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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 27, 2004

or

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

For the transition period from _____ to _____

Commission File Number: 0-20242

CENTRAL GARDEN & PET COMPANY

Delaware
(State or other jurisdiction of
incorporation or organization)

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

3697 Mt. Diablo Blvd., Suite 310, Lafayette, California 94549
(Address of principle executive offices)

(925) 283-4573
(Registrant's telephone number, including area code)

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| | |
|--|------------|
| Common Stock Outstanding as of April 30, 2004 | 18,411,602 |
| Class B Stock Outstanding as of April 30, 2004 | 1,654,462 |

Table of Contents

PART I. FINANCIAL INFORMATION

| | | |
|---------|--|----|
| Item 1. | Financial Statements | 3 |
| | Condensed Consolidated Balance Sheets September 27, 2003 and March 27, 2004 | 3 |
| | Condensed Consolidated Statements of Operations Three and Six Months Ended March 29, 2003 and March 27, 2004 | 4 |
| | Condensed Consolidated Statements of Cash Flows Six Months Ended March 29, 2003 and March 27, 2004 | 5 |
| Item 2. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 19 |
| Item 4. | Controls and Procedures | 19 |

PART II. OTHER INFORMATION

| | | |
|---------|--|----|
| Item 1. | Legal Proceedings | 20 |
| Item 2. | Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities | 20 |
| Item 3. | Defaults Upon Senior Securities | 20 |
| Item 4. | Submission of Matter to a Vote of Securities Holders | 20 |
| Item 5. | Other Information | 21 |
| Item 6. | Exhibits and Reports on Form 8-K | 22 |

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

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

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Form 10-Q. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Form 10-Q are set forth in our Form 10-K for the fiscal year ended September 27, 2003, including the factors described in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations – 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:

- consolidation trends in the retail industry;
- dependence on a few customers for a significant portion of each of our businesses;
- uncertainty of our product innovations and marketing successes;
- fluctuations in market prices for seeds and grains;
- competition in our industries;
- risks associated with our acquisition strategy;
- adverse weather during the peak gardening season;
- seasonality and fluctuations in our operating results and cash flow;
- dependence upon our key executive officers;
- potential environmental liabilities and product liability claims; and
- pending litigation and claims.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | September 27, 2003 | March 27, 2004 |
|--|-----------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and equivalents | \$ 77,604 | \$ 12,568 |
| Restricted investments | — | 15,179 |
| Accounts receivable (less allowance for doubtful accounts of \$6,575 and \$9,583) | 146,075 | 225,381 |
| Inventories | 217,156 | 252,614 |
| Prepaid expenses and other | 15,222 | 10,766 |
| | <u>456,057</u> | <u>516,508</u> |
| Total current assets | 456,057 | 516,508 |
| Land, buildings, improvements and equipment—net | 101,538 | 101,347 |
| Goodwill | 222,780 | 281,108 |
| Deferred income taxes and other assets | 48,723 | 54,374 |
| | <u>829,098</u> | <u>953,337</u> |
| Total | \$ 829,098 | \$ 953,337 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 105,103 | \$ 133,543 |
| Accrued expenses | 47,061 | 55,663 |
| Current portion of long-term debt | 1,028 | 1,027 |
| | <u>153,192</u> | <u>190,233</u> |
| Total current liabilities | 153,192 | 190,233 |
| Long-term debt | 249,225 | 311,296 |
| Other long-term obligations | 1,585 | 1,580 |
| Shareholders' equity: | | |
| Convertible preferred stock, \$.01 par value: 100 shares issued and outstanding at March 27, 2004 | — | 3,000 |
| Class B stock, \$.01 par value: 1,654,462 shares outstanding at September 27, 2003 and March 27, 2004 | 16 | 16 |
| Common stock, \$.01 par value: 31,909,919 and 32,128,852 issued and 18,167,669 and 18,386,602 outstanding at September 27, 2003 and March 27, 2004 | 319 | 321 |
| Additional paid-in capital | 545,228 | 549,159 |
| Retained earnings | 24,360 | 42,559 |
| Treasury stock | (144,827) | (144,827) |
| | <u>425,096</u> | <u>450,228</u> |
| Total shareholders' equity | 425,096 | 450,228 |
| | <u>829,098</u> | <u>953,337</u> |
| Total | \$ 829,098 | \$ 953,337 |

See notes to condensed consolidated financial statements.

[Table of Contents](#)

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2003 | March 27, 2004 | March 29, 2003 | March 27, 2004 |
| Net sales | \$ 330,509 | \$ 358,985 | \$ 542,445 | \$ 581,335 |
| Cost of goods sold and occupancy | 231,419 | 246,959 | 382,137 | 407,238 |
| Gross profit | 99,090 | 112,026 | 160,308 | 174,097 |
| Selling, general and administrative expenses | 70,916 | 77,669 | 130,170 | 136,180 |
| Income from operations | 28,174 | 34,357 | 30,138 | 37,917 |
| Interest expense | (6,341) | (4,459) | (9,184) | (8,564) |
| Interest income | 44 | 123 | 70 | 322 |
| Other income | 671 | 985 | 330 | 270 |
| Income before income taxes | 22,548 | 31,006 | 21,354 | 29,945 |
| Income taxes | 9,019 | 12,162 | 8,542 | 11,746 |
| Net income | \$ 13,529 | \$ 18,844 | \$ 12,812 | \$ 18,199 |
| Income per common share: | | | | |
| Basic | \$ 0.70 | \$ 0.94 | \$ 0.67 | \$ 0.91 |
| Diluted | \$ 0.68 | \$ 0.91 | \$ 0.64 | \$ 0.88 |
| Weighted average shares used in the computation of income per share: | | | | |
| Basic | 19,234 | 20,030 | 19,147 | 19,939 |
| Diluted | 20,009 | 20,803 | 19,900 | 20,646 |

See notes to condensed consolidated financial statements.

[Table of Contents](#)

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

| | Six Months Ended | |
|---|-------------------|-------------------|
| | March 29, 2003 | March 27, 2004 |
| Cash flows from operating activities: | | |
| Net income | \$ 12,812 | \$ 18,199 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,824 | 8,933 |
| Change in assets and liabilities (excluding businesses acquired): | | |
| Receivables | (69,970) | (72,044) |
| Inventories | (38,279) | (23,272) |
| Prepaid expenses and other assets | 16,309 | 1,169 |
| Accounts payable | 33,052 | 25,948 |
| Accrued expenses | 5,478 | 8,955 |
| Other long-term obligations | 116 | (5) |
| Net cash used in operating activities | (31,658) | (32,117) |
| Cash flows used in investing activities: | | |
| Additions to land, buildings, improvements and equipment | (6,810) | (6,348) |
| Businesses acquired, net of cash acquired | — | (76,290) |
| Restricted investments | — | (15,179) |
| Net cash used in investing activities | (6,810) | (97,817) |
| Cash flows from financing activities: | | |
| Borrowings under lines of credit, net | 21,772 | — |
| Borrowings on revolving line of credit | — | 60,000 |
| Proceeds from issuance of long-term debt | 150,000 | — |
| Repayments of long-term debt | (135,499) | (526) |
| Loan fees and financing costs paid | (6,000) | — |
| Proceeds from issuance of stock | 4,318 | 5,424 |
| Net cash provided by financing activities | 34,591 | 64,898 |
| Net decrease in cash and equivalents | (3,877) | (65,036) |
| Cash and equivalents at beginning of period | 10,884 | 77,604 |
| Cash and equivalents at end of period | \$ 7,007 | \$ 12,568 |
| Supplemental information: | | |
| Cash paid for interest | \$ 7,546 | \$ 8,168 |
| Cash paid (refunds received) for income taxes—net | \$ (6,468) | \$ (121) |

See notes to condensed consolidated financial statements.

CENTRAL GARDEN & PET COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended March 27, 2004
(unaudited)

1. Basis of Presentation

The condensed consolidated balance sheet of Central Garden & Pet Company and subsidiaries (the "Company" or "Central") as of March 27, 2004, the condensed consolidated statements of operations for the three and six months ended March 29, 2003 and March 27, 2004 and the condensed consolidated statements of cash flows for the six months ended March 29, 2003 and March 27, 2004 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) considered necessary to present fairly the financial position, results of operations and cash flows of the Company for the periods mentioned above, have been made.

Due to the seasonal nature of the Company's business, the results of operations for the three and six months ended March 27, 2004 are not indicative of the operating results that may be expected for the year ending September 25, 2004. It is suggested that these interim financial statements be read in conjunction with the annual audited financial statements, accounting policies and financial notes thereto, included in the Company's 2003 Annual Report on Form 10-K which has previously been filed with the Securities and Exchange Commission.

2. Stock Plan Information

The Company has various non-qualified stock-based compensation programs, which include stock options and restricted stock awards. The Company's stock option plans provide for the granting of stock options to officers, key employees and directors. The Company has elected to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," whereby the options are granted at market price, and therefore no compensation costs are recognized. As required by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," the Company has provided fair value based pro-forma disclosures in its interim financial statements.

If compensation expense for the Company's various stock option plans had been determined based upon the projected fair values at the grant dates for awards under those plans in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company's pro-forma net earnings, basic and diluted earnings per common share would have been as follows:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2003 | March 27, 2004 | March 29, 2003 | March 27, 2004 |
| | (in thousands) | | (in thousands) | |
| Net income, as reported | \$ 13,529 | \$ 18,844 | \$ 12,812 | \$ 18,199 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for awards, net of related tax effects | (448) | (441) | (906) | (763) |
| Pro forma net income | \$ 13,081 | \$ 18,403 | \$ 11,906 | \$ 17,436 |
| Net income per common equivalent share: | | | | |
| Basic – as reported | \$ 0.70 | \$ 0.94 | \$ 0.67 | \$ 0.91 |
| Basic – pro forma | \$ 0.68 | \$ 0.92 | \$ 0.62 | \$ 0.87 |
| Diluted – as reported | \$ 0.68 | \$ 0.91 | \$ 0.64 | \$ 0.88 |
| Diluted – pro forma | \$ 0.65 | \$ 0.88 | \$ 0.60 | \$ 0.84 |

[Table of Contents](#)

3. Earnings Per Share

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

| | Three Months Ended March 27, 2004 | | | Six Months Ended March 27, 2004 | | |
|--|--|--------|-----------|------------------------------------|--------|-----------|
| | Income | Shares | Per Share | Income | Shares | Per Share |
| | (in thousands, except per share amounts) | | | | | |
| Basic EPS: | | | | | | |
| Net income | \$ 18,844 | 20,030 | \$ 0.94 | \$ 18,199 | 19,939 | \$ 0.91 |
| Effect of dilutive securities: | | | | | | |
| Options to purchase common stock | | 773 | (0.03) | | 707 | (0.03) |
| Diluted EPS: | | | | | | |
| Net income attributable to common shareholders | \$ 18,844 | 20,803 | \$ 0.91 | \$ 18,199 | 20,646 | \$ 0.88 |

| | Three Months Ended March 29, 2003 | | | Six Months Ended March 29, 2003 | | |
|--|--|--------|-----------|------------------------------------|--------|-----------|
| | Income | Shares | Per Share | Income | Shares | Per Share |
| | (in thousands, except per share amounts) | | | | | |
| Basic EPS: | | | | | | |
| Net income | \$ 13,529 | 19,234 | \$ 0.70 | \$ 12,812 | 19,147 | \$ 0.67 |
| Effect of dilutive securities: | | | | | | |
| Options to purchase common stock | | 775 | (0.02) | | 753 | (0.03) |
| Diluted EPS: | | | | | | |
| Net income attributable to common shareholders | \$ 13,529 | 20,009 | \$ 0.68 | \$ 12,812 | 19,900 | \$ 0.64 |

Options to purchase 2,348,108 shares of common stock at prices ranging from \$1.30 to \$33.85 per share were outstanding at March 27, 2004 and options to purchase 2,555,121 shares at prices ranging from \$1.30 to \$30.00 were outstanding at March 29, 2003. For the three month periods ended March 27, 2004 and March 29, 2003, options to purchase 42,310 and 6,000 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because the option exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive. For the six month periods ended March 27, 2004 and March 29, 2003, options to purchase 42,310 and 120,620 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because the option exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

Shares of common stock from the assumed conversion of the Company's previously outstanding convertible notes totaling 4,107,143 were not included in the computation of diluted EPS for the three and six-month periods ended March 29, 2003, because the assumed conversion would have been anti-dilutive. These convertible notes were redeemed in February 2003.

4. Businesses Acquired

In January 2004, the Company acquired substantially all of the assets of Kent Marine, Inc., a leading supplier of saltwater aquarium supplements and conditioners sold under the brand name "Kent Marine", for approximately \$10 million in cash. The acquisition has been accounted for as a purchase. The purchase price exceeded the fair market value of the net tangible assets acquired by approximately \$9 million, which was recorded as goodwill. The consolidated financial statements include the operating results of Kent Marine from the date of acquisition. The Company may be required to pay up to \$700,000 of additional cash consideration over the next three years, contingent upon actual earnings of the acquired business.

In February 2004, the Company acquired substantially all of the assets of New England Pottery, Inc., a marketer and seller of decorative pottery and seasonal Christmas products, for approximately \$66 million in cash. Its proprietary brand names include "New England Pottery" and "GKI/Bethlehem Lighting." The acquisition has been accounted for as a purchase. The purchase price exceeded the fair market value of the net tangible assets acquired by approximately \$49 million, which was recorded as goodwill. The consolidated financial statements include the operating results of New England Pottery from the date of acquisition.

Table of Contents

5. Segment Information

Management has determined that the reportable segments of the Company are Garden Products and Pet Products, based on the level at which the chief operating decision making group reviews the results of operations to make decisions regarding performance assessment and resource allocation.

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-----------------------|-------------------|
| | March 29, 2003 | March 27, 2004 | March 29, 2003 | March 27, 2004 |
| | (in thousands) | | | |
| Net sales: | | | | |
| Garden Products | \$ 201,894 | \$ 213,986 | \$ 295,142 | \$ 306,817 |
| Pet Products | 128,615 | 144,999 | 247,303 | 274,518 |
| Total net sales | \$ 330,509 | \$ 358,985 | \$ 542,445 | \$ 581,335 |
| Income (loss) from operations: | | | | |
| Garden Products | \$ 23,887 | \$ 26,874 | \$ 20,666 | \$ 23,964 |
| Pet Products | 13,043 | 15,695 | 22,916 | 26,560 |
| Corporate | (8,756) | (8,212) | (13,444) | (12,607) |
| Total income from operations | 28,174 | 34,357 | 30,138 | 37,917 |
| Interest expense—net | (6,297) | (4,336) | (9,114) | (8,242) |
| Other income | 671 | 985 | 330 | 270 |
| Income taxes | 9,019 | 12,162 | 8,542 | 11,746 |
| Net income | \$ 13,529 | \$ 18,844 | \$ 12,812 | \$ 18,199 |
| Depreciation and amortization: | | | | |
| Garden Products | \$ 1,319 | \$ 1,341 | \$ 2,650 | \$ 2,730 |
| Pet Products | 2,877 | 2,788 | 5,922 | 5,854 |
| Corporate | 127 | 187 | 252 | 349 |
| Total depreciation and amortization | \$ 4,323 | \$ 4,316 | \$ 8,824 | \$ 8,933 |
| | | | September 27, 2003 | March 27, 2004 |
| | (in thousands) | | | |
| Assets: | | | | |
| Garden Products | | | \$ 281,679 | \$ 399,242 |
| Pet Products | | | 208,703 | 215,497 |
| Corporate | | | 338,716 | 338,598 |
| Total assets | | | \$ 829,098 | \$ 953,337 |
| Goodwill (included in corporate assets): | | | | |
| Garden Products | | | \$ 105,681 | \$ 155,383 |
| Pet Products | | | 117,099 | 125,725 |
| Total goodwill | | | \$ 222,780 | \$ 281,108 |

6. Contingencies

Central does not believe that the outcome of the following legal proceedings will have a material adverse effect on its results of operations, liquidity or financial position taken as a whole. However, because these proceedings may raise complex factual and legal issues and are subject to uncertainties, Central cannot predict with assurance the outcome of these proceedings. Accordingly, adverse settlements or resolutions may occur and negatively impact earnings in the quarter of settlement or resolution.

TFH Litigation. In December 1997, Central acquired all of the stock of TFH Publications, Inc. (“TFH”). In connection with the transaction, Central made a \$10 million loan to the sellers (the “Axelrod Loan”), which was evidenced by a Promissory Note. In September 1998, the prior owners of TFH brought suit against Central and certain executives of Central for damages and relief from their obligations under the Promissory Note, alleging, among other things, that Central’s failure to properly supervise the TFH management team had jeopardized their prospects of achieving certain earnouts. Central believes that these allegations are without merit. Central counterclaimed against the prior owners for enforcement of the Promissory Note, rescission and/or damages and other relief, alleging, among other things, fraud, misrepresentation and breach of fiduciary duty by the prior owners of TFH. These actions,

Table of Contents

Herbert R. Axelrod and Evelyn Axelrod v. Central Garden & Pet Company; Glen S. Axelrod; Gary Hersch; William E. Brown; Robert B. Jones; Glenn Novotny; and Neill Hines, Docket No. MON-L-5100-99, and *TFH Publications, Inc. v. Herbert Axelrod et al.*, Docket No. L-2127-99 (consolidated cases), are in the New Jersey Superior Court.

During the course of discovery in this action, Central has become aware of certain information which shows that prior to the acquisition of TFH by Central, certain records of TFH were prepared in an inaccurate manner which, among other things, resulted in underpayment of taxes by certain individuals. Those individuals could be liable for back taxes, interest, and penalties. In addition, even though all of the events occurred prior to the acquisition of TFH by Central, there is a possibility that TFH could be liable for penalties for events which occurred under prior management. Central believes that TFH has strong defenses available to the assertion of any penalties against TFH. Central cannot predict whether TFH will be required to pay any such penalties. In the event that TFH were required to pay penalties, Central would seek compensation from the prior owners.

On April 12, 2004, one of the former owners of TFH, Herbert Axelrod, was indicted by a federal grand jury. The two-count federal indictment, which is based on actions taken by Herbert Axelrod before Central acquired TFH, charges Herbert Axelrod with conspiracy to defraud the United States Internal Revenue Service and aiding and abetting the filing of false tax returns by a former Vice President of TFH. Herbert Axelrod failed to appear for his arraignment, and a federal warrant has been issued for his arrest. He is now reportedly residing in Cuba. Central has information that Herbert Axelrod has liquidated and transferred assets out of the United States. The status of Herbert Axelrod and his assets has raised questions, which cannot presently be answered, about Central's ability to collect on any of its claims against Herbert Axelrod or the Axelrod Loan. If Central is unsuccessful in its claims against Mr. Axelrod regarding the Axelrod Loan or is unable to collect any judgment awarded, Central would be required to write-off the Axelrod Loan, which would result in a non-cash charge against its future earnings. The Axelrod Loan is currently carried on the financial statements of Central as an "Other Asset" in the amount of \$10.2 million.

Scotts Litigation. On June 30, 2000, The Scotts Company filed suit against Central to collect the purchase price of certain lawn and garden products previously sold to Central. See *The Scotts Company v. Central Garden & Pet Company*, Docket No. C2 00-755 (U.S. Dist Ct. N.D. Ohio). Central filed its answer and a counter complaint asserting various claims for breaches of contracts.

In April 2002, trial occurred on the claims and counterclaims of the parties (excluding one oral contract claim that was severed from the remainder of the case). The net verdict was in favor of Scotts in the amount of \$10.4 million which had previously been recorded as an obligation by the Company. Scotts and Central filed post-trial motions. In a March 20, 2003 order, the district court denied Scotts' motion for attorneys' fees, granted Scotts' motion to set aside \$750,000 of the jury amount awarded to Central, denied Central's motion for a new trial, granted Central's motion for prejudgment interest, and granted in part and denied in part Scotts' motion for prejudgment interest. The court directed each party to re-determine the amount of their respective interest claims in light of the Court's ruling and to submit their respective determinations. On July 11, 2003, the Court issued an order resolving the remaining prejudgment interest issues and directing the parties to submit calculations in accordance with its decision. Pursuant to this order, the Court awarded prejudgment interest to Scotts in the net amount of \$2.8 million. On October 3, 2003, Central and Scotts settled the oral contract claim that had previously been severed from the remainder of the case. Pursuant to the settlement, Scotts reduced the judgment amount by \$300,000. Central and Scotts have each filed notices of appeal from different aspects of the prior judgment and post-judgment orders. In connection with the appeal, Central has paid approximately \$15 million into an escrow account which is reported as restricted investments on our balance sheet.

On July 7, 2000, Central filed suit against Scotts and Pharmacia Corporation (formerly know as Monsanto Company) seeking damages and injunctive relief for, among other things, violations of the antitrust laws. See *Central Garden & Pet Company, v. The Scotts Company, and Pharmacia Corporation, formerly known as Monsanto Company*, Docket No. C 00 2465, (U.S. Dist Ct. N.D. Cal.). Pursuant to a settlement reached with Pharmacia, Central and Pharmacia agreed that all antitrust claims against Pharmacia and Monsanto would be resolved, and the federal action has been dismissed as to Pharmacia and Monsanto. In May 2002, Scotts filed a motion for summary judgment in the federal action based on res judicata. The court granted the res judicata motion. Central has appealed the judgment entered pursuant to the court's order. On January 15, 2004, the Ninth Circuit Court of Appeals affirmed the judgment.

Phoenix Fire. On August 2, 2000, a fire destroyed Central's leased warehouse space in Phoenix, Arizona, and an adjoining warehouse space leased by a third party. On July 31, 2001, the adjoining warehouse tenant filed a lawsuit against Central and other parties in the Superior Court of Arizona, Maricopa County, seeking to recover \$47 million for property damage from the fire. See *Cardinal Health Inc., et al. v. Central Garden & Pet Company, et al.*, Civil Case No. CV2001-013152. Local residents also filed a purported class action lawsuit alleging claims for bodily injury and property damage as a result of the fire. This lawsuit has now been settled as to all parties, and has received Court approval. As part of the settlement, Central's liability insurers will pay \$7,825,000 on behalf of Central in May 2004. The building owner and several nearby businesses have also filed lawsuits for property damage and business interruption, which are being coordinated with the remaining tenant lawsuit. Each of these lawsuits is currently pending in the Superior Court of Arizona, Maricopa County. The Arizona Department of Environmental Quality, after monitoring the cleanup operations and asking Central, the building owner and the adjoining warehouse tenant to assess whether the fire and fire suppression efforts may have caused environmental impacts to soil, groundwater and/or surface water, has now issued

Table of Contents

a letter stating that Central need take no further action at the site with respect to environmental issues. In early 2001, the EPA requested information relating to the fire. On July 17, 2002, the EPA informed Central that it intended to file a civil administrative complaint seeking penalties of up to \$350,000 for certain alleged post-fire reporting violations. Central and the EPA have settled those allegations for \$65,000. The overall amount of the damages to all parties caused by the fire, and the overall amount of damages which Central may sustain as a result of the fire, have not been quantified. At the time of the fire, Central maintained property insurance covering losses to the leased premises, Central's inventory and equipment, and loss of business income. Central also maintained insurance providing \$51 million of coverage (with no deductible) against third party liability. Central believes that this insurance coverage will be available with respect to third party claims against Central if parties other than Central are not found responsible. The precise amount of the damages sustained in the fire, the ultimate determination of the parties responsible and the availability of insurance coverage are likely to depend on the outcome of complex litigation, involving numerous claimants, defendants and insurance companies.

7. Shareholders' Equity

At March 27, 2004, there were 100 shares of Series B Convertible Preferred Stock (\$0.01 par value) authorized, issued and outstanding. In February 2004, in connection with the agreement to purchase New England Pottery, the Company received \$3,000,000 from certain members of management of New England Pottery in exchange for its issuance to them of 100 shares of Series B convertible preferred stock. Each share of Series B convertible preferred stock is entitled to a liquidation preference of the greater of \$30,000 per share (the purchase price of the shares) or the amount that would have been payable if the shares had been converted to common stock, is initially convertible into 864 shares of common stock, is entitled to (on an as converted basis) dividends equal to any dividends paid on the common stock and has no voting rights, except as required by law.

8. Consolidating Condensed Financial Information of Guarantor Subsidiaries

Certain wholly owned subsidiaries of the Company (as listed below, collectively the "Guarantor Subsidiaries") have guaranteed fully and unconditionally, on a joint and several basis, the obligation to pay principal and interest under the Company's \$150,000,000 9 1/8% Senior Subordinated Notes (the "Notes") issued on January 30, 2003. Certain subsidiaries and operating divisions are not guarantors of the Notes and have been included in the financial results of the Parent in the information below. Those subsidiaries that are guarantors of the Notes are as follows:

- Four Paws Products Ltd.
- Grant Laboratories, Inc.
- Kaytee Products, Incorporated
- Matthews Redwood & Nursery Supply, Inc.
- Pennington Seed, Inc. (including Phaeton Corporation (dba Unicorn Labs), Seeds West, Inc., All-Glass Aquarium Co., Inc. (including Oceanic Systems, Inc.))
- T.F.H. Publications, Inc.
- Wellmark International
- Norcal Pottery Products, Inc.
- Pennington Seed, Inc. of Nebraska
- Gro Tec, Inc.

[Table of Contents](#)

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

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**Three Months Ended March 27, 2004****(in thousands)****(unaudited)**

| | <u>Parent</u> | <u>Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|---------------|-----------------------------------|---------------------|---------------------|
| Net sales | \$ 118,375 | \$ 267,771 | \$ (27,161) | \$ 358,985 |
| Cost of products sold and occupancy | 86,470 | 187,069 | (26,580) | 246,959 |
| Gross profit | 31,905 | 80,702 | (581) | 112,026 |
| Selling, general and administrative expenses | 29,216 | 48,453 | — | 77,669 |
| Income (loss) from operations | 2,689 | 32,249 | (581) | 34,357 |
| Interest – net | (4,284) | (52) | — | (4,336) |
| Other income | 203 | 782 | — | 985 |
| Income (loss) before income taxes | (1,392) | 32,979 | (581) | 31,006 |
| Income taxes | 546 | (12,936) | 228 | (12,162) |
| Net income (loss) | (846) | 20,043 | (353) | 18,844 |
| Equity in undistributed income of guarantor subsidiaries | 19,690 | — | (19,690) | — |
| Net income (loss) | \$ 18,844 | \$ 20,043 | \$ (20,043) | \$ 18,844 |

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**Three Months Ended March 29, 2003****(in thousands)****(unaudited)**

| | <u>Parent</u> | <u>Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|---------------|-----------------------------------|---------------------|---------------------|
| Net sales | \$ 102,906 | \$ 250,077 | \$ (22,474) | \$ 330,509 |
| Cost of products sold and occupancy | 76,739 | 176,282 | (21,602) | 231,419 |
| Gross profit | 26,167 | 73,795 | (872) | 99,090 |
| Selling, general and administrative expenses | 26,330 | 44,586 | — | 70,916 |
| Income (loss) from operations | (163) | 29,209 | (872) | 28,174 |
| Interest – net | (5,867) | (430) | — | (6,297) |
| Other income | 458 | 213 | — | 671 |
| Income (loss) before income taxes | (5,572) | 28,992 | (872) | 22,548 |
| Income taxes | 2,229 | (11,597) | 349 | (9,019) |
| Net income (loss) | (3,343) | 17,395 | (523) | 13,529 |
| Equity in undistributed income of guarantor subsidiaries | 16,872 | — | (16,872) | — |
| Net income (loss) | \$ 13,529 | \$ 17,395 | \$ (17,395) | \$ 13,529 |

[Table of Contents](#)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
Six Months Ended March 27, 2004
(in thousands)
(unaudited)

| | <u>Parent</u> | <u>Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|---------------|-----------------------------------|---------------------|---------------------|
| Net sales | \$ 195,688 | \$ 428,982 | \$ (43,335) | \$ 581,335 |
| Cost of goods sold and occupancy | 143,740 | 306,075 | (42,577) | 407,238 |
| Gross profit | 51,948 | 122,907 | (758) | 174,097 |
| Selling, general and administrative expenses | 51,200 | 84,980 | — | 136,180 |
| Income (loss) from operations | 748 | 37,927 | (758) | 37,917 |
| Interest – net | (8,308) | 66 | — | (8,242) |
| Other income (expense) | (361) | 631 | — | 270 |
| Income (loss) before income taxes | (7,921) | 38,624 | (758) | 29,945 |
| Income taxes | 3,107 | (15,150) | 297 | (11,746) |
| Net income (loss) | (4,814) | 23,474 | (461) | 18,199 |
| Equity in undistributed income of guarantor subsidiaries | 23,013 | — | (23,013) | — |
| Net income (loss) | \$ 18,199 | \$ 23,474 | \$ (23,474) | \$ 18,199 |

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
Six Months Ended March 29, 2003
(in thousands)
(unaudited)

| | <u>Parent</u> | <u>Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|---------------|-----------------------------------|---------------------|---------------------|
| Net sales | \$ 174,457 | \$ 403,735 | \$ (35,747) | \$ 542,445 |
| Cost of goods sold and occupancy | 129,190 | 288,070 | (35,123) | 382,137 |
| Gross profit | 45,267 | 115,665 | (624) | 160,308 |
| Selling, general and administrative expenses | 47,850 | 82,320 | — | 130,170 |
| Income (loss) from operations | (2,583) | 33,345 | (624) | 30,138 |
| Interest – net | (8,292) | (822) | — | (9,114) |
| Other income (expense) | (180) | 510 | — | 330 |
| Income (loss) before income taxes | (11,055) | 33,033 | (624) | 21,354 |
| Income taxes | 4,422 | (13,214) | 250 | (8,542) |
| Net income (loss) | (6,633) | 19,819 | (374) | 12,812 |
| Equity in undistributed income of guarantor subsidiaries | 19,445 | — | (19,445) | — |
| Net income (loss) | \$ 12,812 | \$ 19,819 | \$ (19,819) | \$ 12,812 |

[Table of Contents](#)

CONSOLIDATING CONDENSED BALANCE SHEET
March 27, 2004
(in thousands)

| | Parent | Guarantor Subsidiaries | Eliminations | Consolidated |
|--|----------------|---------------------------|------------------|----------------|
| ASSETS | | | | |
| Cash and equivalents | \$ 10,302 | \$ 2,266 | \$ — | \$ 12,568 |
| Restricted investments | 15,179 | — | — | 15,179 |
| Accounts receivable | 71,383 | 171,109 | (17,111) | 225,381 |
| Inventories | 70,848 | 181,766 | — | 252,614 |
| Prepaid expenses and other | 3,330 | 7,436 | — | 10,766 |
| | <u>171,042</u> | <u>362,577</u> | <u>(17,111)</u> | <u>516,508</u> |
| Land, buildings, improvements and equipment, net | 9,215 | 92,132 | — | 101,347 |
| Goodwill | 281,108 | — | — | 281,108 |
| Investment in Guarantors | 353,552 | — | (335,552) | — |
| Deferred income taxes and other assets | 53,160 | 1,214 | — | 54,374 |
| | <u>868,077</u> | <u>455,923</u> | <u>(370,663)</u> | <u>953,337</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 79,001 | \$ 71,653 | \$ (17,111) | \$ 133,543 |
| Accrued expenses and other current liabilities | 27,546 | 29,144 | — | 56,690 |
| | <u>106,547</u> | <u>100,797</u> | <u>(17,111)</u> | <u>190,233</u> |
| Long-term debt | 311,296 | — | — | 311,296 |
| Other long-term obligations | 6 | 1,574 | — | 1,580 |
| Equity | 450,228 | 353,552 | (353,552) | 450,228 |
| | <u>868,077</u> | <u>455,923</u> | <u>(370,663)</u> | <u>953,337</u> |

CONSOLIDATING CONDENSED BALANCE SHEET
September 27, 2003
(in thousands)

| | Parent | Guarantor Subsidiaries | Eliminations | Consolidated |
|--|----------------|---------------------------|------------------|----------------|
| ASSETS | | | | |
| Cash and equivalents | \$ 76,354 | \$ 1,250 | \$ — | \$ 77,604 |
| Accounts receivable | 43,209 | 113,415 | (10,549) | 146,075 |
| Inventories | 55,718 | 161,438 | — | 217,156 |
| Prepaid expenses and other | 10,198 | 5,024 | — | 15,222 |
| | <u>185,479</u> | <u>281,127</u> | <u>(10,549)</u> | <u>456,057</u> |
| Land, buildings, improvements and equipment, net | 10,092 | 91,446 | — | 101,538 |
| Goodwill | 222,780 | — | — | 222,780 |
| Investment in Guarantors | 281,522 | — | (281,522) | — |
| Deferred income taxes and other assets | 47,607 | 1,116 | — | 48,723 |
| | <u>747,480</u> | <u>373,689</u> | <u>(292,071)</u> | <u>829,098</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 53,024 | \$ 62,628 | \$ (10,549) | \$ 105,103 |
| Accrued expenses and other current liabilities | 20,131 | 27,958 | — | 48,089 |
| | <u>73,155</u> | <u>90,586</u> | <u>(10,549)</u> | <u>153,192</u> |
| Long-term debt | 249,200 | 25 | — | 249,225 |
| Other long-term obligations | 29 | 1,556 | — | 1,585 |
| Equity | 425,096 | 281,522 | (281,522) | 425,096 |
| | <u>747,480</u> | <u>373,689</u> | <u>(292,071)</u> | <u>829,098</u> |

[Table of Contents](#)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Six Months Ended March 27, 2004
(in thousands)

| | Parent | Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------|---------------------------|--------------|--------------|
| Net cash provided (used) by operating activities | \$ 33,859 | \$ (42,502) | \$ (23,474) | \$ (32,117) |
| Expenditures for land, buildings, improvements and equipment | (1,336) | (5,012) | — | (6,348) |
| Businesses acquired | (76,290) | — | — | (76,290) |
| Investments | (15,179) | — | — | (15,179) |
| Investment in guarantor subsidiaries | (72,030) | (48,556) | 23,474 | — |
| Net cash provided (used) by investing activities | (164,835) | 43,544 | 23,474 | (97,817) |
| Borrowings on revolving line of credit | 60,000 | — | — | 60,000 |
| Payments on long-term debt | (500) | (26) | — | (526) |
| Proceeds from issuance of stock | 5,424 | — | — | 5,424 |
| Net cash provided (used) by financing activities | 64,924 | (26) | — | 64,898 |
| Net increase (decrease) in cash and equivalents | (66,052) | 1,016 | — | (65,036) |
| Cash and equivalents at beginning of period | 76,354 | 1,250 | — | 77,604 |
| Cash and equivalents at end of period | \$ 10,302 | \$ 2,266 | \$ — | \$ 12,568 |

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Six Months Ended March 29, 2003
(in thousands)

| | Parent | Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------|---------------------------|--------------|--------------|
| Net cash provided (used) by operating activities | \$ 4,015 | \$ (33,559) | \$ (2,114) | \$ (31,658) |
| Expenditures for land, buildings, improvements and equipment | (841) | (5,969) | — | (6,810) |
| Investment in guarantor subsidiaries | (86,503) | 84,389 | 2,114 | — |
| Net cash provided (used) by investing activities | (87,344) | 78,420 | 2,114 | (6,810) |
| Borrowings (repayments) under lines of credit, net | 47,755 | (25,983) | — | 21,772 |
| Proceeds from long-term debt | 150,000 | — | — | 150,000 |
| Payments on long-term debt | (119,848) | (15,651) | — | (135,499) |
| Loan fees and financing costs paid | (6,000) | — | — | (6,000) |
| Proceeds from issuance of stock | 4,318 | — | — | 4,318 |
| Net cash provided (used) by financing activities | 76,225 | (41,634) | — | 34,591 |
| Net increase in cash and equivalents | (7,104) | 3,227 | — | (3,877) |
| Cash and equivalents at beginning of period | 10,080 | 804 | — | 10,884 |
| Cash and equivalents at end of period | \$ 2,976 | \$ 4,031 | \$ — | \$ 7,007 |

9. Subsequent Events

In April 2004, the Company acquired substantially all of the assets of Interpet Limited, a leading marketer and manufacturer of pet supplies based in England, for approximately \$28 million. The Company also announced that it had entered into a letter of intent for the acquisition, which has yet to close, of the assets of a related U.S. subsidiary, Aquarium Products, for approximately \$1 million. These acquisitions will be accounted for as purchases. The operating results of Interpet will be included in the Company's consolidated financial statements from the date of acquisition.

In March 2004, we amended our senior credit facility to increase the maximum amount available under the revolving credit portion by \$25 million to \$125 million (effective April 2004) and to give the option to borrow in Euros, Canadian Dollars and Pounds Sterling (effective March 2004).

For recent developments regarding the TFH litigation see note 6, Contingencies.

[Table of Contents](#)

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

Overview

Central Garden & Pet Company is a leading innovator, marketer and producer of quality branded products for the pet and lawn and garden supplies markets. We are one of the largest companies in the fragmented, \$7.5 billion U.S. pet supplies industry and in the \$51.9 billion U.S. lawn and garden supplies industry. Our pet products include pet bird, small animal and wild bird food, aquarium products, flea, tick, mosquito and other insect control products, edible bones, cages, carriers, pet books, and other dog, cat, reptile and small animal products. These products are sold under a number of brand names, including Kaytee, All-Glass Aquarium, Oceanic, Zodiac, Pre-Strike, Altosid, Nylabone, TFH and Four Paws. Our lawn and garden products include grass seed, wild bird food, weed and insect control products, decorative outdoor patio products and ant control products. These products are sold under a number of brand names, including Pennington, Norcal Pottery, Lilly Miller, Matthews Four Seasons, AMDRO and Grant's. In fiscal 2003, our consolidated net sales were \$1.15 billion, of which our pet products segment, or Pet Products, accounted for \$501.7 million and our lawn and garden products segment, or Garden Products, accounted for \$643.3 million. In fiscal 2003, our income from operations was \$72.3 million, of which Pet Products accounted for \$52.7 million and Garden Products accounted for \$39.3 million, before corporate expenses and eliminations of \$19.7 million.

Central was incorporated in Delaware in June 1992 and is the successor to a California corporation which was incorporated in 1955. References to "we," "us," "our," or "Central" mean Central Garden & Pet Company and its subsidiaries and divisions, and their predecessor companies and subsidiaries.

Background

We have transitioned our company to a leading marketer and producer of branded products from a traditional pet and lawn and garden supplies distributor. We initiated this transition because we recognized the opportunity to build a portfolio of leading brands and improve profitability by capitalizing on our knowledge of the pet and lawn and garden supplies sectors, our strong relationships with retailers, and our nationwide sales and logistics network. Our goal was to diversify our business and improve operating margins by establishing a portfolio of leading brands. Since 1997, we have acquired numerous branded products companies and product lines, including Wellmark and Four Paws in fiscal 1997; Kaytee Products, TFH and Pennington Seed in fiscal 1998; Norcal Pottery in fiscal 1999; AMDRO and All-Glass Aquarium in fiscal 2000; Lilly Miller in fiscal 2001; Alaska Fish Fertilizer in fiscal 2002; and Kent Marine and New England Pottery in fiscal 2004.

While expanding our branded products business, we experienced adverse events in our distribution business. From 1995 to 1999, we were the master distributor of Round Up and Ortho. In January 1999, The Scotts Company, one of our largest distribution suppliers at the time, acquired Ortho and became the marketing agent for Round Up. In July 2000, Scotts terminated its relationship with us. Subsequently, we downsized our distribution operations and integrated these sales and logistics networks into our pet and lawn and garden products businesses to allow us to focus resources and provide strategic sales support for our brands.

Virtually all of our sales before fiscal 1997 were from distributing other manufacturers' products. Since then, our branded product sales have grown to approximately \$863 million, or approximately 75% of total sales, in fiscal 2003. During this same period, our sales of other manufacturers' products have declined to approximately \$282 million, or approximately 25% of total sales, and our gross profit margins have improved from 13.6% in fiscal 1996 to 29.1% in fiscal 2003.

Recent Developments

In January 2004, we acquired Kent Marine, Inc., a leading supplier of saltwater aquarium supplements and conditioners sold under the brand name "Kent Marine", for approximately \$10 million in cash. We accounted for the acquisition as a purchase. The purchase price exceeded the fair market value of the net tangible assets acquired by approximately \$9 million, which was recorded as goodwill. The consolidated financial statements include the operating results of Kent Marine from the date of acquisition. We may be required to pay up to \$700,000 of additional cash consideration over the next three years, contingent upon actual earnings of the acquired business.

In February 2004, we acquired substantially all of the assets of New England Pottery, Inc., a marketer and seller of decorative pottery and seasonal Christmas products, for approximately \$66 million in cash. Its proprietary brand names include "New England Pottery" and "GKI/Bethlehem Lighting." We accounted for the acquisition as a purchase. The purchase price exceeded the fair market value of the net tangible assets acquired by approximately \$49 million, which was recorded as goodwill. The consolidated financial statements include the operating results of New England Pottery from the date of acquisition.

In April 2004, we acquired substantially all of the assets of Interpet Limited, a leading marketer and manufacturer of pet supplies based in England, for approximately \$28 million in cash. We also announced that we have entered into a letter of intent for the acquisition, which has yet to close.

Table of Contents

of the assets of a related U.S. subsidiary, Aquarium Products, for approximately \$1 million. We will account for these acquisitions as purchases. The operating results of Interpet will be included in our consolidated financial statements from the date of acquisition.

In March 2004, we amended our senior credit facility to increase the maximum amount available under the revolving credit portion by \$25 million to \$125 million (effective April 2004) and to give the option to borrow in Euros, Canadian Dollars and Pounds Sterling (effective March 2004).

For recent developments regarding the TFH litigation see note 6, Contingencies.

Accounting for Stock-Based Compensation

We currently measure compensation expense for our employee stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and provide pro forma disclosures of the effect on net income and earnings per share as if the fair value-based method had been applied in measuring compensation expense. We have elected to follow APB Opinion No. 25 because the alternative fair value accounting provided for under SFAS No. 123, *Accounting for Stock-Based Compensation*, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB Opinion No. 25, when the exercise price of our employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

On March 31, 2004, the FASB issued an exposure draft of a new accounting standard for Share-Based Payments, to require all companies to expense the fair value of employee stock options. Among other things, the exposure draft addresses possible methods to determine the fair value of employee stock options, the timing and amount of compensation expense, and adjustments to recognized expense for actual option forfeitures. The methods to determine the fair value of employee stock options mentioned in the exposure draft include the Black-Scholes formula and a lattice model (a binomial method). These valuation approaches and their input factors have been the subject of significant criticism as they relate to stock options.

Since changes could be made to the FASB exposure draft upon final adoption we have decided not to expense the value of employee stock options until the FASB finalizes this new accounting standard. We based this decision on the FASB's announced intention to soon require all companies to expense the value of employee stock options and the FASB's review of technical issues that will play a significant role in determining the fair value of and accounting for employee stock options. We monitor progress at the FASB and other developments with respect to the general issue of employee stock compensation. In the future, should we expense the value of employee stock options, we may have to recognize substantially more compensation expense in future periods that could have a material impact on our results of operations reported in future periods.

Critical Accounting Policies, Estimates and Judgments

There have been no material changes to our critical accounting estimates and assumptions or the judgments affecting the application of those estimates since our Annual Report on Form 10-K for the fiscal year ended September 27, 2003.

Three Months Ended March 27, 2004 Compared with Three Months Ended March 29, 2003

Net sales for the three months ended March 27, 2004 increased \$28.5 million, or 8.6%, to \$359.0 million from \$330.5 million for the three months ended March 29, 2003 as branded product sales increased \$14.5 million and sales of other manufacturers' products increased \$14.0 million. Net sales increased \$16.4 million, or 12.7%, in Pet Products and \$12.1 million, or 6.0%, in Garden Products. Our Pet Products' branded sales increased \$11.9 million due primarily to a \$4.6 million increase in aquarium product sales and \$2.2 million from our recent acquisition of Kent Marine. Our Garden Products' branded product sales increased \$2.6 million due primarily to \$5.1 million of sales related to the recent acquisition of New England Pottery, partially offset by a decline in grass seed sales of approximately \$5 million. Grass seed sales in 2003 were stronger than normal which contributed to the unfavorable comparison with 2004 sales.

Gross profit for the three months ended March 27, 2004 increased \$12.9 million, or 13.0%, to \$112.0 million from \$99.1 million for the three months ended March 29, 2003. Gross profit increased \$6.5 million in Garden Products and \$6.4 million in Pet Products. Gross profit as a percentage of net sales increased to 31.2% for the three months ended March 27, 2004, from 30.0% for the three months ended March 29, 2003, as both Garden Products' and Pet Products' margins improved. The margin improvements were due primarily to higher margins realized for our wild bird feed products.

Selling, general and administrative expenses increased \$6.8 million, or 9.6%, from \$70.9 million for the three months ended March 29, 2003 to \$77.7 million for the three months ended March 27, 2004. As a percentage of net sales, selling, general and administrative expenses remained relatively flat at 21.6% for the three months ended March 27, 2004, compared to 21.5% in the comparable prior year period.

Table of Contents

Selling and delivery expenses increased \$2.9 million, or 8.4%, from \$34.5 million for the three months ended March 29, 2003 to \$37.4 million for the three months ended March 27, 2004 due to increased sales. Selling and delivery expenses, as a percentage of net sales, were 10.4% for both periods.

Facilities expense increased \$0.4 million to \$3.0 million for the three months ended March 27, 2004 from \$2.6 million for the three months ended March 29, 2003. The increase is primarily related to shutdown costs for a pet manufacturing facility.

Warehouse and administrative expenses increased \$3.5 million, or 10.4%, from \$33.8 million for the three months ended March 29, 2003 to \$37.3 million for the three months ended March 27, 2004. The increase was due primarily to increased warehousing costs, which include outside shipping costs, of \$1.1 million, a \$0.6 million increase in litigation costs and \$1.4 million in professional fees incurred over the prior six months that were expensed as acquisitions being pursued did not materialize.

Net interest expense for the three months ended March 27, 2004 decreased \$2.0 million, or 31.7%, to \$4.3 million from \$6.3 million for the three months ended March 29, 2003. The decrease was due primarily to \$1.4 million of nonrecurring interest expensed in the second quarter of fiscal 2003, related to the refinancing of our convertible subordinated notes and lines of credit.

Other income increased \$0.3 million to \$1.0 million for the quarter ended March 27, 2004 from \$0.7 million for the quarter ended March 29, 2003. Other income represents income from equity method investments. The increase in the fiscal 2004 quarter was attributed primarily to a new equity method investment made in the fourth quarter of fiscal 2003.

Our effective income tax rate for the quarter ended March 27, 2004 was 39.2% compared with 40.0% for the quarter ended March 29, 2003.

Six Months Ended March 27, 2004 Compared with Six Months Ended March 29, 2003

Net sales for the six months ended March 27, 2004 increased \$38.9 million, or 7.2%, to \$581.3 million from \$542.4 million for the six months ended March 29, 2003 as both branded product sales increased \$20.4 million and sales of other manufacturers' products increased \$18.5 million. Net sales increased \$27.2 million, or 11.0%, in Pet Products and \$11.7 million, or 4.0%, in Garden Products. Our Pet Products' branded sales increased \$18.3 million due primarily to a \$9.0 million increase in sales of aquarium products and \$2.2 million from our recent acquisition of Kent Marine. Our Garden Products' branded product sales increased \$2.1 million due primarily to \$5.1 million of sales derived from the recent acquisition of New England Pottery, partially offset by a \$5 million decline in grass seed sales. Grass seed sales in 2003 were stronger than normal which contributed to the unfavorable comparison to 2004 sales.

Gross profit for the six months ended March 27, 2004 increased \$13.8 million, or 8.6%, to \$174.1 million from \$160.3 million for the six months ended March 29, 2003. Gross profit increased \$6.5 million in Garden Products and \$7.3 million in Pet Products. Gross profit as a percentage of net sales increased to 29.9% for the six months ended March 27, 2004, from 29.6% for the six months ended March 29, 2003. The margin improvements were due primarily to higher margins realized for our wild bird feed products.

Selling, general and administrative expenses increased \$6.0 million, or 4.6%, from \$130.2 million for the six months ended March 29, 2003 to \$136.2 million in the six months ended March 27, 2004. As a percentage of net sales, selling, general and administrative expenses decreased from 24.0% for the six months ended March 29, 2003 to 23.4% for the six months ended March 27, 2004 due to higher sales relative to expenses.

Selling and delivery expenses increased \$3.3 million, or 5.3%, from \$62.5 million for the six months ended March 29, 2003 to \$65.8 million for the comparable fiscal 2004 period. The increased selling and delivery expenses were attributable to a higher volume of business in 2004, but such expenses as a percentage of net sales remained relatively flat at 11.5% for the six month period ending March 27, 2004.

Facilities expense increased \$0.3 million to \$5.5 million for the six months ended March 27, 2004 from \$5.2 million for the six months ended March 29, 2003. The increase is due primarily to shutdown costs of a pet manufacturing facility.

Table of Contents

Warehouse and administrative expenses increased \$2.4 million, or 3.8%, from \$62.5 million for the six months ended March 29, 2003 to \$64.9 million for the six months ended March 27, 2004. The increase is due primarily to a \$0.6 million increase in litigation costs and \$1.4 million in professional fees incurred over the prior six months that were expensed as acquisitions being pursued did not materialize.

Net interest expense for the six months ended March 27, 2004 decreased \$0.9 million, or 9.6%, to \$8.2 million from \$9.1 million for the six months ended March 29, 2003. The decrease was due primarily to nonrecurring interest expensed in the second quarter of 2003, related to the refinancing of our convertible subordinated notes and lines of credit.

Other income remained relatively flat at \$0.3 million for the six months ended March 27, 2004 and March 29, 2003. Other income represents income from equity method investments.

Our effective income tax rate for the six months ended March 27, 2004 was 39.2% compared with 40.0% for the six months ended March 29, 2003.

Liquidity and Capital Resources

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

Historically, our business has been seasonal and our working capital requirements and capital resources tracked closely to this seasonal pattern. During the first fiscal quarter, accounts receivable reach their lowest level while inventory, accounts payable and short-term borrowings begin to increase. During the second fiscal quarter, receivables, accounts payable and short-term borrowings begin to increase, reflecting the build-up of inventory and related payables in anticipation of the peak lawn and garden selling season. During the third fiscal quarter, inventory levels remain relatively constant while accounts receivable peak and short-term borrowings start to decline as cash collections are received during the peak selling season. During the fourth fiscal quarter, inventory levels are at their lowest, and accounts receivable and payables are substantially reduced through conversion of receivables to cash. As a result of the reduction in sales of garden products manufactured by other parties as a percentage of overall sales, this seasonal pattern has become somewhat less significant.

We service two broad markets: pet supplies and lawn and garden supplies. Our pet supplies businesses involve products that have a year round selling cycle with very little change quarter to quarter. As a result, it is not necessary to carry large quantities of inventory to meet peak demands. Additionally, this level sales cycle eliminates the need for manufacturers to give extended credit terms to either distributors or retailers. On the other hand, our lawn and garden businesses are highly seasonal with approximately 65% of Garden Products' aggregate sales occurring during the second and third fiscal quarters. For many manufacturers of garden products, this seasonality requires them to move large quantities of their product well ahead of the peak selling periods. To encourage distributors to carry large amounts of inventory, industry practice has been for manufacturers to give extended credit terms and/or promotional discounts.

Cash used in operating activities was essentially flat at \$31.7 million for the six months ended March 29, 2003 versus \$32.1 million for the six months ended March 27, 2004. This small change obscures large income tax refunds received in the period ending March 29, 2003 offset by a lower inventory build-up during the period ending March 27, 2004, as compared to the prior year period. Net cash used in investing activities increased \$91 million due to the \$76.3 million paid for Kent Marine and New England Pottery and \$15.2 million paid into an escrow account, which is classified as restricted investments on the balance sheet, in connection with our appeal in the Scotts litigation. Net cash provided by financing activities increased \$30.3 million due primarily to borrowings on our line of credit to finance two acquisitions in the current fiscal year.

At March 27, 2004, our total debt was \$312.3 million versus \$250.3 million at March 29, 2003, due to borrowings on our line of credit to finance two acquisitions in fiscal 2004.

In May 2003, we closed a \$200 million senior secured credit facility consisting of a five-year \$100 million revolving credit facility and a six-year \$100 million term loan. In April 2004, we amended the facility to increase the maximum amount available under the revolving credit portion by \$25 million to \$125 million and the option to borrow in Euros, Canadian Dollars and Pounds Sterling. Interest on the term loan is based on a rate equal to LIBOR + 2.25% or the prime rate plus 0.75%, at our option. Interest on the revolving credit facility is based on a rate equal to prime plus a margin, which fluctuates from 0.25% to 1.25% or LIBOR plus a margin which fluctuates from 1.75% to 2.75%, determined quarterly based on consolidated total debt to consolidated EBITDA for the most recent trailing 12-month period. This facility is secured by essentially all of our assets, contains certain financial covenants

Table of Contents

requiring maintenance of minimum levels of interest coverage and tangible net worth and maximum levels of senior debt to EBITDA and total debt to EBITDA, and restricts our ability to make treasury stock purchases and pay dividends. We were in compliance with all financial covenants as of March 27, 2004. This facility also requires the lenders' prior written consent to any material investments in or acquisitions of a business. The balance outstanding at March 27, 2004 under the \$100 million revolving credit facility was \$60.0 million and the remaining available borrowing capacity was \$33.1 million. The \$6.9 million difference represents outstanding letters of credit. Subsequent to the quarter ended March 27, 2004, we increased our borrowings by approximately \$27 million under the \$100 million credit facility to finance our acquisition of Interpet.

In October 2003, we entered into a \$75 million pay-floating interest rate swap effectively converting half of our \$150 million fixed rate 9-1/8 percent senior subordinated notes to a floating rate of LIBOR + 4.04%.

In November 2003, we deposited approximately \$15 million into an escrow account in connection with an appeal in the Scotts litigation. The use of this cash is restricted from general corporate purposes and is reflected as a Restricted Investment on our balance sheet at March 27, 2004. See Note 6 – "Contingencies" to our unaudited condensed consolidated financial statements.

We believe that cash flows from operating activities, funds available under our credit facility, and arrangements with suppliers will be adequate to fund our presently anticipated working capital requirements for the foreseeable future. We anticipate that our capital expenditures will not exceed \$15 million for the next 12 months.

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

Off-Balance Sheet Arrangements

There have been no material changes to the information provided in our Annual Report on Form 10-K for the fiscal year ended September 27, 2003 regarding off-balance sheet arrangements.

Contractual Obligations

There have been no material changes outside the ordinary course of business in our contractual obligations set forth in the Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources in our Annual Report on Form 10-K for the fiscal year ended September 27, 2003.

Weather and Seasonality

Historically, our sales of lawn and garden products have been influenced by weather and climate conditions in the markets it serves. Additionally, Garden Products' business has been highly seasonal. In fiscal 2003, 65% of Garden Products' net sales and 59% of our total net sales occurred in the Company's second and third fiscal quarters. Substantially all of Garden Products' operating income is typically generated in this period, which has historically offset the operating loss incurred during the first fiscal quarter of the year.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We believe there has been no material change in our exposure to market risk from that discussed in our fiscal 2003 Annual Report filed on Form 10-K.

Item 4. Controls and Procedures

(a) Our Chief Executive Officer and Chief Financial Officer have reviewed, as of the end of the period covered by this report, the "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) that ensure that information relating to the Company required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported in a timely and proper manner. Based upon this review, we believe that the controls and procedures in place are effective to ensure that information relating to the Company that is required to be disclosed by us in the reports that we file or submit under the Exchange Act is properly disclosed as required by the Exchange Act and related regulations.

(b) *Changes in internal controls.* There were no significant changes in our internal controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information on our material legal proceedings, you should read note 6 “Contingencies” to the unaudited condensed consolidated financial statements in Part I – Item 1 of this report.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

We did not purchase any of our equity securities during the fiscal quarter ended March 27, 2004.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matter to a Vote of Securities Holders

(a) The annual meeting of shareholders was held on February 9, 2004.

(b) The following directors were elected at the meeting

William E. Brown
Glenn W. Novotny
Brooks M. Pennington III
John B. Balousek
David N. Chichester
Daniel P. Hogan, Jr.
Bruce A. Westphal

Table of Contents

Set forth below is the tabulation with respect to the matter voted on at the meeting:

| | <u>For</u> | <u>Against or Withheld</u> |
|---------------------------------|------------|--------------------------------|
| William E. Brown | | |
| Common | 11,850,395 | 4,501,970 |
| Class B | 15,865,688 | 0 |
| Glenn W. Novotny | | |
| Common | 11,909,735 | 4,442,630 |
| Class B | 15,865,688 | 0 |
| Brooks M. Pennington III | | |
| Common | 11,700,495 | 4,651,870 |
| Class B | 15,865,688 | 0 |
| John B. Balousek | | |
| Common | 15,649,810 | 702,555 |
| Class B | 15,865,688 | 0 |
| David N. Chichester | | |
| Common | 15,995,973 | 356,392 |
| Class B | 15,865,688 | 0 |
| Daniel P. Hogan, Jr. | | |
| Common | 15,645,810 | 706,555 |
| Class B | 15,865,688 | 0 |
| Bruce A. Westphal | | |
| Common | 15,649,910 | 702,455 |
| Class B | 15,865,688 | 0 |

Item 5. Other Information

On February 9, 2004, Alfred Piergallini was elected to our Board of Directors. Effective April 30, 2004, Daniel P. Hogan, Jr. resigned from our Board of Directors.

[Table of Contents](#)

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits
 - 3.1.2 Certificate of Designation - Series B Convertible Preferred Stock
 - 10.2.2 Second Amendment to Credit Agreement dated February 12, 2004, between Central Garden & Pet Company and Canadian Imperial Bank of Commerce et al.
 - 10.2.3 Third Amendment to Credit Agreement dated March 26, 2004, between Central Garden & Pet Company and Canadian Imperial Bank of Commerce et al.
 - 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.
 - 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.
 - (b) The following reports on Form 8-K were filed during the quarter ended March 27, 2004.
 - a. On January 26, 2004, Central Garden & Pet Company issued a press release announcing it has agreed to acquire substantially all of the assets of New England Pottery, Inc.
 - b. On February 27, 2004, Central Garden & Pet Company issued a press release announcing it has acquired substantially all of the assets of New England Pottery, Inc.
- The following current report on Form 8-K was furnished during the quarter ended March 27, 2004:
- a. Form 8-K filed February 5, 2004 relating to our press release announcing our financial results for the quarter ended December 27, 2003.

SIGNATURES

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

CENTRAL GARDEN & PET COMPANY
Registrant

Dated: May 11, 2004

/s/ GLENN W. NOVOTNY

Glenn W. Novotny
President and Chief Executive Officer

/s/ STUART W. BOOTH

Stuart W. Booth
Vice President and Chief Financial Officer

CERTIFICATE OF DESIGNATION
SERIES B CONVERTIBLE PREFERRED STOCK
OF
CENTRAL GARDEN & PET COMPANY
(Pursuant to Section 151 of the Delaware Corporation Law)

Central Garden & Pet Company, a Delaware corporation (the "Corporation"), certifies that, pursuant to the authority contained in Article Fifth of its Third Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation"), and in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation on February 9, 2004 adopted the following resolutions which resolutions remain in full force and effect on the date hereof:

RESOLVED, that there is hereby established one series of authorized preferred stock having a par value of \$0.01 per share, which shall be designated as "Series B Convertible Preferred Stock" (hereinafter referred to as "Series B Preferred"), which shall consist of 100 shares, and which shall have the following powers, preferences and relative rights, qualifications, limitations and restrictions:

Section 1. Dividend Rights of the Series B Preferred. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of Series B Preferred shall be entitled to receive, when and as declared by the Board of Directors, out of any assets of the Corporation legally available therefor, such dividends as may be declared from time to time by the Board of Directors. The holders of Series B Preferred shall also be entitled to receive on an as converted basis, when and as declared by the Board of Directors, dividends on the Series B Preferred equal to any dividends paid on the Common Stock

Section 2. Liquidation Preference.

- (a) Preferential Distribution. In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, the holders of Series B Preferred shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of any shares of this Corporation other than the Series B Preferred (the "Junior Shares") by reason of their ownership thereof the amount per share equal to the greater of (i) \$30,000 (the "Original Issuance Price") for each share of Series B Preferred then held by them plus all declared but unpaid dividends on the Series B Preferred or (ii) such amount per share as would have been payable with respect to such shares of Series B Preferred had each share of the then outstanding Series B Preferred been converted to Common Stock pursuant to Section 3 immediately prior to such event whether or not the Series B Preferred is then so convertible. If upon the occurrence of such event the assets and funds thus distributed among the holders of the Series B Preferred are insufficient to permit the payment to such holders of the full preferential amounts, then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series B Preferred in proportion to the liquidation amounts due for each share of Series B Preferred. After payment has been made to the holders of the Series B Preferred of the full amounts to which they are entitled, all remaining assets of the Corporation shall be distributed pro rata among all holders of Junior Shares in accordance with their interests.

- (b) Inclusion of Certain Transactions. For purposes of this Section 2, a liquidation, dissolution or winding up of the Corporation shall be deemed to include the Corporation's sale of all or substantially all of its assets or the acquisition of the Corporation by another entity by means of merger or consolidation resulting in the exchange of the outstanding shares of this corporation for securities or consideration issued, or caused to be issued, by the acquiring Corporation or its subsidiary.

Section 3. Conversion. The holders of Series B Preferred shall have the following conversion rights (the "Conversion Rights"):

- (a) Right to Convert. Each share of Series B Preferred shall be convertible, at the option of the holder thereof, at any time after the one year anniversary of the date of issuance of such share, at the office of the Corporation or any transfer agent for the Series B Preferred, into that number of fully paid and nonassessable shares of Common ("Conversion Ratio") equal to:

$\$3,000,000 / ((X)(100))$.

X = The closing price of Common on Nasdaq National Market on the date of the "Closing" set forth in the Series B Preferred Stock Purchase Agreement, dated February 26, 2004, by and among the Corporation and the investors listed on Schedule A thereto.

The Conversion Ratio shall be subject to adjustment as provided in Section 3(c) below.

- (b) Mechanics of Conversion. No fractional shares of Common shall be issued upon conversion of the Series B Preferred. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the closing price for the Common on the date of the conversion of the Series B Preferred. Before any holder of Series B Preferred shall be entitled to convert the same into full shares of Common, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for the Series B Preferred, and shall give written notice to the Corporation at such office that he elects to convert the same. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series B Preferred, or to the nominee of such holder, a certificate or certificates for the number of shares of Common to which such holder is entitled and a check payable to such holder in the amount of any cash amounts payable as the result of a conversion into fractional shares of Common plus any declared and unpaid dividends on the converted Series B Preferred. Such conversion shall be deemed to have been made immediately prior to the closing of business on the date of such surrender of the shares of Series B Preferred to be converted, and the person or persons entitled to receive the shares of Common issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common on such date. If the conversion is in connection with an underwritten offer of securities registered pursuant to the Securities Act of 1933, then the conversion may, at the option of any holder tendering Series B Preferred for conversion, be conditioned upon the closing with the underwriter of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common issuable upon such conversion of the Series B Preferred shall not be deemed to have converted such Series B Preferred until immediately prior to the closing of such sale of securities.

- (c) Adjustments to Conversion Ratio for Diluting Issuances

- (i) Stock Dividends and Subdivisions. If the Corporation at any time or from time to time after the original issuance date of the Series B Preferred declares or pays any dividend on

the Common payable in Common, or effects a subdivision of the outstanding shares of Common into a greater number of shares of Common (by reclassification or other than by payment of a dividend in Common), then, and in each such event, the Conversion Ratio in effect immediately prior to such dividend or subdivision shall be proportionately increased. Such increase in the Conversion Ratio shall be deemed to have occurred: (a) in the case of any such dividend, immediately after the close of business on the record date for the determination of holders of any class of securities entitled to receive such dividend; or (b) in the case of any such subdivision, at the close of business on the date immediately prior to the date upon which such corporate action becomes effective.

(ii) Adjustments for Combinations or Consolidation of Common. If the outstanding shares of Common are combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common, then the Conversion Ratio in effect immediately prior to such combination or consolidation shall, concurrently with the effectiveness of such combination or consolidation, be proportionately decreased.

(d) Exercise of Conversion Rights on Merger or Sale of Assets

(i) Notice. The Corporation shall give each holder of record of Series B Preferred written notice of any merger of the Corporation or any other corporate reorganization in which the Corporation is not the continuing or surviving entity of such merger or reorganization and written notice of any sale of all or substantially all of the assets of the Corporation. Such notice shall be given not later than ten (10) days prior to the stockholders' meeting called to approve such transaction or ten (10) days prior to the closing of such transaction, whichever is earlier, and shall also notify such holders in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the contemplated transaction, as well as the terms and conditions of Section 2 above and this Section 3(d), and the Corporation shall thereafter give such holders prompt notice of any material changes. The transaction shall in no event take place sooner than ten (10) days after the mailing by the Corporation of the first notice provided for in this Section 3(d)(i) or sooner than ten (10) days after the mailing by the Corporation of any notice of material changes provided for in this Section 3(d)(i); provided, however, that such periods may be shortened or waived upon the written consent of the holders of sixty-six and two-thirds percent (66²/₃%) of the then-outstanding shares of Series B Preferred.

(ii) Exercise of Conversion Rights. If, subsequent to the giving of notice pursuant to Section 3(d)(i) above but not later than ten (10) days prior to the closing of such transaction, any holder of Series B Preferred elects to exercise its Conversion Rights, then the conversion may, at the option of any holder tendering Series B Preferred for conversion, be conditioned upon the closing of such transaction, in which event the person(s) entitled to receive the Common issuable upon such conversion of the Series B Preferred shall not be deemed to have converted such Series B Preferred until immediately prior to the closing of such transaction.

(e) No Impairment. The Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation but will at all times in good faith assist in the carrying out of all the provisions of this Certificate of Designations and in the taking of all actions that may be necessary or appropriate to protect the rights of the holders of the Series B Preferred against impairment.

- (f) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Ratio pursuant to this Section 3, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms of this Section 3 and furnish to each holder of Series B Preferred a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon written request at any time of any holder of Series B Preferred, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Ratio in effect at the time, and (iii) the number of shares of Common and the amount, if any, of other property that would be received at the time upon conversion of the Series B Preferred.
- (g) Notices.
- (i) Events Triggering Notices. The following events shall cause the Corporation to issue notices in accordance with the provisions of Section 3(g)(ii) below:
- (1) a declaration by the Corporation of any dividend or distribution upon shares of its Common, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus;
 - (2) a pro-rata offering by the Corporation to the holders of any class or series of its stock to subscribe for any additional shares of stock of any class or series or other rights;
 - (3) any reclassification or recapitalization by the Corporation of its outstanding Common involving a change in the Common; or
 - (4) a merger or consolidation of the Corporation with or into any other Corporation, or the sale, lease or conveyance of all or substantially all of the Corporation's property or business, or a liquidation, dissolution, or winding up of the Corporation; or
 - (5) any intent to have a public offering of Common.
- (ii) Types of Notices. In connection with each event described in this Section 3, the Corporation shall send the following notices:
- (1) at least ten (10) days prior to the date on which a record is to be taken for the dividend, distribution or subscription rights referred to in Sections 3(g)(i)(1) and 3(g)(i)(2) above or the date for determining rights to vote with regard to the matters referred to in Sections 3(g)(i)(3) and 3(g)(i)(4) above, the Corporation shall send a notice to each holder of Series B Preferred setting forth the record or voting date and the nature of the action;
 - (2) in case of any event referred to in Sections 3(c) and 3(d) above, at least ten (10) days prior to the date when the event is to take place, the Corporation shall send a notice to each holder of Series B Preferred setting forth the date on which the holders of shares of Common shall be entitled to exchange their Common shares for securities or other property deliverable upon the occurrence of such event;

(3) in case of any event referred to in Section 3(g)(i)(5) above, as soon as the Corporation knows or has notice of such intent, the Corporation shall send a notice thereof to each holder of Series B Preferred setting forth the anticipated timing, form of registration statement and form (if any) of underwriting.

(iii) Delivery of Notices. Each such written notice shall be given by first class mail, postage prepaid, addressed to each holder of Series B Preferred at the address for each such holder as shown on the books of the Corporation.

Section 4. Voting Rights. Except as otherwise required by law, the holders of Series B Preferred Stock shall not be entitled to vote.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be duly executed by Glenn W. Novotny, its President and Chief Executive Officer and attested by Stuart W. Booth, its Secretary, this 25th day of February, 2004.

CENTRAL GARDEN & PET COMPANY

By: /s/ Glenn W. Novotny

Glenn W. Novotny,
President and Chief Executive Officer

ATTEST:

By: /s/ Stuart W. Booth

Stuart W. Booth,
Secretary

CENTRAL GARDEN & PET COMPANY
SECOND AMENDMENT
TO CREDIT AGREEMENT

This **SECOND AMENDMENT TO CREDIT AGREEMENT** (this "**Amendment**") is dated as of February 12, 2004 between **CENTRAL GARDEN & PET COMPANY**, a Delaware corporation ("**Borrower**") and **CANADIAN IMPERIAL BANK OF COMMERCE**, as administrative agent for Lenders ("**Administrative Agent**"), and is made with reference to that certain Credit Agreement dated as of May 14, 2003, as amended by the First Amendment to Credit Agreement dated as of October 27, 2003 (the "**Credit Agreement**"), by and among Borrower, the financial institutions listed therein as Lenders, the Co-Syndication Agents named therein, and the Administrative Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, Borrower, Agents and Lenders desire to amend the Credit Agreement (i) to permit Borrower to acquire (a) substantially all of the assets of Kent Marine, Inc. and (b) substantially all of the assets of New England Pottery Co., Inc., (ii) to amend the definition of "Cash Equivalents", (iii) to change the dates for delivery of Margin Determination Certificates and Financial Plans, (iv) to provide for Letters of Credit supporting trade payables, and (v) to make certain other amendments as provided herein;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

Section 1. AMENDMENTS TO THE CREDIT AGREEMENT

1.1 Amendments to Section 1: Definitions

A. New Definitions. Subsection 1.1 of the Credit Agreement is hereby amended by adding the following definitions, inserted in proper alphabetical order:

“**Kent Marine Acquisition**” means the acquisition by Borrower of substantially all of the assets of Kent Marine, Inc. for an aggregate purchase price not to exceed \$9,600,000, on terms and conditions acceptable to Administrative Agent.”

“**New England Pottery Acquisition**” means the acquisition by Borrower of substantially all of the assets of New England Pottery Co., Inc., for an aggregate cash purchase price not to exceed \$69,000,000, plus up to \$3,500,000 in investments made in connection with such acquisition, on terms and conditions acceptable to Administrative Agent.”

B. Cash Equivalents. Subsection 1.1 of the Credit Agreement is hereby further amended by amending the definition of “Cash Equivalents” appearing therein as follows: (i) by deleting the phrase “the highest rating obtainable from either S&P or Moody’s” appearing in clauses (ii), (v) and (vi) of such definition and substituting the phrase “a rating of at least BBB-/A-2 from S&P or at least Baa3/P-2 from Moody’s” in each case therefor, and (ii) by deleting the phrase “a rating of at least A-1 from S&P or at least P-1 from Moody’s” appearing in clause (iii) of such definition and substituting the phrase “a rating of at least A-2 from S&P or at least P-2 from Moody’s” therefor.

C. Letters of Credit. Subsection 1.1 of the Credit Agreement is hereby further amended by amending the definition of “Letter of Credit” appearing therein by deleting the proviso at the end thereof and substituting the following therefor: “provided that Letters of Credit may not be issued for the purpose of supporting any Indebtedness constituting ‘antecedent debt’ (as that term is used in Section 547 of the Bankruptcy Code)”.

1.2 Amendments to Section 2: Amounts and Terms of Commitments and Loans

Subsection 2.2A of the Credit Agreement is hereby amended by deleting the third paragraph thereof in its entirety and substituting the following therefor:

“Upon delivery of a Margin Determination Certificate by Borrower to Administrative Agent (a) with respect to each Fiscal Quarter other than each fourth Fiscal Quarter, within forty-five (45) days after the last day of such Fiscal Quarter, and (b) with respect to each fourth Fiscal Quarter, within sixty (60) days after the last day of such fourth Fiscal Quarter (each such date as described in clauses (a) and (b) hereof a “**Certificate Due Date**”), the Applicable Base Rate Margin and Applicable LIBOR Margin shall automatically be adjusted in accordance with such Margin Determination Certificate, such adjustment to become effective (1) with respect to each Fiscal Quarter other than each fourth Fiscal Quarter, on the 60th day after the end of such Fiscal Quarter and (2) with respect to each fourth Fiscal Quarter, on the 75th day after the end of such fourth Fiscal Quarter; provided that (A) at any time a Margin Determination Certificate is not delivered by the applicable Certificate Due Date, from such Certificate Due Date until delivery of such Margin Determination Certificate, the Applicable Base Rate Margin shall be 1.25% for Revolving Loans, and 0.75% for Tranche B Term Loans, and the Applicable LIBOR Margin shall be 2.75% for Revolving Loans, and 2.25% for Tranche B Term Loans, and (B) if a Margin Determination Certificate erroneously indicates (as determined by Administrative Agent after consultation with Borrower) an applicable margin more favorable to Borrower than should be afforded by the actual calculation of the Consolidated Total Leverage Ratio, Borrower shall promptly pay additional interest and letter of credit fees required to correct for such error.”

1.3 Amendments to Section 6: Borrower's Affirmative Covenants

A. Accountants' Certification. Subsection 6.1(v) of the Credit Agreement is hereby amended by deleting the text thereof in its entirety and substituting the following therefor:

“(v) Accountants' Certification: together with each delivery of consolidated financial statements of Borrower and its Subsidiaries pursuant to subdivision (ii) above, a written statement by the independent certified public accountants giving the report thereon (a) stating whether, in connection with their audit examination, any condition or event that constitutes noncompliance with Section 8 of this Agreement as they relate to accounting matters has come to their attention and, if such a condition or event has come to their attention, specifying the nature and period of existence thereof; provided that such accountants shall not be liable by reason of any failure to obtain knowledge of any such noncompliance that would not be disclosed in the course of their audit examination, and (b) stating that based on their audit examination nothing has come to their attention that causes them to believe either or both that the information contained in the certificates delivered therewith pursuant to subdivision (iii) above is not correct or that the matters set forth in the Compliance Certificates delivered therewith pursuant to clause (b) of subdivision (iii) above for the applicable Fiscal Year are not stated in accordance with the terms of this Agreement;”

B. Financial Plans. Subsection 6.1(xi) of the Credit Agreement is hereby amended by deleting the phrase “no later than 30 days after the beginning of each Fiscal Year” appearing therein and substituting the phrase “no later than 60 days after the beginning of each Fiscal Year” therefor.

1.4 Amendments to Section 7: Borrower's Negative Covenants

Subsection 7.3 of the Credit Agreement is hereby amended by: (i) deleting the word “and” at the end of clause (vi) thereof, (ii) deleting the period at the end of clause (vii) thereof and substituting “; and” therefor, and (iii) adding a new clause (viii) to the end thereof as follows:

“(viii) in addition to acquisitions permitted pursuant to clause (v) and investments permitted pursuant to clause (vi) above, Borrower may consummate the Kent Acquisition and the New England Pottery Acquisition as described in the definitions thereof; provided that no Potential Event of Default or Event of Default shall have occurred or be continuing as a result of any such acquisition or after giving effect thereto.”

Section 2. CONDITIONS TO EFFECTIVENESS

Section 1 of this Amendment shall become effective only upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the “**Second Amendment Effective Date**”):

A. On or before the Second Amendment Effective Date, Borrower shall deliver to Lenders (or to Administrative Agent for Lenders with sufficient originally executed copies, where appropriate, for each Lender and its counsel) copies of this Amendment, executed by Borrower and each Credit Support Party.

B. On or before the Second Amendment Effective Date, Administrative Agent shall have executed copies of this Amendment on behalf of itself and consenting Lenders.

C. On or before the Second Amendment Effective Date, all corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incidental thereto not previously found acceptable by Administrative Agent, acting on behalf of Lenders, and its counsel shall be satisfactory in form and substance to Administrative Agent and such counsel, and Administrative Agent and such counsel shall have received all such counterpart originals or certified copies of such documents as Administrative Agent may reasonably request.

Section 3. BORROWER'S REPRESENTATIONS AND WARRANTIES

In order to induce Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, Borrower represents and warrants to each Lender that the following statements are true, correct and complete:

A. Corporate Power and Authority. Borrower and each Credit Support Party has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the "**Amended Agreement**").

B. Authorization of Agreements. The execution and delivery of this Amendment and the performance of the Amended Agreement have been duly authorized by all necessary corporate action on the part of Borrower and each Credit Support Party.

C. No Conflict. The execution and delivery by Borrower and each Credit Support Party of this Amendment and the performance by Borrower of the Amended Agreement do not and will not (i) violate any provision of any law or any governmental rule or regulation applicable to Borrower or any of its Subsidiaries, the Certificate or Articles of Incorporation or Bylaws of Borrower or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on Borrower or any of its Subsidiaries, (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contractual Obligation of Borrower or any of its Subsidiaries, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of Borrower or any of its Subsidiaries, except pursuant to the Loan Documents, or (iv) require any approval of stockholders or any approval or consent of any Person under any Contractual Obligation of Borrower or any of its Subsidiaries.

D. Governmental Consents. The execution and delivery by Borrower and each Credit Support Party of this Amendment and the performance by Borrower of the Amended Agreement do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any federal, state or other governmental authority or regulatory body.

E. Binding Obligation. This Amendment has been duly executed and delivered by Borrower and each Credit Support Party and this Amendment and the Amended Agreement are the legally valid and binding obligations of Borrower and each Credit Support Party, enforceable against Borrower and each Credit Support Party in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

F. Incorporation of Representations and Warranties From Credit Agreement The representations and warranties contained in Section 4 of the Credit Agreement are and will be true, correct and complete in all material respects on and as of the Second Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

G. Absence of Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Potential Event of Default.

Section 4. ACKNOWLEDGEMENT AND CONSENT

Borrower is a party to certain Collateral Documents pursuant to which Borrower has created Liens in favor of Administrative Agent on certain Collateral to secure the Obligations. Each Subsidiary is a party to a Subsidiary Guaranty and certain Collateral Documents pursuant to which such Subsidiary has (i) guarantied the Obligations and (ii) created Liens in favor of Administrative Agent on certain Collateral to secure the obligations of such Subsidiary under the Subsidiary Guaranty. Borrower and each Subsidiary are collectively referred to herein as the "**Credit Support Parties**", and the Subsidiary Guaranties and Collateral Documents referred to above are collectively referred to herein as the "**Credit Support Documents**".

Each Credit Support Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement and this Amendment and consents to the amendment of the Credit Agreement effected pursuant to this Amendment. Each Credit Support Party hereby confirms that each Credit Support Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guaranty or secure, as the case may be, to the fullest extent possible the payment and performance of all "Obligations," "Guarantied Obligations" and "Secured Obligations," or other similar terms, as the case may be (in each case as such terms are defined in the applicable Credit Support Document), including, without limitation, the payment and performance of all such "Obligations," "Guarantied Obligations" or "Secured Obligations," or similar terms, as the case may be, in respect of the Obligations of Borrower now or hereafter existing under or in respect of the Amended Agreement and the Notes.

Each Credit Support Party acknowledges and agrees that any of the Credit Support Documents to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. Each Credit Support Party represents and warrants that all representations and warranties contained in the Amended Agreement and the Credit Support Documents to which it is a party or otherwise bound are true, correct and complete in all material respects on and as of the Second Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

Each Credit Support Party (other than Borrower) acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Credit Support Party is not required by the terms of the Credit Agreement or any other Loan Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Credit Support Party to any future amendments to the Credit Agreement.

Section 5. MISCELLANEOUS

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

(i) On and after the Second Amendment Effective Date, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the “Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of Agent or any Lender under, the Credit Agreement or any of the other Loan Documents.

B. Fees and Expenses. Borrower acknowledges that all costs, fees and expenses as described in subsection 10.2 of the Credit Agreement incurred by the Administrative Agent and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of Borrower.

C. Headings. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

D. Applicable Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

E. Counterparts; Effectiveness. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment (other than the provisions of Section 1 hereof, the effectiveness of which is governed by Section 2 hereof) shall become effective upon the execution of a counterpart hereof by Borrower, each Credit Support Party and Administrative Agent and the execution of a Lender Consent by consenting Lenders and receipt by Borrower and Administrative Agent of written or telephonic notification of such execution and authorization of delivery thereof.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

CENTRAL GARDEN & PET COMPANY

By: /s/ Stuart W. Booth

Name:
Title:

ALL-GLASS AQUARIUM CO., INC.
FOUR PAWS PRODUCTS LTD.
GRANT LABORATORIES, INC.
GRO TEC, INC.
KAYTEE PRODUCTS, INC.
MATTHEWS REDWOOD & NURSERY SUPPLY, INC.
NORCAL POTTERY PRODUCTS, INC.
OCEANIC SYSTEMS, INC.
PENNINGTON SEED INC. OF NEBRASKA
PENNINGTON SEED, INC.
PHAETON CORPORATION
SEEDS WEST, INC.
T.F.H. PUBLICATIONS, INC.
WELLMARK INTERNATIONAL
(for purposes of Section 4 only)
as a Credit Support Party

By: /s/ Stuart W. Booth

Name:
Title:

CANADIAN IMPERIAL BANK OF COMMERCE,
as Administrative Agent

By: /s/ Dean J. Decker

Dean J. Decker
Managing Director
CIBC World Markets Corp., AS AGENT

CONSENT OF LENDER

Reference is hereby made to the Second Amendment to Credit Agreement (the "**Amendment**") dated as of February __, 2004 by and between Central Garden & Pet Company, a Delaware corporation ("**Borrower**"), and Canadian Imperial Bank of Commerce, as administrative agent for the Lenders ("**Administrative Agent**"), which is made with reference to that certain Credit Agreement dated as of May 14, 2003, as amended by the First Amendment to Credit Agreement dated as of October __, 2003 (the "**Credit Agreement**"), by and among Borrower, the financial institutions listed therein as Lenders, the Co-Syndication Agents listed therein, and the Administrative Agent.

The undersigned Lender hereby consents to the execution and delivery of the Amendment by Administrative Agent on its behalf, substantially in the form of the draft presented to the undersigned Lender on February __, 2004.

Dated: February __, 2004

[Name of Institution]

By: _____

Name: _____

Title: _____

CENTRAL GARDEN & PET COMPANY
THIRD AMENDMENT
TO CREDIT AGREEMENT

This **THIRD AMENDMENT TO CREDIT AGREEMENT** (this "**Amendment**") is dated as of March 26, 2004 between **CENTRAL GARDEN & PET COMPANY**, a Delaware corporation ("**Borrower**") and **CANADIAN IMPERIAL BANK OF COMMERCE**, as administrative agent for Lenders ("**Administrative Agent**"), and is made with reference to that certain Credit Agreement dated as of May 14, 2003, as amended to date (as so amended, the "**Credit Agreement**"), by and among Borrower, the financial institutions listed therein as Lenders, the Co-Syndication Agents named therein, and the Administrative Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, Borrower, Agents and Lenders desire to amend the Credit Agreement (i) to permit Borrower to receive Revolving Loans of up to \$30,000,000 (U.S. dollar equivalent) denominated in British Pounds Sterling, Canadian Dollars or Euros, (ii) to permit Borrower and Subsidiary Guarantors to make certain secured intercompany loans to Foreign Subsidiaries, including a new subsidiary in the United Kingdom, (iii) to increase the aggregate amount of the Revolving Loan Commitments by \$25,000,000, and (iv) to make certain other amendments as provided herein;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

Section 1. AMENDMENTS TO THE CREDIT AGREEMENT – FOREIGN CURRENCY LOANS AND INTERCOMPANY LOANS

1.1 Amendments to Section 1: Definitions

A. New Definitions. Subsection 1.1 of the Credit Agreement is hereby amended by adding the following definitions, inserted in proper alphabetical

order:

“**Approved Foreign Currency**” means British Pounds Sterling, Canadian Dollars or Euros.”

“**Approved Jurisdiction**” means the United States of America and the United Kingdom.”

“**Dollar Equivalent**” means U.S. Dollars or, on any date when an amount expressed in a currency other than U.S. Dollars is to be determined in U.S. Dollars, an equivalent amount of U.S. Dollars determined at the nominal rate of exchange quoted by Administrative Agent in New York City, not later than 9:00 A.M. (New York time) on the date of determination, to prime banks in New York City for the spot purchase in the New York foreign exchange market of U.S. Dollars with such other currency.”

“**Exchange Rate**” means, on any date when an amount expressed in a currency other than U.S. Dollars is to be determined, the nominal spot rate of exchange quoted by Administrative Agent in the New York foreign exchange market for the purchase of such currency in exchange for U.S. Dollars.”

“**Foreign Currency Lender**” means Lenders that have Foreign Currency Loan Commitments or that have made Foreign Currency Loans, including Fronting Lender (on behalf of Lenders who are Foreign Currency Participants), together with their successors and permitted assigns pursuant to subsection 10.1.”

“**Foreign Currency Loan**” means Revolving Loans made by Foreign Currency Lenders denominated in an Approved Foreign Currency pursuant to subsection 2.1A(iii).”

“**Foreign Currency Loan Commitment**” means the commitment of a Foreign Currency Lender to make Foreign Currency Loans to Borrower pursuant to subsection 2.1A(iii), and “**Foreign Currency Loan Commitments**” means such commitments of all such Lenders in the aggregate.”

“**Foreign Currency Participant**” has the meaning set forth in subsection 2.1A(iv).”

“**Foreign Currency Participation**” has the meaning set forth in subsection 2.1A(iv).”

“**Foreign Loan Party**” means each Subsidiary of Borrower which is organized under the laws of the United Kingdom or any political subdivision thereof and which has either executed an Intercompany Note or Intercompany Note Guaranty, which Intercompany Note or Intercompany Note Guaranty is secured by a security interest in substantially all of such Subsidiary’s real, personal and mixed property.”

“**Fronting Lender**” means Administrative Agent.”

“**Intercompany Collateral Documents**” means all such agreements, documents and instruments that, in Administrative Agent’s reasonable judgment, are necessary or desirable (a) to create a First Priority Lien in favor of Borrower (or a security trustee in lieu of Borrower) in substantially all personal and mixed property of each Foreign Loan Party as security for such

Person's obligations under the applicable Intercompany Note and (b) to evidence a First Priority Lien in favor of Borrower (or a security trustee in lieu of Borrower) in substantially all personal and mixed property of each Intercompany Note Guarantor as security for such Intercompany Note Guarantor's obligations under the Intercompany Note Guaranty to which it is a party, all in form and substance satisfactory to Administrative Agent."

“**Intercompany Loan**” means the proceeds of Loans advanced by Borrower or a Subsidiary Guarantor to a Foreign Loan Party under an Intercompany Note.”

“**Intercompany Note**” means a promissory note made by a Foreign Loan Party to the order of Borrower or a Subsidiary Guarantor, in form and substance acceptable to Administrative Agent, evidencing such Person's obligations to repay the credit extensions made by Borrower to such Person as permitted under Subsection 7.1 hereof.”

“**Intercompany Note Guarantors**” means, individually and collectively, each Subsidiary of each Foreign Loan Party that has executed an Intercompany Note.”

“**Intercompany Note Guaranty**” means that Intercompany Note Guaranty (or Intercompany Note Guaranties) to be executed and delivered by each Intercompany Note Guarantor from time to time in accordance with subsection 6.8D, in form and substance acceptable to Administrative Agent.”

“**Mandatory Cost Rate**” means, with respect to any period, a rate per annum determined in accordance with Schedule 1.1.”

“**Overnight Rate**” means, for any day, (a) with respect to payments in U.S. Dollars, the Federal Funds Effective Rate and (b) with respect to payments in an Approved Foreign Currency, the rate of interest per annum at which overnight deposits in the applicable Approved Foreign Currency, in an amount approximately equal to the amount with respect to which such rate is being determined, would be offered for such day by CIBC's principal office in London to major banks in the London or other applicable offshore interbank market.”

B. Adjusted LIBOR. Subsection 1.1 of the Credit Agreement is hereby further amended by adding the following to the end of the definition of “Adjusted LIBOR” appearing therein:

“For any Interest Period with respect to any LIBOR Loan advanced by a Lender required to comply with the relevant requirements of the Bank of England and the Financial Services Authority of the United Kingdom, Adjusted LIBOR shall be the sum of (a) the rate determined in accordance with the first sentence of this definition and (b) the Mandatory Cost Rate for such Interest Period.”

C. Business Day. Subsection 1.1 of the Credit Agreement is hereby further amended by deleting the definition of “Business Day” appearing therein and substituting the following therefor:

“**Business Day**” means any day excluding Saturday, Sunday and any day which (a) with respect to credit extensions other than Loans denominated in an Approved Foreign Currency, is a legal holiday under the laws of the State of New York or is a day on which banking institutions located in such state are authorized or required by law or other governmental action to close, (b) with respect to all notices, determinations, fundings and payments in connection with Adjusted LIBOR or any LIBOR Loan, is not a day for trading by and between banks in Dollar deposits in the London Interbank Market, and (c) with respect to Loans denominated in an Approved Foreign Currency, is a legal holiday under the laws of the State of New York or is a day on which banking institutions located in such state are authorized or required by law or other governmental action to close, or is a day on which dealings in deposits denominated in the applicable Approved Foreign Currency are not carried out in London or by Administrative Agent’s lending office in the country of such Approved Foreign Currency (or such other office as may be designated by Administrative Agent), and with respect to Loans denominated in Euros, is a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (“TARGET”) system is not operating.”

D. Collateral Documents. Subsection 1.1 of the Credit Agreement is hereby further amended by amending the definition of “Collateral Documents” appearing therein by adding the following at the end thereof:

“, including, without limitation, Liens granted to Borrower (or to a security trustee in lieu of Borrower) under the Intercompany Notes, Intercompany Collateral Documents, and Intercompany Note Guaranties, which Liens have been assigned to Administrative Agent (or which security trustee agrees to act in accordance with Administrative Agent’s instructions) as security for any or all of the Obligations. For purposes of this Agreement, references to “Liens in favor of Administrative Agent” shall include Liens described in the preceding sentence, whether such Liens were granted by a Loan Party initially in favor of Administrative Agent or were granted initially in favor of Borrower (or a security trustee in lieu of Borrower).”

E. Dollars. Subsection 1.1 of the Credit Agreement is hereby further amended by amending the definition of “Dollars” appearing therein by changing such term to “**U.S. Dollars**”, and, accordingly, the Credit Agreement is hereby further amended to change the defined term “Dollars” at each appearance thereof to “U.S. Dollars”.

F. LIBOR Loans. Subsection 1.1 of the Credit Agreement is hereby further amended by amending the definition of “LIBOR Loans” appearing therein by adding the following to the end thereof: “, which may be denominated in U.S. Dollars or an Approved Foreign Currency. LIBOR Loans include all Foreign Currency Loans.”

G. Loan Documents. Subsection 1.1 of the Credit Agreement is hereby further amended by amending the definition of “Loan Documents” appearing therein by adding the following phrase immediately after the phrase “the Environmental Indemnity Agreement” appearing therein: “, the Intercompany Notes, the Intercompany Note Guaranties,”.

H. Foreign Currency Credit Extensions. A new Subsection 1.4 is hereby added to the end of Section 1 of the Credit Agreement as follows:

“1.4 Foreign Currency Credit Extensions; Currency Equivalents

With respect to each borrowing, conversion or continuation of any Loans denominated in an Approved Foreign Currency and on at least one date in each calendar quarter and on any additional dates as may be specified by Administrative Agent or Requisite Lenders, Administrative Agent shall determine the Dollar Equivalent of such Approved Foreign Currency. Except as may be otherwise provided for herein, the applicable amount of any currency for purposes of the Loan Documents shall be the Dollar Equivalent amount as so determined by Administrative Agent.”

I. Change of Currency. A new Subsection 1.5 is hereby added to the end of Section 1 of the Credit Agreement as follows:

“1.5 Change of Currency.

Unless otherwise prohibited by law, if more than one currency or currency unit are recognized at the same time by the central bank of any country as the lawful currency of that country, then: (i) any reference in the Loan Documents to, and any obligations arising under the Loan Documents in, the currency of that country shall be translated into, or paid in, the currency or currency unit of that country designated by the Administrative Agent (after consultation with the Borrower); and (ii) any translation from one currency or currency unit to another shall be at the official rate of exchange recognized by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by the Administrative Agent (acting reasonably). If a change in any currency of a country occurs, this Agreement will, to the extent reasonably necessary or desirable in the opinion of Administrative Agent (after consultation with the Borrower), be amended to comply with any generally accepted conventions and market practice in the relevant interbank market and otherwise to reflect the change in currency.”

1.2 Amendments to Section 2: Amounts and Terms of Commitments and Loans

A. Revolving Loan Commitments. Subsection 2.1A(ii) of the Credit Agreement is hereby amended by deleting the last paragraph thereof and substituting the following therefor:

“Anything contained in this Agreement to the contrary notwithstanding, the Revolving Loans and the Revolving Loan Commitments shall be subject to the limitations that (a) in no event shall the Total Utilization of Revolving Loan Commitments at any time exceed the Revolving Loan Commitments then in effect and (b) in no event shall the aggregate amount of all Revolving Loans that are Foreign Currency Loans exceed the Dollar Equivalent of \$30,000,000.”

B. Foreign Currency Loan Commitments. Subsection 2.1A of the Credit Agreement is hereby amended by adding new clauses (iii), (iv) and (v) to the end thereof as follows:

“(iii) Foreign Currency Loan Commitments. Each Foreign Currency Lender severally agrees, subject to the limitations set forth below, to make a portion of its Revolving Loan Commitments available to Borrower from time to time during the period from March 26, 2004 to but excluding the Revolving Loan Commitment Termination Date by making Foreign Currency Loans to Borrower in an aggregate amount not exceeding its Pro Rata Share of the aggregate amount of the Dollar Equivalent of the Foreign Currency Loan Commitments. The Foreign Currency Loan Commitment of Fronting Lender is equal to the difference between (x) the aggregate Dollar Equivalent of the Foreign Currency Loan Commitments and (y) the aggregate Dollar Equivalent of the Foreign Currency Loan Commitments of Foreign Currency Lenders other than Fronting Lender, notwithstanding the fact that such Foreign Currency Loans, when aggregated with Fronting Lender’s outstanding Revolving Loans and its Pro Rata Share of the Letter of Credit Usage then in effect, may exceed Fronting Lender’s Revolving Loan Commitment. The aggregate original amount of the Dollar Equivalent of the Foreign Currency Lenders’ Foreign Currency Loan Commitments is \$30,000,000; provided that the Foreign Currency Loan Commitments of Foreign Currency Lenders shall be adjusted to give effect to any assignments of the Foreign Currency Loan Commitments pursuant to subsection 10.1B; and provided further that any reduction of the Revolving Loan Commitments pursuant to subsection 2.4 or 6.4C that reduces the aggregate Revolving Loan Commitments to an amount less than the then-current Dollar Equivalent of the Foreign Currency Loan Commitments shall result in an automatic corresponding reduction of the Foreign Currency Loan Commitments to the amount of the Revolving Loan Commitments, as so reduced, without any further action on the part of Borrower, Administrative Agent or Lenders. Each Foreign Currency Lender’s Foreign Currency Loan Commitment shall expire on the Revolving Loan Commitment Termination Date and all Foreign Currency Loans and all other amounts owed hereunder with respect to Foreign Currency Loans and the Foreign Currency Loan

Commitments shall be paid in full no later than that date. Subject to the provisions of subsection 2.4A, amounts borrowed under this subsection 2.1A(iii) may be repaid and reborrowed to but excluding the Revolving Loan Commitment Termination Date.

Anything contained in this agreement to the contrary notwithstanding, the Foreign Currency Loans and the Foreign Currency Loan Commitments shall be subject to the limitations regarding the Revolving Loan Commitments set forth in subsection 2.1A(ii).

(iv) Foreign Currency Participations Each Lender that is not a Foreign Currency Lender shall be deemed to have purchased, and hereby agrees to purchase, a participation in each outstanding Foreign Currency Loan made by Fronting Lender in an amount equal to its Pro Rata Share of the unpaid amount of all Foreign Currency Loans being made at such time together with accrued interest thereon (each, a **"Foreign Currency Participation"**). Upon demand from Fronting Lender if any amount in respect of the principal or interest owing to Fronting Lender is not paid by or on behalf of Borrower when due in accordance with this Agreement, each such Lender (a **"Foreign Currency Participant"**) shall deliver to Fronting Lender an amount equal to the Dollar Equivalent of its respective Foreign Currency Participation in same day funds in U.S. Dollars at the Funding and Payment Office designated by Fronting Lender. If any amount required to be paid by any Foreign Currency Participant to Fronting Lender pursuant to this subsection 2.1A(iv) is not paid to Fronting Lender when due but is paid within three Business Days after the date such payment is due, such Foreign Currency Participant shall pay to Fronting Lender on demand (or, at Fronting Lender's election, Fronting Lender may deduct from any interest payments made by Borrower in respect of the Foreign Currency Loan) an amount equal to the product of (i) such amount, times (ii) the Overnight Rate in respect of the related Approved Foreign Currency determined by Fronting Lender during the period from and including the date such payment is required to the date on which such payment is immediately available to Fronting Lender, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If such amount required to be paid by any Foreign Currency Participant pursuant to this subsection 2.1A(iv) is not in fact made available to Fronting Lender by such Foreign Currency Participant within three Business Days after the date such payment is due, Fronting Lender shall be entitled to recover from such Foreign Currency Participant, on demand (or, at Fronting Lender's election, Fronting Lender may deduct from any interest payments made by Borrower in respect of the Foreign Currency Loan), such amount with interest thereon calculated from such due date at the rate per annum equal to the rate applicable thereto in accordance with the preceding sentence plus the Applicable LIBOR Margin in respect of LIBOR Loans. A certificate of Fronting Lender submitted to any Foreign Currency Participant with respect to any amounts owing under this subsection 2.1A(iv) shall be conclusive in the absence of manifest error. If Fronting Lender receives a payment with respect to any Foreign Currency Loan in which Foreign Currency Participations have been

purchased and as to which the purchase price has been requested by Fronting Lender and delivered by a Foreign Currency Participant as provided in this subsection 2.1A(iv), Fronting Lender shall promptly distribute to such Foreign Currency Participant its ratable share of such payment. If Fronting Lender shall pay any amount to a Foreign Currency Participant pursuant to this subsection 2.1A(iv) in the belief or expectation that a related payment has been or will be received or collected and such related payment is not received or collected by Fronting Lender, then such Foreign Currency Participant will promptly on demand by Fronting Lender return such amount to Fronting Lender, together with interest thereon at such rate as Fronting Lender shall determine to be customary between banks for correction of errors. If Fronting Lender determines at any time that any amount received or collected by Fronting Lender pursuant to this Agreement is to be returned to Borrower under this Agreement or paid to any other Person or entity pursuant to any insolvency law, any sharing clause in this Agreement, or otherwise, then, notwithstanding any other provision of this Agreement, Fronting Lender shall not be required to distribute any portion thereof to any Foreign Currency Participant, and each such Foreign Currency Participant will promptly on demand by Fronting Lender repay any portion that Fronting Lender shall have distributed to such Foreign Currency Participant, together with interest thereon at such rate, if any, as Fronting Lender shall pay to Borrower or such other Person or entity with respect thereto. If any amounts returned to Borrower pursuant to this subsection 2.1A(iv) are later recovered by Fronting Lender, Fronting Lender shall promptly pay to each Foreign Currency Participant a proportionate share based on such Foreign Currency Participant's Foreign Currency Participation.

If Fronting Lender incurs any costs or expenses (including, without limitation, in indemnifying Administrative Agent pursuant to subsection 9.4) in connection with any effort to enforce or protect rights or interests relating to a Foreign Currency Loan, other than in the case of Fronting Lender's gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction, then each Foreign Currency Participant will reimburse Fronting Lender on demand for each such Foreign Currency Participant's proportionate share based on such Foreign Currency Participant's Foreign Currency Participation of any portion of such cost or expenses which is not reimbursed by or on behalf of Borrower. If Fronting Lender recovers any amount for which Fronting Lender has previously been reimbursed by a Foreign Currency Participant hereunder, Fronting Lender shall promptly distribute to each such Foreign Currency Participant such Foreign Currency Participant's proportionate share thereof based on its Foreign Currency Participation.

Anything contained herein to the contrary notwithstanding, the obligation of each Foreign Currency Participant to purchase a Foreign Currency Participation in any unpaid Foreign Currency Loans pursuant to this subsection 2.1A(iv) shall be absolute and unconditional and shall not be affected by any circumstance, including (1) any set-off, counterclaim, recoupment, defense or

other right which such Lender may have against Fronting Lender, Borrower or any other Person for any reason whatsoever; (2) the occurrence or continuation of an Event of Default or a Potential Event of Default; (3) any adverse change in the business, operations, properties, assets, condition (financial or otherwise) or prospects of Borrower or any of its Subsidiaries; (4) any breach of this Agreement or any other Loan Document by any party thereto; or (5) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing. In no event shall the Foreign Currency Participation be construed as a loan or other extension of credit by a Lender to Fronting Lender.

(v) **Participation Fees.** Subject to the immediately succeeding sentence, with respect to Foreign Currency Loans, Foreign Currency Participants shall be entitled to receive as compensation a participation fee equal to such Foreign Currency Participant's ratable share of an amount equal to the excess of the interest received by Fronting Lender from the Borrower with respect to Foreign Currency Loans for the period for which the determination is being made over an amount equal to the Adjusted LIBOR on such Foreign Currency Loans. If such Foreign Currency Participant has funded its participation in a Foreign Currency Loan, Fronting Lender shall instead pay to such Foreign Currency Participant such amounts as are required pursuant to subsection 2.1A(iv). All such participation fees shall be paid by Fronting Lender to Foreign Currency Participants in U.S. Dollars, not more than two Business Days after receipt by Fronting Lender of each such payment of interest from or on behalf of the Borrower with respect to Foreign Currency Loans, calculated at the applicable Exchange Rate for the currency of the Loan as of the applicable date of determination."

C. Rate of Interest. Subsection 2.2A of the Credit Agreement is hereby amended by adding the following phrase to the end of the second sentence thereof: "; provided that each Foreign Currency Loan shall bear interest at a rate determined by reference to Adjusted LIBOR."

D. Interest Payments. Subsection 2.2C of the Credit Agreement is hereby amended by adding the following phrase to the end thereof: "provided further that if market practice differs as to Foreign Currency Loans, Administrative Agent in its discretion may notify Borrower and Lenders of such other market practice and upon such notification, interest on such Foreign Currency Loans shall accrue and be payable in accordance with such market practice."

E. Computation of Interest. Subsection 2.2F of the Credit Agreement is hereby amended by adding the following phrase to the end thereof: "provided further that if market practice differs as to Foreign Currency Loans, Administrative Agent in its discretion may notify Borrower and Lenders of such other market practice and upon such notification, interest on such Foreign Currency Loans shall be calculated in accordance with such market practice."

F. Fees. Subsection 2.3 of the Credit Agreement is hereby amended by renumbering the existing subsection 2.3B as “2.3C” and by adding a new subsection 2.3B as follows:

“**B. Foreign Currency Lending Fees.** Borrower agrees to pay to Fronting Lender (i) an offshore lending fee of 0.125% per annum of the Dollar Equivalent amount of the Foreign Currency Loans fronted by Fronting Lender (which shall not include such Lender’s ratable share of any Foreign Currency Loans not fronted) during the period each such Foreign Currency Loan remains outstanding, such fee to be calculated on the basis of a 360-day year and the actual number of days elapsed and to be payable in U.S. Dollars, quarterly in arrears on the first Business Day of each Fiscal Quarter, commencing on the first such date to occur after any such Foreign Currency Loan is made and (ii) on each Interest Payment Date, a fronting fee equal to Fronting Lender’s cost of acquiring the Approved Foreign Currency, based on prevailing rates in the applicable foreign currency market.”

G. Prepayments and Reductions from Net Asset Sale Proceeds. Subsection 2.4B(iii)(a) of the Credit Agreement is hereby amended by adding the following after the first sentence thereof:

“In the case of an Asset Sale by a Foreign Loan Party, Borrower shall cause such Foreign Loan Party to either (1) prepay the Intercompany Loans made to such Foreign Loan Party or (2) reinvest such Net Asset Sale Proceeds to the extent permitted pursuant to the preceding clause (2). To the extent that the Net Asset Sale Proceeds receivable by any Foreign Loan Party exceed the aggregate outstanding amount of such Foreign Loan Party’s Intercompany Loans, Borrower shall prepay the Loans of Borrower in an aggregate amount equal to such excess proceeds and the Revolving Loan Commitments shall be permanently reduced in an amount equal to such excess proceeds.”

H. Prepayments and reductions from Net Insurance/ Condemnation Proceeds. Subsection 2.4B(iii)(b) of the Credit Agreement is hereby amended by adding the following to the end thereof:

“In the case of receipt of such Net Insurance/Condemnation Proceeds by a Foreign Loan Party, such Foreign Loan Party shall prepay the Intercompany Loans in an aggregate amount equal to the amount of such Net Insurance/Condemnation Proceeds in a manner consistent with the prepayments made pursuant to the foregoing subsection 2.4B(iii)(a).”

I. Calculations of Net Proceeds Amounts; Additional Prepayments and Reductions Based on Subsequent Calculations. Subsection 2.4B(iii)(g) of the Credit Agreement is hereby amended by adding the following to the end thereof:

“With respect to Intercompany Loans, the Officer’s Certificate so delivered shall indicate any related reduction in Intercompany Loans or Intercompany Notes,

and, to the extent applicable (in the event the Net Proceeds Amount is determined to be greater than as set forth on such Officer's Certificate) Foreign Loan Parties shall prepay the Intercompany Loans in an amount equal to the amount of such excess."

J. Prepayments due to Reductions or Restrictions of Revolving Loan Commitments. Subsection 2.4B(iii)(h) of the Credit Agreement is hereby amended by deleting the text thereof appearing under the heading in its entirety and substituting the following therefor:

"Borrower shall from time to time prepay the Revolving Loans (or, if the Revolving Loans have been prepaid in full, cash collateralize Letters of Credit) to the extent necessary so that (i) the Total Utilization of Revolving Loan Commitments shall not at any time exceed the Revolving Loan Commitments then in effect and (ii) the aggregate amount of all Revolving Loans that are Foreign Currency Loans shall not at any time exceed the Dollar Equivalent of \$30,000,000."

K. Prepayments Due to Prepayments of Intercompany Loans. Subsection 2.4B(iii) of the Credit Agreement is hereby amended by adding a new clause (i) to the end thereof as follows:

"(i) Prepayments Due to Prepayments of Intercompany Loans. No later than the first Business Day following Borrower's receipt of any repayment of Intercompany Loans by any Foreign Loan Party, Borrower shall prepay the Loans but without any permanent reduction in the Revolving Loan Commitments unless otherwise required pursuant to the foregoing subsections 2.4B(iii)(a)-(b) in an aggregate amount equal to the amount of such Intercompany Loan repayment."

L. Manner and Time of Payment. Subsection 2.4C(i) of the Credit Agreement is hereby amended by deleting the first sentence thereof and substituting the following therefor:

"All payments by or on behalf of Borrower of principal, interest, fees and other Obligations hereunder and under the Notes shall be made in the currency of such Obligations in same day funds, without defense, setoff or counterclaim, free of any restriction or condition, and delivered to Administrative Agent not later than 1:00 P.M. (New York City time), with respect to Loans denominated in U.S. Dollars, and at such local times in the countries of settlement as specified from time to time by Administrative Agent, with respect to Loans denominated in Approved Foreign Currencies, on the date due at the Administrative Agent's Office for the account of Lenders; funds received by Administrative Agent after that time on such due date shall be deemed to have been paid by Borrower on the next succeeding Business Day."

M. Apportionment of Payments. Subsection 2.4C(iii) of the Credit Agreement is hereby amended by adding the following immediately after the second sentence thereof:

“All such distributions to Lenders who are Foreign Currency Participants with respect to Foreign Currency Loans shall be made in U.S. Dollars, calculated at the applicable Exchange Rate for such currency as of the applicable date of determination.”

1.3 Amendments to Section 6: Borrower’s Affirmative Covenants.

A. Subsidiaries of Foreign Loan Parties. Subsection 6.8 of the Credit Agreement is hereby amended by adding a new subsection 6.8D to the end thereof as follows:

“**D. Subsidiaries of Foreign Loan Parties.** If any Person becomes a Foreign Loan Party or a Subsidiary of a Foreign Loan Party after the date hereof, Borrower will promptly notify Administrative Agent of that fact and, unless Borrower otherwise requests and Administrative Agent consents thereto, cause such Foreign Loan Party or Subsidiary to execute and deliver to Borrower counterparts of, or such additional, Intercompany Notes, Intercompany Note Guaranties and Intercompany Collateral Documents, and to take all such further actions and execute all such further documents and instruments (including actions, documents and instruments comparable to those described in Subsection 4.1L) as may be reasonably necessary or, in the reasonable opinion of Administrative Agent, desirable to create in favor of Administrative Agent, for the benefit of Lenders, a First Priority Lien on all of the personal and mixed property assets of such Foreign Loan Party or such Subsidiary of such Foreign Loan Party.”

1.4 Amendments to Section 7: Borrower’s Negative Covenants.

A. Indebtedness. Subsection 7.1 of the Credit Agreement is hereby amended (i) by deleting the word “and” at the end of clause (vii) thereof, (ii) by substituting “; and” for the period at the end of clause (viii) thereof, and (iii) by adding a new clause (ix) thereto as follows:

“(ix) any Foreign Loan Party may become and remain liable with respect to any Indebtedness to any other Foreign Loan Party in the same Approved Jurisdiction, and each Foreign Loan Party may become and remain liable with respect to Indebtedness owed to Borrower or a Subsidiary Guarantor, which Indebtedness is evidenced by an Intercompany Note, guaranteed by the Intercompany Note Guaranties and secured by the Intercompany Collateral Documents pursuant to the provisions of this Agreement, provided that (a) in connection with the incurrence of any such Indebtedness by Borrower’s Subsidiary in the United Kingdom, Central Garden & Pet Company Limited, such

Subsidiary shall have acquired substantially all of the assets of Lawrence PLC's global pet supplies business (other than intellectual property) or such other assets as may be approved by Administrative Agent, on terms and conditions acceptable to Administrative Agent, (b) the aggregate amount of all such Indebtedness of all Foreign Loan Parties shall not exceed the lesser of (1) the Dollar Equivalent of \$17,000,000 and (2) the fair market value of the assets owned by such Foreign Loan Parties incurring such Indebtedness, in each case determined as of the date such Indebtedness is incurred and (c) the Intercompany Note shall have been pledged to Administrative Agent pursuant to the Security Agreement, and a Lien on all such intercompany Indebtedness shall have been granted to Administrative Agent for the benefit of Lenders."

B. Investments; Acquisitions. Subsection 7.3 of the Credit Agreement is hereby amended by deleting clause (iii) thereof in its entirety and substituting the following therefor: "(iii) Borrower and its Subsidiaries may make intercompany loans to the extent permitted under Subsections 7.1(iii) or (ix);" and (ii) by deleting clause (ii) thereof in its entirety and substituting the following therefor:

"(ii) Borrower and its Subsidiaries may continue to own the Investments owned by them as of the Closing Date in any Subsidiaries of Borrower; Borrower and Subsidiary Guarantors may make and own additional Investments in Subsidiary Guarantors or in Borrower; any Foreign Loan Party may make and own Investments in any other Foreign Loan Party in the same Approved Jurisdiction or as otherwise permitted pursuant to Subsection 7.1(ix); and any Subsidiary which is not a Subsidiary Guarantor or Foreign Loan Party may make and own Investments in Borrower or any other Subsidiary;"

C. Contingent Obligations. Subsection 7.4 of the Credit Agreement is hereby amended (i) by adding the phrase "and the Intercompany Note Guaranties" to the end of clause (i) thereof and (ii) by adding the phrase "and with respect to Contingent Obligations in connection with the guaranty of two real property leases of Central Garden & Pet Company Limited in the United Kingdom" to the end of clause (iv) thereof.

D. Restriction on Fundamental Changes; Asset Sales. Subsection 7.7 of the Credit Agreement is hereby amended by adding the following to the end of clause (i) thereof:

"; and any Foreign Loan Party may be merged with or into any other Foreign Loan Party in the same Approved Jurisdiction, or be liquidated, wound up or dissolved, or all or any part of its business, property or assets may be conveyed, sold, leased, transferred or otherwise disposed of, in one transaction or a series of transactions, to any other Foreign Loan Party in the same Approved Jurisdiction;"

1.5 Amendments to Section 8: Events of Default.

A. Remedies Upon Default. Section 8 of the Credit Agreement is hereby amended by adding the following to the end of the first text paragraph appearing after subsection 8.15 (such paragraph beginning with the word “**THEN**”):

“Upon the occurrence of an Event of Default, at the option of Administrative Agent, any Foreign Currency Loans shall be converted into Loans denominated in U.S. Dollars at the then-current Exchange Rate and shall thereafter be payable only in U.S. Dollars.”

1.6 Amendments to Section 10: Miscellaneous.

A. Judgment Currency. Section 10 of the Credit Agreement is hereby amended by adding a new subsection 10.25 to the end thereof as follows:

“10.25 Judgment Currency.

If, for the purposes of Administrative Agent or Lenders obtaining judgment in any court, it is necessary to convert a sum due hereunder in U.S. Dollars into another currency, the parties hereto agree, to the fullest extent permitted by law, that the rate of exchange used shall be that at which in accordance with normal banking procedures Administrative Agent or a Lender could purchase the U.S. Dollars with such other currency in New York, New York on the Business Day immediately preceding the day on which any such judgment, or any relevant part thereof, is given.

The obligations of Borrower in respect of any sum due from it to Administrative Agent or any Lender hereunder shall, notwithstanding any judgment in a currency other than U.S. Dollars, be discharged only to the extent that on the Business Day following receipt by Administrative Agent or such Lender of any sum adjudged to be so due in such other currency Administrative Agent or such Lender may in accordance with normal banking procedures purchase U.S. Dollars with such other currency; if the U.S. Dollars so purchased are less than the sum originally due Administrative Agent or such Lender in U.S. Dollars, Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify Administrative Agent or such Lender against such loss, and if the U.S. Dollars so purchased exceed the sum originally due to Administrative Agent or such Lender in U.S. Dollars, Lender shall remit such excess to Borrower.”

1.7 Amendments to Exhibits.

Exhibit I (Form of Notice of Borrowing), Exhibit II (Form of Notice of Conversion/Continuation) and Exhibit VI (Form of Compliance Certificate) to the Credit Agreement are hereby amended and restated in their entirety as set forth on the attached Annexes A-1, A-2, and A-3 respectively.

1.8 Amendments to Schedules.

Schedule 1.1 (Mandatory Cost Rate) is hereby added to the Credit Agreement as set forth on the attached Annex B-1.

Section 2. AMENDMENTS TO THE CREDIT AGREEMENT – INCREASE IN REVOLVING LOAN COMMITMENTS

2.1 Amendments to Section 2: Amounts and Terms of Commitments and Loans

A. Revolving Loan Commitments. Subsection 2.1A(ii) of the Credit Agreement is hereby amended (i) by deleting the phrase “The aggregate original amount of the Revolving Loan Commitments is \$100,000,000” appearing therein and substituting the phrase “The aggregate amount of the Revolving Loan Commitments is \$125,000,000” therefor.

Section 3. CONDITIONS TO EFFECTIVENESS

3.1 Conditions to Effectiveness of Section 1.

Section 1 of this Amendment shall become effective only upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the “**Foreign Currency Loan Effective Date**”):

A. On or before the Foreign Currency Loan Effective Date, Borrower shall deliver to Lenders (or to Administrative Agent for Lenders with sufficient originally executed copies, where appropriate, for each Lender and its counsel) copies of this Amendment, executed by Borrower and each Credit Support Party.

B. On or before the Foreign Currency Loan Effective Date, Administrative Agent shall have executed copies of this Amendment on behalf of itself and consenting Lenders.

C. On or before the Foreign Currency Loan Effective Date, Borrower and Subsidiary Guarantors shall have taken or caused to be taken all actions, executed and delivered or caused to be executed and delivered all such agreements, documents and instruments, including but not limited to (i) certificates evidencing 66% of the voting Capital Stock of all Foreign Subsidiaries, and (ii) such Intercompany Notes, Intercompany Note Guaranties and Intercompany Collateral Documents and documents related thereto required to be delivered under the Credit Agreement as amended by Section 1 hereof, and shall have made or caused to be made all filings, recordings and registrations that may be reasonably necessary or, in the reasonable opinion of Administrative Agent, desirable in order to create, perfect or maintain in favor of Administrative Agent, for the benefit of Lenders, a First Priority Lien in the Collateral.

D. On or before the Foreign Currency Loan Effective Date, all corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incidental thereto not previously found acceptable by Administrative Agent, acting on behalf of Lenders, and its counsel shall be satisfactory in form and substance to Administrative Agent and such counsel, and Administrative Agent and such counsel shall have received all such counterpart originals or certified copies of such documents as Administrative Agent may reasonably request.

3.2 Conditions to Effectiveness of Section 2.

Section 2 of this Amendment shall become effective only upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the “**Third Amendment Effective Date**”):

A. On or before the Third Amendment Effective Date, all of the conditions listed in Section 3.1 above shall have been met and Section 1 of this Amendment shall have become effective.

B. On or before the Foreign Currency Loan Effective Date, Borrower and Subsidiary Guarantors shall have taken or caused to be taken all actions, executed and delivered or caused to be executed and delivered all such agreements, documents and instruments, including but not limited to amendments to Mortgages relating to the Real Property Assets, and shall have made or caused to be made all filings, recordings and registrations that may be reasonably necessary or, in the reasonable opinion of Administrative Agent, desirable in order to create, perfect or maintain in favor of Administrative Agent, for the benefit of Lenders, a First Priority Lien in the Collateral.

C. On or before the Third Amendment Effective Date, new or existing Revolving Lenders shall have made, and Administrative Agent shall have accepted, additional Revolving Loan Commitments in an aggregate amount of \$25,000,000.

3.3 Deemed Assignments; Adjustment of Pro Rata Shares

On the Third Amendment Effective Date, the Revolving Loan Commitments, Pro Rata Shares and outstanding Revolving Loans of each existing Revolving Lender will be adjusted to give effect to the increase in the Revolving Loan Commitments and the addition of one or more Lenders making new Revolving Loan Commitments. Each Revolving Lender acknowledges that on the Third Amendment Effective Date, (i) each existing Revolving Lender that is not increasing its Pro Rata Share of the Revolving Loan Commitments will be deemed to have assigned an appropriate portion of its Revolving Loan Commitments and outstanding Revolving Loans to Administrative Agent and (ii) immediately thereafter, Administrative Agent will be deemed to have assigned to each new Revolving Lender and existing Revolving Lender that is increasing its Pro Rata Share of the Revolving Loan Commitments its new or increased portion of the outstanding Revolving Loans and the Revolving Loan Commitments. Administrative Agent will notify each Revolving Lender of its Pro Rata Share of the Revolving Loans and Revolving Loan Commitments, as so adjusted. On or before the Third Amendment Effective Date, each new Revolving Lender and each Revolving Lender increasing its Pro Rata

Share of the outstanding Revolving Loans in connection with this Amendment shall deliver funds representing the amount of its increase to Administrative Agent, for distribution to each Revolving Lender whose Pro Rata Share decreased as a result of this Amendment. To the extent that any such adjustment of Pro Rata Shares results in losses or expenses to any Lender as a result of the prepayment of any LIBOR Loan on a date other than the scheduled last day of the applicable Interest Period, Borrower acknowledges that it shall be responsible for such losses or expenses pursuant to Subsection 2.6D of the Credit Agreement.

Section 4. BORROWER'S REPRESENTATIONS AND WARRANTIES

In order to induce Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, Borrower represents and warrants to each Lender that the following statements are true, correct and complete:

A. Corporate Power and Authority. Borrower and each Credit Support Party has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the "**Amended Agreement**").

B. Authorization of Agreements. The execution and delivery of this Amendment and the performance of the Amended Agreement have been duly authorized by all necessary corporate action on the part of Borrower and each Credit Support Party.

C. No Conflict. The execution and delivery by Borrower and each Credit Support Party of this Amendment and the performance by Borrower of the Amended Agreement do not and will not (i) violate any provision of any law or any governmental rule or regulation applicable to Borrower or any of its Subsidiaries, the Certificate or Articles of Incorporation or Bylaws of Borrower or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on Borrower or any of its Subsidiaries, (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contractual Obligation of Borrower or any of its Subsidiaries, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of Borrower or any of its Subsidiaries, except pursuant to the Loan Documents, or (iv) require any approval of stockholders or any approval or consent of any Person under any Contractual Obligation of Borrower or any of its Subsidiaries.

D. Governmental Consents. The execution and delivery by Borrower and each Credit Support Party of this Amendment and the performance by Borrower of the Amended Agreement do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any federal, state or other governmental authority or regulatory body.

E. Binding Obligation. This Amendment has been duly executed and delivered by Borrower and each Credit Support Party and this Amendment and the Amended Agreement are the legally valid and binding obligations of Borrower and each Credit Support Party, enforceable against Borrower and each Credit Support Party in accordance with their respective

terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

F. Incorporation of Representations and Warranties From Credit Agreement The representations and warranties contained in Section 5 of the Credit Agreement are and will be true, correct and complete in all material respects on and as of the Foreign Currency Loan Effective Date and the Third Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

G. Absence of Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Potential Event of Default.

Section 5. ACKNOWLEDGEMENT AND CONSENT

Borrower is a party to certain Collateral Documents pursuant to which Borrower has created Liens in favor of Administrative Agent on certain Collateral to secure the Obligations. Each Subsidiary is a party to a Subsidiary Guaranty and certain Collateral Documents pursuant to which such Subsidiary has (i) guarantied the Obligations and (ii) created Liens in favor of Administrative Agent on certain Collateral to secure the obligations of such Subsidiary under the Subsidiary Guaranty. Borrower and each Subsidiary are collectively referred to herein as the "**Credit Support Parties**", and the Subsidiary Guaranties and Collateral Documents referred to above are collectively referred to herein as the "**Credit Support Documents**".

Each Credit Support Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement and this Amendment and consents to the amendment of the Credit Agreement effected pursuant to this Amendment. Each Credit Support Party hereby confirms that each Credit Support Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guaranty or secure, as the case may be, to the fullest extent possible the payment and performance of all "Obligations," "Guarantied Obligations" and "Secured Obligations," or other similar terms, as the case may be (in each case as such terms are defined in the applicable Credit Support Document), including, without limitation, the payment and performance of all such "Obligations," "Guarantied Obligations" or "Secured Obligations," or similar terms, as the case may be, in respect of the Obligations of Borrower now or hereafter existing under or in respect of the Amended Agreement and the Notes.

Each Credit Support Party acknowledges and agrees that any of the Credit Support Documents to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. Each Credit Support

Party represents and warrants that all representations and warranties contained in the Amended Agreement and the Credit Support Documents to which it is a party or otherwise bound are true, correct and complete in all material respects on and as of the Foreign Currency Loan Effective Date and the Third Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

Each Credit Support Party (other than Borrower) acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Credit Support Party is not required by the terms of the Credit Agreement or any other Loan Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Credit Support Party to any future amendments to the Credit Agreement.

Section 6. MISCELLANEOUS

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

(i) On and after the Foreign Currency Loan Effective Date and the Third Amendment Effective Date, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the “Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of Agent or any Lender under, the Credit Agreement or any of the other Loan Documents.

B. Fees and Expenses. Borrower acknowledges that all costs, fees and expenses as described in subsection 10.2 of the Credit Agreement incurred by the Administrative Agent and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of Borrower.

C. Headings. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

D. Applicable Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

E. Counterparts; Effectiveness. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment (other than the provisions of Sections 1 and 2 hereof, the effectiveness of which is governed by Section 3 hereof) shall become effective upon the execution of a counterpart hereof by Borrower, each Credit Support Party and Administrative Agent and the execution of a Lender Consent by consenting Lenders and receipt by Borrower and Administrative Agent of written or telephonic notification of such execution and authorization of delivery thereof.

[Remainder of page intentionally left blank]

CANADIAN IMPERIAL BANK OF COMMERCE,
as Administrative Agent

By: /s/ Dean J. Decker

Dean J. Decker
Managing Director
CIBC World Markets Corp., AS AGENT

CONSENT OF LENDER

Reference is hereby made to the Third Amendment to Credit Agreement (the "**Amendment**") dated as of _____, 2004 by and between Central Garden & Pet Company, a Delaware corporation ("**Borrower**"), and Canadian Imperial Bank of Commerce, as administrative agent for the Lenders ("**Administrative Agent**"), which is made with reference to that certain Credit Agreement dated as of May 14, 2003, as amended by the First Amendment to Credit Agreement dated as of October 27, 2003 and the Second Amendment to Credit Agreement dated as of February 12, 2004 (the "**Credit Agreement**"), by and among Borrower, the financial institutions listed therein as Lenders, the Co-Syndication Agents listed therein, and the Administrative Agent.

The undersigned Lender hereby consents to the execution and delivery of the Amendment by Administrative Agent on its behalf, substantially in the form of the draft presented to the undersigned Lender on _____, 2004.

Dated: _____, 2004

[Name of Institution]

By: _____

Name: _____

Title: _____

EXHIBIT I

[FORM OF NOTICE OF BORROWING]

NOTICE OF BORROWING

Pursuant to that certain Credit Agreement dated as of May 14, 2003, as amended, restated, supplemented or otherwise modified to the date hereof (said Credit Agreement, as so amended, restated, supplemented or otherwise modified, being the "Credit Agreement", the terms defined therein and not otherwise defined herein being used herein as therein defined), by and among Central Garden & Pet Company, a Delaware corporation (the "Borrower"), the financial institutions party thereto as lenders (collectively, "Lenders"), the financial institutions party thereto as agents and Canadian Imperial Bank of Commerce, as agent for Lenders (in such capacity, the "Administrative Agent"), this represents Borrower's request to borrow as follows:

- 1. Date of borrowing: _____, _____
- 2. Amount of borrowing: _____
- 3. Currency: _____
- 4. Type of Loans: Revolving Loans
- 5. Interest rate option: a. Base Rate Loan(s) (U.S. Dollars only)
 b. LIBOR Loans with an initial Interest Period of _____ month(s)

The proceeds of such Loans are to be deposited in Borrower's account at [_____] ABA Number:_____, Account Number:_____, Account Name:_____, and Reference:_____.

The undersigned officer, on behalf of Borrower, and Borrower certify that:

(i) The representations and warranties contained in the Credit Agreement and the other Loan Documents are true, correct and complete in all material respects on and as of the date hereof to the same extent as though made on and as of the date hereof, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties were true, correct and complete in all material respects on and as of such earlier date; provided, that where a representation and warranty is already qualified as to materiality, such materiality qualifier shall be disregarded for purposes of this condition;

(ii) No event has occurred and is continuing or would result from the consummation of the borrowing contemplated hereby and the application of proceeds hereof that would constitute an Event of Default or a Potential Event of Default;

(iii) Each Loan Party has performed in all material respects all agreements and satisfied all conditions which the Credit Agreement provides shall be performed or satisfied by it on or before the date hereof;

(iv) The making of the Loans requested on the date hereof shall not violate any law including Regulation T, Regulation U or Regulation X of the Board of Governors of the Federal Reserve System; and

(v) The undersigned has read this Notice of Borrowing and any definitions or other provisions contained in the Credit Agreement relating thereto, and in the opinion of the undersigned, has made or caused to be made such examination or investigation as is reasonably necessary to enable the undersigned to express an informed opinion as to the compliance with all conditions precedent to the making of any Loans requested hereunder.

DATED: _____

CENTRAL GARDEN & PET COMPANY

By: _____

Name:

Title:

A-2

EXHIBIT II

[FORM OF NOTICE OF CONVERSION/CONTINUATION]

NOTICE OF CONVERSION/CONTINUATION

Pursuant to that certain Credit Agreement dated as of May 14, 2003, as amended, restated, supplemented or otherwise modified to the date hereof (said Credit Agreement, as so amended, restated, supplemented or otherwise modified, being the "Credit Agreement", the terms defined therein and not otherwise defined herein being used herein as therein defined), by and among Central Garden & Pet Company, a Delaware corporation (the "Borrower"), the financial institutions party thereto as lenders (collectively, "Lenders"), the financial institutions party thereto as agents and Canadian Imperial Bank of Commerce, as agent for Lenders (in such capacity, the "Administrative Agent"), this represents Borrower's request to convert or continue Loans as follows:

- 1. Date of conversion/continuation: _____
- 2. Amount of Loans being converted/continued: _____
- 3. Currency: _____
- 3. Type of Loans being converted/continued:
 - a. Tranche B Term Loans
 - b. Revolving Loans
- 4. Nature of conversion/continuation:
 - a. Conversion of Base Rate Loans to LIBOR Loans (U.S. Dollars only)
 - b. Conversion of LIBOR Loans to Base Rate Loans (U.S. Dollars only)
 - c. Continuation of LIBOR Loans as such
- 5. If Loans are being continued as or converted to LIBOR Loans, the duration of the new Interest Period that commences on the conversion/continuation date: _____ month(s)

In the case of a conversion to or continuation of LIBOR Loans, the undersigned officer, to the best of his or her knowledge, and Borrower certify that no Event of Default or Potential Event of Default has occurred and is continuing under the Credit Agreement.

DATED: _____

CENTRAL GARDEN & PET COMPANY

By: _____

Name:

Title:

EXHIBIT VI

[FORM OF COMPLIANCE CERTIFICATE]

COMPLIANCE CERTIFICATE

EACH OF THE UNDERSIGNED HEREBY CERTIFY THAT:

- (1) I am the duly elected Vice President, Finance and Chief Financial Officer of Central Garden & Pet Company, a Delaware corporation (the "**Borrower**");
- (2) I have reviewed the terms of that certain Credit Agreement dated as of May 14, 2003 as amended, restated, supplemented or otherwise modified to the date hereof (said Credit Agreement, as so amended, restated, supplemented or otherwise modified, being the "**Credit Agreement**", the terms defined therein and not otherwise defined in this Certificate (including Attachment No. 1 annexed hereto and made a part hereof) being used in this Certificate as therein defined), by and among Borrower, the financial institutions party thereto as lenders, the financial institutions party thereto as agents and Canadian Imperial Bank of Commerce, as Administrative Agent, and I have made, or have caused to be made under my supervision, a review in reasonable detail of the transactions and condition of Borrower and its Subsidiaries during the accounting period covered by the attached financial statements; and
- (3) The examination described in paragraph (2) above did not disclose, and I have no knowledge of, the existence of any condition or event which constitutes an Event of Default or Potential Event of Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Certificate[, except as set forth below].

[Set forth [below] [in a separate attachment to this Certificate] are all exceptions to paragraph (3) above listing, in detail, the nature of the condition or event, the period during which it has existed and the action which Borrower has taken, is taking, or proposes to take with respect to each such condition or event:

The foregoing certifications, together with the computations set forth in Attachment No. 1 annexed hereto and made a part hereof and the financial statements delivered with this Certificate in support hereof, are made and delivered this __ day of _____, 200_ pursuant to Subsection 6.1(iv) of the Credit Agreement.

CENTRAL GARDEN & PET COMPANY

By: /s/ Stuart W. Booth

Name: Stuart W. Booth

Title: Vice President, Finance and Chief Financial Officer

ATTACHMENT NO. 1

TO COMPLIANCE CERTIFICATE

This Attachment No. 1 is attached to and made a part of a Compliance Certificate dated as of _____, 200_ and pertains to the period ending _____, 200_. Subsection references herein relate to Subsections of the Credit Agreement.

A. Indebtedness

| | | |
|----|--|----------------|
| 1. | Aggregate principal amount of additional Subordinated Indebtedness permitted under Subsection 7.1(vii): | \$ _____ |
| 2. | Maximum permitted under Subsection 7.1(vii): | \$ 150,000,000 |
| 3. | Aggregate principal amount of other Indebtedness outstanding pursuant to Subsection 7.4(vii): | \$ _____ |
| 4. | Aggregate amount of other Contingent Obligations outstanding pursuant to Subsection 7.4(vii): | \$ _____ |
| 5. | Aggregate principal amount of other Indebtedness and other Contingent Obligations outstanding under Subsection 7.4(vii) (same as D.1): | \$ _____ |
| 6. | Maximum permitted under Subsection 7.1(viii): | \$ 20,000,000 |
| 7. | Aggregate principal amount of Indebtedness of Foreign Loan Parties to Borrower or Subsidiary Guarantors: | \$ _____ |
| 8. | Maximum permitted under Subsection 7.1(ix): | \$ _____ |

B. Liens

| | | |
|----|---|---------------|
| 1. | Aggregate amount of Indebtedness secured by Liens permitted under Subsection 7.2(iv): | \$ _____ |
| 2. | Maximum aggregate amount of Indebtedness secured by Liens permitted under Subsection 7.2(iv): | \$ 20,000,000 |

C. Investments; Acquisitions

| | | |
|----|--|---------------|
| 1. | Aggregate purchase price of acquisitions by Borrower and its Subsidiaries: | \$ _____ |
| 2. | Maximum permitted under Subsections 7.3(v) and 7.1(vi): | \$ 75,000,000 |
| 3. | Aggregate principal amount of other Investments (including Capital Stock) permitted under Subsection 7.3(vi) : | \$ _____ |
| 4. | Maximum permitted under Subsection 7.3(vi): | \$ 50,000,000 |
| 5. | Aggregate amount of repurchases of Borrower's Capital Stock: | \$ _____ |
| 6. | Maximum permitted under Subsection 7.3(vi): | \$ 10,000,000 |

D. Contingent Obligations

| | | |
|----|---|---------------|
| 1. | Total Contingent Obligations, and Indebtedness outstanding under Subsection 7.4(vii) (same as A.5): | \$ _____ |
| 2. | Maximum permitted under Subsection 7.4(vii): | \$ 20,000,000 |

E. Minimum Interest Coverage Ratio (for the four-Fiscal Quarter period ending _____, ____)

| | | |
|----|---|----------|
| 1. | Consolidated Net Income: | \$ _____ |
| 2. | Consolidated Interest Expense: | \$ _____ |
| 3. | Provisions for taxes based on income: | \$ _____ |
| 4. | Total depreciation expense: | \$ _____ |
| 5. | Total amortization expense: | \$ _____ |
| 6. | Other non-recurring and non-cash items reducing Consolidated Net Income but not requiring the expenditure of cash!: | \$ _____ |

| | | | |
|---|---|----|------------|
| 7. | Interest Income: | | |
| 8. | Other non-recurring non-cash items increasing Consolidated Net Income but not constituting the receipt of cash: | \$ | _____ |
| 9. | Consolidated EBITDA (1+2+3+4+5+6-7-8): | \$ | _____ |
| 10. | Interest Coverage Ratio (E.9):(E.2): | | _____:1.00 |
| 11. | Minimum ratio required under Subsection 7.6A: | | _____:1.00 |
| F. Maximum Total Leverage Ratio (as of _____, ____) | | | |
| 1. | Consolidated Total Debt: | \$ | _____ |
| 2. | Consolidated EBITDA (E.9 above <u>plus/minus</u> any adjustment for any Asset Sales or other acquisitions or dispositions of assets): | \$ | _____ |
| 3. | Consolidated Total Leverage Ratio (F.1):(F.2): | | _____:1.00 |
| 4. | Maximum ratio permitted under Subsection 7.6B: | | _____:1.00 |
| G. Maximum Senior Leverage Ratio (as of _____, ____) | | | |
| 1. | Consolidated Total Debt (F.1 above): | \$ | _____ |
| 2. | Aggregate principal amount of all unsecured Subordinated Indebtedness of Borrower and its Subsidiaries, determined on a consolidated basis: | \$ | _____ |

¹ This amount includes such acquisition and transaction costs as may be approved by Administrative Agent in its sole but reasonable discretion. For Fiscal Year 2003, not more than \$5,000,000 in the aggregate, and for each Fiscal Year thereafter, not more than \$2,000,000 in the aggregate of all non-recurring and non-cash items (other than those described in the preceding sentence) shall be included in line E6.

| | | |
|----|---|------------|
| 3. | Consolidated Senior Debt (G.1 – G.2): | \$ _____ |
| 4. | Consolidated EBITDA (E.9 above <u>plus/minus</u> any adjustment for any Asset Sales or other acquisitions or dispositions of assets): | \$ _____ |
| 5. | Consolidated Senior Leverage Ratio (G.3):(G.4): | _____:1.00 |
| 6. | Maximum ratio permitted under Subsection 7.6C: | _____:1.00 |

H. Minimum Consolidated Tangible Net Worth (as of _____, ____)

| | | |
|----|---|----------|
| 1. | 85% of Consolidated Tangible Net Worth as of the Closing Date: | \$ _____ |
| 2. | 50% of the positive Consolidated Net Income for each Fiscal Quarter ending after the Closing Date: | \$ _____ |
| 3. | 100% of the Net Securities Proceeds of the issuance of Capital Stock: | \$ _____ |
| 4. | Minimum required under Subsection 7.6D (H.1 + H.2 + H.3): | \$ _____ |
| 5. | Consolidated Tangible Net Worth as of the last day of the most recently ended Fiscal Quarter (amount may not be less than H.4 above): | \$ _____ |

I. Asset Sales

| | | |
|----|---|---------------|
| 1. | Aggregate fair market value of assets sold in any one or more Asset Sales after the Effective Date in one or more transactions permitted under Subsection 7.7(v): | \$ _____ |
| 2. | Maximum permitted under Subsection 7.7(v): | \$ 25,000,000 |

J. Consolidated Capital Expenditures

| | | |
|----|--|------------------------------|
| 1. | Consolidated Capital Expenditures for Fiscal Year-to-date ² : | \$ _____ |
| 2. | Maximum amount of Consolidated Capital Expenditures permitted under Subsection 7.8 for Fiscal Year (as increased pursuant to Subsection 7.8 in an amount not to exceed \$5,000,000): | \$ [20,000,000] ³ |

K. Lease Payments

| | | |
|----|---|---------------|
| 1. | Maximum rental payments paid or payable during current Fiscal Year: | \$ _____ |
| 2. | Maximum permitted under Subsection 7.12: | \$ 30,000,000 |

² This amount shall exclude for Fiscal Year 2003, any expansion capital expenditures related to Borrower's Kaytee product line.

³ This amount as increased pursuant to Subsection 7.8 in an amount not to exceed \$5,000,000.

SCHEDULE 1.1
MANDATORY COST RATE

1. The Mandatory Cost Rate is an addition to the interest rate to compensate Lenders for the cost of compliance with (a) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.
2. On the first day of each Interest Period (or as soon as possible thereafter) the Administrative Agent shall calculate, as a percentage rate, a rate (the “**Additional Cost Rate**”) for each Lender, in accordance with the paragraphs set out below. The Mandatory Cost Rate will be calculated by the Administrative Agent as a weighted average of the Lenders’ Additional Cost Rates (weighted in proportion to the percentage participation of each Lender in the relevant Loan) and will be expressed as a percentage rate per annum.
3. The Additional Cost Rate for any Lender lending from an office in a Participating Member State will be the percentage notified by that Lender to the Administrative Agent. This percentage will be certified by that Lender in its notice to the Administrative Agent to be its reasonable determination of the cost (expressed as a percentage of that Lender’s participation in all Loans made from that lending office) of complying with the minimum reserve requirements of the European Central Bank in respect of loans made from that lending office.
4. The Additional Cost Rate for any Lender lending from an office in the United Kingdom will be calculated by the Administrative Agent as follows:
 - (a) in relation to a sterling Loan:

$$\frac{AB + C(B - D) + E \times 0.01}{100 - (A + C)} \quad \text{per cent. per annum}$$

- (b) in relation to a Loan in any currency other than sterling:

$$\frac{E \times 0.01}{300} \quad \text{per cent. per annum.}$$

Where:

- A is the percentage of Eligible Liabilities (assuming these to be in excess of any stated minimum) which that Lender is from time to time required to maintain as an interest free cash ratio deposit with the Bank of England to comply with cash ratio requirements.

-
- B is the rate determined in accordance with the first sentence of the definition of “Adjusted LIBOR” applicable to such Loan.
- C is the percentage (if any) of Eligible Liabilities which that Lender is required from time to time to maintain as interest bearing Special Deposits with the Bank of England.
- D is the percentage rate per annum payable by the Bank of England to the Administrative Agent on interest bearing Special Deposits.
- E is designed to compensate Lenders for amounts payable under the Fees Rules and is calculated by the Administrative Agent as being the average of the most recent rates of charge supplied by the applicable Lenders to the Administrative Agent pursuant to paragraph 7 below and expressed in pounds per £1,000,000.
5. For the purposes of this Schedule:
- (a) “**Eligible Liabilities**” and “**Special Deposits**” have the meanings given to them from time to time under or pursuant to the Bank of England Act 1998 or (as may be appropriate) by the Bank of England;
 - (b) “**Fees Rules**” means the rules on periodic fees contained in the FSA Supervision Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits;
 - (c) “**Fee Tariffs**” means the fee tariffs specified in the Fees Rules under the activity group A.1 Deposit acceptors (ignoring any minimum fee or zero rated fee required pursuant to the Fees Rules but taking into account any applicable discount rate); and
 - (d) “**Tariff Base**” has the meaning given to it in, and will be calculated in accordance with, the Fees Rules.
6. In application of the above formulae, A, B, C and D will be included in the formulae as percentages (i.e. 5 per cent. will be included in the formula as 5 and not as 0.05). A negative result obtained by subtracting D from B shall be taken as zero. The resulting figures shall be rounded to four decimal places.
7. If requested by the Administrative Agent, each Lender selected by Administrative Agent shall, as soon as practicable after publication by the Financial Services Authority, supply

-
- to the Administrative Agent, the rate of charge payable by that Lender to the Financial Services Authority pursuant to the Fees Rules in respect of the relevant financial year of the Financial Services Authority (calculated for this purpose by that Lender as being the average of the Fee Tariffs applicable to that Lender for that financial year) and expressed in pounds per £1,000,000 of the Tariff Base of that Lender.
8. Each Lender shall supply any information required by the Administrative Agent for the purpose of calculating its Additional Cost Rate. In particular, but without limitation, each Lender shall supply the following information on or prior to the date on which it becomes a Lender:
 - (a) the jurisdiction of its lending office; and
 - (b) any other information that the Administrative Agent may reasonably require for such purpose.Each Lender shall promptly notify the Administrative Agent of any change to the information provided by it pursuant to this paragraph.
 9. The percentages of each Lender for the purpose of A and C above and the rates of charge of each Lender for the purpose of E above shall be determined by the Administrative Agent based upon the information supplied to it pursuant to paragraphs 7 and 8 above and on the assumption that, unless a Lender notifies the Administrative Agent to the contrary, each Lender's obligations in relation to cash ratio deposits and Special Deposits are the same as those of a typical bank from its jurisdiction of incorporation with a lending office in the same jurisdiction as its lending office.
 10. The Administrative Agent shall have no liability to any person if such determination results in an Additional Cost Rate which over or under compensates any Lender and shall be entitled to assume that the information provided by any Lender pursuant to paragraphs 3, 7 and 8 above is true and correct in all respects.
 11. The Administrative Agent shall distribute the additional amounts received as a result of the Mandatory Cost to the Lenders on the basis of the Additional Cost Rate for each Lender based on the information provided by each Lender pursuant to paragraphs 3, 7 and 8 above.
 12. Any determination by the Administrative Agent pursuant to this Schedule in relation to a formula, the Mandatory Cost, an Additional Cost Rate or any amount payable to a Lender shall, in the absence of manifest error, be conclusive and binding on all Parties.

-
13. The Administrative Agent may from time to time, after consultation with Borrower and the Lenders, determine and notify to all Parties any amendments which are required to be made to this Schedule in order to comply with any change in law, regulation or any requirements from time to time imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) and any such determination shall, in the absence of manifest error, be conclusive and binding on all Parties.

I, Glenn W. Novotny, certify that:

1. I have reviewed this report on Form 10-Q Q for the quarter ended March 27, 2004 of Central Garden & Pet Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2004

/S/ GLENN W. NOVOTNY

Glenn W. Novotny
President and Chief Executive Officer
(Principal Executive Officer)

I, Stuart W. Booth, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended March 27, 2004 of Central Garden & Pet Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2004

/s/ STUART W. BOOTH

Stuart W. Booth
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the accompanying quarterly report on Form 10-Q of Central Garden & Pet Company for the quarter ended March 27, 2004 (the "Report"), I, Glenn W. Novotny, President and Chief Executive Officer of Central Garden & Pet Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

May 11, 2004

/S/ GLENN W. NOVOTNY

Glenn W. Novotny
Chief Executive Officer

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

In connection with the accompanying quarterly report on Form 10-Q of Central Garden & Pet Company for the quarter ended March 27, 2004 (the "Report"), I, Stuart W. Booth, Chief Financial Officer of Central Garden & Pet Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

May 11, 2004

/S/ STUART W. BOOTH

Stuart W. Booth
Chief Financial Officer