird feed grains increased approximately 15% for fiscal year 2013 compared to fiscal 2012. Although we have been able to negotiate some price increases with our retailers, it is possible that price increases may not fully offset rising costs in the future, resulting in margin erosion. We can provide no assurance as to the timing or extent of our ability to implement additional price adjustments in the event of increased costs in the future. Similarly, we can provide no assurance of our ability to retain pricing with our retailers in the context of declining costs. We also cannot predict to what extent price increases may negatively affect our sales volume. As retailers pass along price increases, consumers may shift to our lower margin bird feed, switch to competing products or reduce purchases of wild bird feed products.

***We are subject to significant risks associated with innovation, including the risk that our new product innovations will not produce sufficient sales to recoup our investment.***

We believe that our future success will depend upon, in part, our ability to continue to improve our existing products through product innovation and to develop, market and produce new products. We cannot assure you that we will be successful in the introduction, marketing and production of any new products or product innovations, or that we will develop and introduce in a timely manner improvements to our existing products which satisfy customer needs or achieve market acceptance. Our failure to develop new products and introduce them successfully and in a timely manner could harm our ability to grow our business and could have a material adverse effect on our business, results of operations and financial condition.

During fiscal 2013, we introduced two major innovative Garden products. Despite enthusiastic support from our retailers and heavy marketing spending, the new products did not sell through as expected, and we took a significant charge at the end of the fourth quarter relating to the new products. We believe that the period of time to gain consumer acceptance of major innovations is longer in the garden industry than in many industries, which compounds the risks generally associated with major new product innovations.

**Table of Contents**

***A decline in consumers discretionary spending or a change in consumer preferences could reduce our sales and harm our business.***

Our sales ultimately depend on consumer discretionary spending, which is influenced by factors beyond our control, including general economic conditions, the availability of discretionary income and credit, weather, consumer confidence and unemployment levels. Any material decline in the amount of consumer discretionary spending could reduce our sales and harm our business. These economic and market conditions, combined with continuing difficulties in the credit markets and the resulting pressures on liquidity, may also place a number of our key retail customers under financial stress, which would increase our credit risk and potential bad debt exposure.

The success of our business also depends in part on our ability to identify and respond to evolving trends in demographics and consumer preferences. Our failure to timely identify or effectively respond to changing consumer tastes, preferences, spending patterns and lawn and garden and pet care needs could adversely affect the demand for our products and our profitability.

***Inflation, deflation, economic uncertainty and other adverse macro-economic conditions may harm our business.***

Our revenues and margins are dependent on various economic factors, including rates of inflation or deflation, energy costs, consumer attitudes toward discretionary spending, currency fluctuations, and other macro-economic factors which may impact levels of consumer spending. In recent years, we have experienced a significant increase in raw material input costs. Although we increased prices for many of our products, our price increases did not fully offset the increases in our costs, and our margins and profitability suffered as a result. If we are unable to pass through rising input costs and raise the price of our products, or consumer confidence continues to weaken, we may experience gross margin declines.

***Supply disruptions in pet birds and small animals may negatively impact our sales.***

The federal government and many state governments have increased restrictions on the importation of pet birds and the supply of small animals. These restrictions have resulted in reduced availability of new pet birds and animals and thus reduced demand for pet bird and small animal food and supplies. If these restrictions become more severe, our future sales of these products would likely suffer, which would negatively impact our profitability. In addition, some countries have experienced outbreaks of avian flu. While the number of cases worldwide has declined, a significant outbreak in the United States would reduce demand for our pet and wild bird food and negatively impact our financial results.

***Our lawn and garden sales are highly seasonal and subject to adverse weather.***

Because our lawn and garden products are used primarily in the spring and summer, the Garden business is seasonal. In fiscal 2013, approximately 68% of our Garden segment's net sales and 60% of our total net sales occurred during our second and third fiscal quarters. Substantially all of the Garden segment's operating income is generated in this period. Our working capital needs and our borrowings generally peak in our second fiscal quarter, because we are generating lower revenues while incurring expenses in preparation for the spring selling season. If cash on hand and borrowings under our credit facility are ever insufficient to meet our seasonal needs or if cash flow generated during the spring and summer is insufficient to repay our borrowings on a timely basis, this seasonality could have a material adverse effect on our business.

Because demand for lawn and garden products is significantly influenced by weather, particularly weekend weather during the peak gardening season, our results of operations and cash flow could also be adversely affected by certain weather patterns such as unseasonably cool or warm temperatures, heavy rains, water shortages or floods.

---

**Table of Contents**

***Rising energy prices could adversely affect our operating results.***

During fiscal 2011 and 2012, energy prices increased substantially, which resulted in increased fuel costs for our businesses and increased raw materials costs for many of our branded products. These substantial increases did not recur in 2013. Rising energy prices in the future could adversely affect consumer spending and demand for our products and increase our operating costs, both of which would reduce our sales and operating income.

***We depend on a few customers for a significant portion of our business.***

Wal\*Mart, our largest customer, accounted for approximately 16% of our net sales in fiscal 2013, 17% in fiscal 2012 and 16% in fiscal 2011. Lowe's accounted for approximately 8% of our net sales in fiscal 2013, 9% in fiscal 2012 and 12% in fiscal 2011. Home Depot accounted for approximately 8% of our net sales in fiscal 2013 and 7% of our net sales in fiscal 2012 and 2011. In addition, PetSmart and PETCO are also significant customers, and, together with Wal\*Mart, Lowe's and Home Depot, accounted for approximately 43% of our net sales in fiscal 2013 and 45% in fiscal 2012 and fiscal 2011. The market shares of many of these key retailers have increased and may continue to increase in future years.

The loss of, or significant adverse change in, our relationship with any of these key retailers could cause our net sales, income from operations and cash flow to decline. The loss of, or reduction in, orders from any significant customer, losses arising from customer disputes regarding shipments, fees, merchandise condition or related matters, or our inability to collect accounts receivable from any major customer could reduce our income from operations and cash flow.

***We may be adversely affected by trends in the retail industry.***

With the growing trend towards retail trade consolidation, we are increasingly dependent upon key retailers whose leverage is growing. Our business may be negatively affected by changes in the policies of our retailers, such as inventory destocking, limitations on access to shelf space, price demands and other conditions. In addition, as a result of the desire of retailers to more closely manage inventory levels, there is a growing trend among retailers to make purchases on a just-in-time basis. This requires us to shorten our lead time for production in certain cases and to more closely anticipate demand, which could in the future require the carrying of additional inventories and an increase in our working capital and related financing requirements. This shift to just-in-time can also cause retailers to delay purchase orders, which can cause a shift in sales from quarter to quarter. Decisions to move in or out of a market category by leading retailers can also have a significant impact on our business.

A significant deterioration in the financial condition of one of our major customers could have a material adverse effect on our sales, profitability and cash flow. We continually monitor and evaluate the credit status of our customers and attempt to adjust sales terms as appropriate. Despite these efforts, a bankruptcy filing or liquidation by a key customer could have a material adverse effect on our business, results of operations and financial condition in the future.

***Issues with products may lead to product liability, personal injury or property damage claims, recalls, withdrawals, replacements of products, regulatory actions by governmental authorities that could divert resources, affect business operations, decrease sales, increase costs, and put us at a competitive disadvantage, any of which could have a significant adverse effect on our results of operations and financial condition.***

We have 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. For example, during 2012, we experienced four unrelated recalls relating to one batch of baby bird feed products, one batch of mice, rat and hamster feed, one batch of dog food and a line of Christmas tree bases. In 2012, we recorded approximately \$4.9 million of costs related to these recalls. These recalls or future recalls could result in

## **Table of Contents**

increased governmental scrutiny, reputational harm, reduced demand by consumers for our products, decreased willingness by retailer customers to purchase or provide marketing support for those products, unavailability or increased cost of insurance, or additional safety and testing requirements. Such results could divert development and management resources, adversely affect our business operations, decrease sales, increase legal fees and other costs, and put us at a competitive disadvantage compared to other manufacturers not affected by similar issues with products, any of which could have a significant adverse effect on our results of operations and financial condition.

***Competition in our industries may hinder our ability to execute our business strategy, increase our profitability or maintain relationships with existing customers.***

We operate in highly competitive industries, which have experienced increased consolidation in recent years. We compete against numerous other companies, some of which are more established in their industries and have substantially greater revenue and resources than we do. Our products compete against national and regional products and private label products produced by various suppliers. Our largest competitors in the Pet segment are Spectrum Brands and Hartz Mountain, and our largest competitors in the Garden segment are Scotts and Spectrum Brands.

To compete effectively, among other things, we must:

develop and grow brands with leading market positions;

grow market share;

maintain our relationships with key retailers;

continually develop innovative new products that appeal to consumers;

implement effective marketing and sales promotion programs;

maintain strict quality standards;

deliver products on a reliable basis at competitive prices; and

effectively integrate acquired companies.

Competition could lead to lower sales volumes, price reductions, reduced profits, losses, or loss of market share. Our inability to compete effectively could have a material adverse effect on our business, results of operations and financial condition.

***Our acquisition strategy involves a number of risks.***

We have completed numerous acquisitions and intend further growth through the acquisition of additional companies.

We are regularly engaged in acquisition discussions with other companies and anticipate that one or more potential acquisition opportunities, including those that would be material, may become available in the near future. If and when appropriate acquisition opportunities become available, we intend to pursue them actively. Acquisitions involve a number of special risks, including:

## Edgar Filing: CENTRAL GARDEN & PET CO - Form 10-K

failure of the acquired business to achieve expected results, as well as the potential impairment of the acquired assets if operating results decline after an acquisition;

diversion of management's attention;

failure to retain key personnel of the acquired business;

additional financing, if necessary and available, which could increase leverage and costs, dilute equity, or both;

**Table of Contents**

the potential negative effect on our financial statements from the increase in goodwill and other intangibles;

the high cost and expenses of identifying, negotiating and completing acquisitions; and

risks associated with unanticipated events or liabilities.

These risks could have a material adverse effect on our business, results of operations and financial condition.

We have faced, and expect to continue to face, intense competition for acquisition candidates, which may limit our ability to make acquisitions and may lead to higher acquisition prices. We cannot assure you that we will be able to identify, acquire or manage profitably additional businesses or to integrate successfully any acquired businesses into our existing business without substantial costs, delays or other operational or financial difficulties. In future acquisitions, we also could incur additional indebtedness or pay consideration in excess of fair value, which could have a material adverse effect on our business, results of operations and financial condition.

***If our goodwill, indefinite-lived intangible assets or other long-term assets become impaired, we will be required to record impairment charges, which may be significant.***

A significant portion of our long-term assets consists of goodwill and other intangible assets recorded as a result of past acquisitions. We do not amortize goodwill and indefinite-lived intangible assets, but rather review them for impairment on a periodic basis or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We consider whether circumstances or conditions exist which suggest that the carrying value of our goodwill and other long-lived intangible assets might be impaired. If such circumstances or conditions exist, further steps are required to determine whether the carrying value of each of the individual assets exceeds its fair value. If analysis indicates that an individual asset's carrying value does exceed its fair value, we would record a loss equal to the excess of the individual asset's carrying value over its fair value.

The steps required by GAAP entail significant amounts of judgment and subjectivity. Events and changes in circumstances that may indicate that there may be an impairment and that interim impairment testing is necessary include, but are not limited to: competitive conditions; the impact of the economic environment on our customer base and on broad market conditions that drive valuation considerations by market participants; our internal expectations with regard to future revenue growth and the assumptions we make when performing impairment reviews; a significant decrease in the market price of our assets; a significant adverse change in the extent or manner in which our assets are used; a significant adverse change in the business climate that could affect our assets; and significant changes in the cash flows associated with an asset. As a result of such circumstances, we may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill, indefinite-lived intangible assets or other long-term assets is determined. Any such impairment charges could have a material adverse effect on our results of operations and financial condition.

In connection with our annual goodwill impairment testing performed during fiscal 2013, the first step of such testing indicated that the fair value of our Pet segment reporting units exceeded their carrying value, and accordingly, no further testing of goodwill was required for the Pet segment. However, the carrying value of our Garden segment reporting units exceeded their estimated fair value, indicating potential impairment. Based on further analysis, we determined that the entire carrying value of our Garden segment goodwill was impaired, resulting in a non-cash goodwill impairment charge of \$7.7 million.



## **Table of Contents**

### ***Our success depends upon our retaining key personnel.***

Our future performance is substantially dependent upon the continued services of John R. Ranelli, our President, Chief Executive Officer and President – Pet Segment, William E. Brown, our Chairman, and our other senior officers. The loss of the services of any of these persons could have a material adverse effect on our business. In addition, our future performance depends on our ability to attract and retain skilled employees. We cannot assure you that we will be able to retain our existing personnel or attract additional qualified employees in the future.

### ***We are implementing a new enterprise resource planning information technology system.***

In fiscal 2005, we began incurring costs associated with designing and implementing SAP, a new company-wide enterprise resource planning (ERP) software system with the objective of gradually migrating to the new system. Upon completion, this new system will replace numerous existing accounting and financial reporting systems, most of which were obtained in connection with business acquisitions. To date, we have reduced the number of ERP systems from 26 to 7. We invested an additional \$3.5 million in fiscal 2013 for implementation. Capital expenditures for our new enterprise resource planning software system for fiscal 2014 and beyond will depend upon the pace of conversion for those remaining legacy systems. If the implementation is not executed successfully, we could experience business interruptions. If we do not complete the implementation of the project timely and successfully, we may experience, among other things, additional costs associated with completing this project and a delay in our ability to improve existing operations, support future growth and enable us to take advantage of new applications and technologies. All of this may also result in a distraction of management's time, diverting their attention from our operations and strategy.

### ***Our inability to protect our trademarks and any other proprietary rights may have a significant, negative impact on our business.***

We consider our trademarks to be of significant importance in our business. Although we devote resources to the establishment and protection of our trademarks, we cannot assure you that the actions we have taken or will take in the future will be adequate to prevent violation of our trademarks and proprietary rights by others or prevent others from seeking to block sales of our products as an alleged violation of their trademarks and proprietary rights. There can be no assurance that future litigation will not be necessary to enforce our trademarks or proprietary rights or to defend ourselves against claimed infringement or the rights of others. Any future litigation of this type could result in adverse determinations that could have a material adverse effect on our business, financial condition or results of operations. Our inability to use our trademarks and other proprietary rights could also harm our business and sales through reduced demand for our products and reduced revenues.

### ***Some of the products that we manufacture and distribute require governmental permits and also subject us to potential environmental liabilities.***

Some of the products that we manufacture and distribute are subject to regulation by federal, state, foreign and local authorities. Environmental health and safety laws and regulations are often complex and are subject to change. Environmental health and safety laws and regulations may affect us by restricting the manufacture, sale or use of our products or regulating their disposal. Regulatory or legislative changes may cause future increases in our operating costs or otherwise affect operations. There is no assurance that in the future we may not be adversely affected by such laws or regulations, incur increased operating costs in complying with such regulations or not be subject to claims for personal injury, property damages or governmental enforcement. In addition, due to the nature of our operations and the frequently changing nature of environmental compliance standards and technology, we cannot predict with any certainty that future material capital expenditures will not be required.

In addition to operational standards, environmental laws also impose obligations on various entities to clean up contaminated properties or to pay for the cost of such remediation, often upon parties that did not actually

## **Table of Contents**

cause the contamination. Accordingly, we may become liable, either contractually or by operation of law, for remediation costs even if the contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. With our extensive acquisition history, we have acquired a number of manufacturing and distribution facilities. Given the nature of the past operations conducted by us and others at these properties, there can be no assurance that all potential instances of soil or groundwater contamination have been identified, even for those properties where an environmental site assessment has been conducted. Future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination, may give rise to future remediation liabilities that may be material.

### ***Our business is dependent upon our ability to continue to source products from China.***

We outsource a significant amount of our manufacturing requirements to third party manufacturers located in China. This international sourcing subjects us to a number of risks, including: the impact on sourcing or manufacturing of public health and contamination risks in China; social and political disturbances and instability; export duties, import controls, tariffs, quotas and other trade barriers; shipping and transportation problems; and fluctuations in currency values. Because we rely on Chinese third-party manufacturers for a substantial portion of our product needs, any disruption in our relationships with these manufacturers could adversely affect our operations.

### ***The products that we manufacture and distribute could expose us to product liability claims.***

Our business exposes us to potential product liability risks in the manufacture and distribution of certain of our products. Although we generally seek to insure against such risks, there can be no assurance that such coverage is adequate or that we will be able to maintain such insurance on acceptable terms. A successful product liability claim in excess of our insurance coverage could have a material adverse effect on us and could prevent us from obtaining adequate product liability insurance in the future on commercially reasonable terms.

### ***Deterioration in operating results could prevent us from fulfilling our obligations under the terms of our indebtedness or impact our ability to refinance our debt on favorable terms as it matures.***

We have, and we will continue to have, a significant amount of indebtedness. As of September 28, 2013, we had total indebtedness of approximately \$472.6 million. This level of indebtedness and future borrowing needs could have material adverse consequences for our business, including:

make it more difficult for us to satisfy our obligations with respect to the terms of our indebtedness;

require us to dedicate a large portion of our cash flow to pay principal and interest on our indebtedness, which would reduce the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other business activities;

increase our vulnerability to adverse industry conditions, including unfavorable weather conditions or continued commodity price increases;

limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

restrict us from making strategic acquisitions or exploiting business opportunities;

place us at a competitive disadvantage compared to competitors that have less debt; and

limit our ability to borrow additional funds at reasonable rates, if at all.

## Edgar Filing: CENTRAL GARDEN & PET CO - Form 10-K

In addition, since a portion of our debt commitments bear interest at variable rates, an increase in interest rates or interest rate margins as defined under the credit agreement will create higher debt service requirements, which would adversely affect our cash flow.

## **Table of Contents**

*We are subject to cyber security risks and may incur increasing costs in an effort to minimize those risks.*

Our business employs systems and websites that allow for the secure storage and transmission of proprietary or confidential information regarding our customers, employees, suppliers and others, including personal identification information. Security breaches could expose us to a risk of loss or misuse of this information, litigation, and potential liability. We may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving types of cyber attacks. Attacks may be targeted at us, our customers and suppliers, or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants. Advances in computer capabilities, new technological discoveries, or other developments may result in the technology used by us to protect transaction or other data being breached or compromised. In addition, data and security breaches can also occur as a result of non-technical issues, including breach by us or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, and a loss of confidence in our security measures, which could have an adverse effect on our results of operations and our reputation.

*We do not expect to pay dividends in the foreseeable future.*

We have never paid any cash dividends on our common stock or Class A common stock and currently do not intend to do so. Provisions of our credit facility and the indenture governing our senior subordinated notes restrict our ability to pay cash dividends. Any future determination to pay cash dividends will be at the discretion of our Board of Directors, subject to limitations under applicable law and contractual restrictions, and will depend upon our results of operations, financial condition and other factors deemed relevant by our Board of Directors.

*We may issue additional shares of our common stock or Class A common stock that could dilute the value and market price of your stock.*

We may decide or be required to issue, including upon the exercise of any outstanding stock options, or in connection with any acquisition made by us, additional shares of our common stock or Class A common stock that could dilute the value of your common stock or Class A common stock and may adversely affect the market price of our common stock or Class A common stock.

*Our Chairman, through his holdings of our Class B common stock, exercises effective control of the Company, which may discourage potential acquisitions of our business and could have an adverse effect on the market price of our stock.*

Holders of our Class B common stock are entitled to the lesser of ten votes per share or 49% of the total votes cast, and each share of Class B common stock is convertible at any time into one share of our common stock. Holders of our common stock are entitled to one vote for each share owned. Holders of our Class A common stock and Series B preferred stock have no voting rights, except as required by Delaware law.

As of December 1, 2013, William E. Brown, our Chairman, beneficially owned 1,600,459 shares of our Class B common stock (out of a total of 1,652,262 outstanding shares), 1,418,063 shares of our common stock and 3,227,117 shares of our Class A common stock and thereby controlled approximately 55% of the voting power of our capital stock. Accordingly, except to the extent that a class vote of the common stock is required by applicable law, he can effectively control all matters requiring stockholder approval, including the election of our directors, and can exert substantial control over our management and policies. The disproportionate voting rights of our common stock and Class B common stock and Mr. Brown's substantial holdings of Class B common stock could have an adverse effect on the market price of our common stock and Class A common stock. Also, such disproportionate voting rights and Mr. Brown's controlling interest may make us a less attractive target for a

## **Table of Contents**

takeover than we otherwise might be, or render more difficult or discourage a merger proposal, tender offer or proxy contest, even if such actions were favored by our other stockholders, which could thereby deprive holders of common stock or Class A common stock of an opportunity to sell their shares for a take-over premium.

*We have authorized the issuance of shares of common stock, Class A common stock and preferred stock, which may discourage potential acquisitions of our business and could have an adverse effect on the market price of our common stock and our Class A common stock.*

Pursuant to our Fourth Amended and Restated Certificate of Incorporation, the Board of Directors is authorized to issue up to 80,000,000 shares of our common stock, 100,000,000 shares of our nonvoting Class A common stock and up to 1,000,000 additional shares of preferred stock without seeking the approval or consent of our stockholders, unless required by the NASDAQ Global Market. Although the issuance of the nonvoting Class A common stock would not dilute the voting rights of the existing stockholders, it would have a dilutive effect on the economic interest of currently outstanding shares of common stock and Class B common stock similar to the dilutive effect of subsequent issuances of ordinary common stock. The issuance of the preferred stock could, depending on the rights and privileges designated by the board with respect to any particular series, have a dilutive effect on the voting interests of the common stock and Class B common stock and the economic interests of our common stock, Class A common stock and Class B common stock. In addition, the disproportionate voting rights of our common stock, preferred stock, Class B common stock and Class A common stock, and the ability of the board to issue stock to persons friendly to current management, may make us a less attractive target for a takeover than we otherwise might be or render more difficult or discourage a merger proposal, tender offer or proxy contest, even if such actions were favored by our common stockholders, which could thereby deprive holders of common stock of an opportunity to sell their shares for a take-over premium.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

We currently operate 30 manufacturing facilities totaling approximately 3,592,000 square feet and 28 sales and logistics facilities totaling approximately 3,432,000 square feet. Most sales and logistics centers consist of office and warehouse space, and several large bays for loading and unloading. Each sales and logistics center provides warehouse, distribution, sales and support functions for its geographic area. Our executive offices are located in Walnut Creek, California.

**Table of Contents**

The table below lists the Pet segment's manufacturing and sales and logistics facilities. Numbers in parentheses represent multiple locations.

<b>Location</b>	<b>Type of Facility</b>	<b>Owned or Leased</b>
Phoenix, AZ (2)	Sales and Logistics	Owned
Irwindale, CA	Manufacturing	Leased
Sacramento, CA	Sales and Logistics	Leased
Santa Fe Springs, CA	Sales and Logistics	Leased
Aurora, CO	Sales and Logistics	Leased
Tampa, FL	Sales and Logistics	Leased
Council Bluffs, IA	Manufacturing	Owned
Jamesburg, NJ	Sales and Logistics	Leased
Neptune City, NJ	Manufacturing	Owned
Neptune City, NJ	Manufacturing	Leased
Bend, OR	Manufacturing	Leased
Cressona, PA	Manufacturing	Owned
Pottsville, PA	Sales and Logistics	Leased
Dallas, TX	Manufacturing	Owned
Dallas, TX	Sales and Logistics	Leased
Algona, WA	Sales and Logistics	Leased
Chilton, WI	Manufacturing	Owned
Franklin, WI	Manufacturing	Leased
Franklin, WI	Manufacturing	Owned
Menasha, WI	Sales and Logistics	Leased
Guangzhou, China	Manufacturing	Leased
Dorking, Surrey, UK	Manufacturing	Leased
Taunton, Somerset, UK	Sales and Logistics	Leased

**Table of Contents**

The table below lists the Garden segment's manufacturing and sales and logistics facilities. Numbers in parentheses represent multiple locations.

<b>Location</b>	<b>Type of Facility</b>	<b>Owned or Leased</b>
Cullman, AL	Sales and Logistics	Owned
Roll, AZ	Manufacturing	Owned
Yuma, AZ	Manufacturing	Leased
El Centro, CA	Manufacturing	Owned
Ontario, CA	Sales and Logistics	Leased
Longmont, CO	Manufacturing	Owned
Covington, GA	Sales and Logistics	Leased
Eatonton, GA	Manufacturing	Owned
Eatonton, GA	Sales and Logistics	Leased
Madison, GA (2)	Manufacturing	Leased
Madison, GA (2)	Manufacturing	Owned
Madison, GA	Sales and Logistics	Owned
St. Charles, IL	Sales and Logistics	Leased
Taunton, MA	Sales and Logistics	Leased
Laurel, MD	Sales and Logistics	Leased
Greenfield, MO (2)	Manufacturing	Owned
Greenfield, MO	Sales and Logistics	Owned
Neosho, MO	Manufacturing	Owned
Charlotte, NC	Sales and Logistics	Leased
Sidney, NE	Manufacturing	Owned
Fairfield, OH	Sales and Logistics	Leased
Peebles, OH	Manufacturing	Owned
Piketon, OH	Manufacturing	Leased
Albany, OR	Manufacturing	Owned
Albany, OR	Sales and Logistics	Leased
Lebanon, OR	Manufacturing	Owned
Portland, OR		