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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended December 25, 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

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**CENTRAL GARDEN & PET COMPANY**

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

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

**1340 Treat Blvd., Suite 600, Walnut Creek, California 94597**  
(Address of principle executive offices)

**(925) 948-4000**  
(Registrant's telephone number, including area code)

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

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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 December 31, 2004	19,136,470
Class B Stock Outstanding as of December 31, 2004	1,654,462

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#### **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 25, 2004, 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 flows;
- dependence upon our key executive officers;
- potential environmental liabilities and product liability claims;
- pending litigation and claims;
- costs and risks associated with Section 404 compliance.

## 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 25, 2004	December 25, 2004
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 12,221	\$ 14,100
Restricted investments	14,936	15,066
Accounts receivable (less allowance for doubtful accounts of \$12,348 and \$9,375)	183,979	143,656
Inventories	237,913	288,192
Prepaid expenses and other	15,811	18,718
	<hr/>	<hr/>
Total current assets	464,860	479,732
Land, buildings, improvements and equipment—net	105,612	106,893
Goodwill	338,384	340,088
Deferred income taxes and other assets	51,341	50,292
	<hr/>	<hr/>
Total	\$ 960,197	\$ 977,005
	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 105,933	\$ 119,018
Accrued expenses	64,948	69,448
Current portion of long-term debt	1,025	1,025
	<hr/>	<hr/>
Total current liabilities	171,906	189,491
Long-term debt	304,775	294,296
Other long-term obligations	3,720	3,967
Convertible redeemable preferred stock	3,000	3,000
Shareholders' equity:		
Class B stock, \$.01 par value: 1,654,462 shares outstanding	16	16
Common stock, \$.01 par value: 32,515,220 and 32,888,327 shares issued and 18,772,970 and 19,133,118 shares outstanding at September 25, 2004 and December 25, 2004	325	329
Additional paid-in capital	555,436	563,640
Retained earnings	65,710	68,226
Deferred compensation	—	(3,261)
Treasury stock	(144,827)	(145,355)
Accumulated other comprehensive income	136	2,656
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Total shareholders' equity	476,796	486,251
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Total	\$ 960,197	\$ 977,005
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See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	December 27, 2003	December 25, 2004
Net sales	\$ 222,350	\$ 265,576
Cost of goods sold and occupancy	160,279	179,535
Gross profit	62,071	86,041
Selling, general and administrative expenses	58,511	76,525
Income from operations	3,560	9,516
Interest expense	(4,105)	(5,298)
Interest income	199	103
Other expense	(715)	(320)
Income (loss) before income taxes	(1,061)	4,001
Income taxes	(416)	1,485
Net income (loss)	\$ (645)	\$ 2,516
Income (loss) per common share:		
Basic	\$ (0.03)	\$ 0.12
Diluted	\$ (0.03)	\$ 0.12
Weighted average shares used in the computation of income per common share:		
Basic	19,877	20,539
Diluted	19,877	21,264

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	December 27, 2003	December 25, 2004
Cash flows from operating activities:		
Net income (loss)	\$ (645)	\$ 2,516
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,617	4,479
Amortization of deferred compensation	—	235
Change in assets and liabilities:		
Receivables	32,236	40,323
Inventories	(26,755)	(50,279)
Prepaid expenses and other assets	(4,015)	(2,316)
Accounts payable	9	13,085
Accrued expenses	495	6,883
Other long-term obligations	(15)	247
Net cash provided by operating activities	<u>5,927</u>	<u>15,173</u>
Cash flows used in investing activities:		
Additions to land, buildings, improvements and equipment	(4,550)	(5,563)
Restricted investments	(15,052)	(130)
Net cash used in investing activities	<u>(19,602)</u>	<u>(5,693)</u>
Cash flows from financing activities:		
Repayments on revolving line of credit	—	(63,000)
Borrowings on revolving line of credit	—	53,000
Repayments of long-term debt	(250)	(250)
Proceeds from issuance of stock	1,586	2,329
Treasury stock repurchases	—	(528)
Net cash provided by (used in) financing activities	<u>1,336</u>	<u>(8,449)</u>
Effect of exchange rate changes on cash and equivalents	—	848
Net increase (decrease) in cash and equivalents	(12,339)	1,879
Cash and equivalents at beginning of period	77,604	12,221
Cash and equivalents at end of period	<u>\$ 65,265</u>	<u>\$ 14,100</u>
Supplemental information:		
Cash paid for interest	\$ 653	\$ 1,576
Cash refunds received for income taxes—net	<u>\$ (798)</u>	<u>\$ (778)</u>

See notes to condensed consolidated financial statements.

**CENTRAL GARDEN & PET COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended December 25, 2004**  
**(unaudited)**

**1. Basis of Presentation**

The condensed consolidated balance sheet of Central Garden & Pet Company and subsidiaries (the "Company" or "Central") as of December 25, 2004, and the condensed consolidated statements of operations and of cash flows for the three months ended December 27, 2003 and December 25, 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.

For the Company's foreign business in the UK, the local currency is the functional currency. Assets and liabilities are translated using the exchange rate in effect at the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Comprehensive income was \$5.0 million for the period ended December 25, 2004 and includes net earnings of \$2.5 million and foreign currency translation adjustments of \$2.5 million that are excluded from net earnings but reported in accumulated other comprehensive income, a separate component of shareholders' equity. Deferred taxes are not provided on translation gains and losses, because the Company expects earnings of its foreign subsidiary to be permanently reinvested. Transaction gains and losses are included in results of operations.

Due to the seasonal nature of the Company's garden business, the results of operations for the three months ended December 25, 2004 and December 27, 2003 are not indicative of the operating results that may be expected for the entire fiscal year. These interim financial statements should be read in conjunction with the annual audited financial statements, accounting policies and financial notes thereto, included in the Company's 2004 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 provide for stock option grants and restricted stock awards. Stock options may be granted 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 Statement of Financial Accounting Standards No. 148 (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	
	December 27, 2003	December 25, 2004
	(in thousands)	
Net income (loss), as reported	\$ (645)	\$ 2,516
Deduct: Total stock-based employee compensation expense determined under fair value based method for awards, net of related tax effects	(323)	(356)
Pro forma net income (loss)	\$ (968)	\$ 2,160
Net income (loss) per common equivalent share:		
Basic – as reported	\$ (0.03)	\$ 0.12
Basic – pro forma	\$ (0.05)	\$ 0.11
Diluted – as reported	\$ (0.03)	\$ 0.12
Diluted – pro forma	\$ (0.05)	\$ 0.10

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On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. The statement supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS No. 123R requires all entities to recognize compensation expense in an amount equal to the fair-value of share-based payments. Upon adoption, after June 15, 2005, all employee stock option awards will be recognized as an expense in the Company's statement of operations, typically, over the related vesting period of the options. SFAS No. 123R requires use of fair value to measure share-based awards issued to employees, computed at the date of grant. Additionally, SFAS No. 123R requires companies to record compensation expense for the unvested portion of previously granted awards as they continue to vest, as calculated previously and included in the companies prior period pro forma disclosures under SFAS No. 123.

The Company will adopt SFAS No. 123R beginning with our fiscal 2005 fourth quarter, as required, and will adopt the standard using the modified prospective method requiring the company to record compensation expense for all awards granted after the date of adoption, and for the unvested portion of previously granted awards outstanding as of the date of adoption.

### 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 December 25, 2004		
	Income	Shares	Per Share
(in thousands, except per share amounts)			
Basic EPS:			
Net income	\$ 2,516	20,539	\$ 0.12
Effect of dilutive securities:			
Options to purchase common stock		572	—
Restricted Shares		67	—
Convertible preferred stock		86	—
Diluted EPS:			
Net income attributable to common shareholders	\$ 2,516	21,264	\$ 0.12

Options to purchase 2,118,666 shares of common stock at prices ranging from \$7.54 to \$38.75 per share were outstanding at December 25, 2004. For the three month period ended December 25, 2004, options to purchase 438,225 shares of common stock 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 convertible preferred stock totaling 86,404 were included in the computation of diluted EPS for the three month period ended December 25, 2004.

Options to purchase 2,418,547 shares of common stock at prices ranging from \$1.30 to \$33.94 per share were outstanding during the three-month period ended December 27, 2003, but were not included in the computation of diluted earnings per share because the assumed exercise would have been anti-dilutive in the period.

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### 4. 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	
	December 27, 2003	December 25, 2004
	(in thousands)	
Net sales:		
Garden Products	\$ 92,831	\$ 108,817
Pet Products	129,519	156,759
Total net sales	\$ 222,350	\$ 265,576
Income (loss) from operations:		
Garden Products	\$ (2,910)	\$ (811)
Pet Products	10,865	18,097
Corporate	(4,395)	(7,770)
Total income from operations	3,560	9,516
Interest expense—net	(3,906)	(5,195)
Other income	(715)	320
Income taxes	(416)	(1,485)
Net income (loss)	\$ (645)	\$ 2,516
Depreciation and amortization:		
Garden Products	\$ 1,389	\$ 1,457
Pet Products	3,066	2,788
Corporate	162	234
Total depreciation and amortization	\$ 4,617	\$ 4,479
	September 25, 2004	December 25, 2004
	(in thousands)	
Assets:		
Garden Products	\$ 330,362	\$ 332,938
Pet Products	245,212	248,828
Corporate	384,623	395,239
Total assets	\$ 960,197	\$ 977,005
Goodwill (included in corporate assets):		
Garden Products	\$ 165,506	\$ 165,506
Pet Products	172,878	174,582
Total goodwill	\$ 338,384	\$ 340,088

### 5. 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 or cash flows 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,



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*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. The Court has scheduled the trial to begin in April 2005.

During the course of discovery in this action, Central became 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. In April 2004, Herbert Axelrod failed to appear for his arraignment, and a federal warrant was issued for his arrest. Subsequently, Herbert Axelrod was arrested in Germany and extradited to the United States. In December 2004, Herbert Axelrod pled guilty to a criminal charge of aiding and abetting the filing of a false income tax return. Herbert Axelrod is currently being held in jail pending sentencing, which is scheduled for March 14, 2005. 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. Central intends to continue pursuing its claims against Mr. Axelrod. 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 appealed different aspects of the prior judgment and post-judgment orders but no date has yet been set for oral argument. In connection with the appeal, Central has paid approximately \$15 million into an escrow account, which is reported as restricted investments in the accompanying balance sheets as of September 25 and December 25, 2004.

*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 class action lawsuit has now been settled as to all parties, and has received Court approval. As part of the settlement, Central's liability insurers paid \$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. Four of the business interruption lawsuits have been settled for amounts totaling approximately \$680,000, paid by Central's insurers. 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 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

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\$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.

### **6. Shareholders' Equity**

As of December 25, 2004, the Company had entered into Restricted Stock Award Agreements with several employees. The agreements granted restricted stock awards for 100,000 shares of the Company's common stock and generally vest over five to seven years from the dates of grant. The Company recorded the fair value of the restricted stock awards of \$3.5 million as deferred compensation, a separate component of shareholders' equity, and is amortizing that amount on a straight-line basis over the vesting periods. The value of the restricted stock awards was based on the closing market price of the Company's common stock on the dates the awards were granted. The 100,000 restricted shares have been included in the calculation of diluted earnings per share for the period ended December 25, 2004.

### **7. 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:

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

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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 December 25, 2004**  
(in thousands)  
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 92,263	\$ 191,586	\$ (18,273)	\$ 265,576
Cost of products sold and occupancy	65,897	131,911	(18,273)	179,535
Gross profit	26,366	59,675	—	86,041
Selling, general and administrative expenses	25,798	50,727	—	76,525
Income from operations	568	8,948	—	9,516
Interest – net	(5,309)	114	—	(5,195)
Other income (expense)	(405)	85	—	(320)
Income (loss) before income taxes	(5,146)	9,147	—	4,001
Income taxes	1,966	(3,451)	—	(1,485)
Net income (loss)	(3,180)	5,696	—	2,516
Equity in undistributed income of guarantor subsidiaries	5,706	—	(5,706)	—
Net income (loss)	\$ 2,526	\$ 5,696	\$ (5,706)	\$ 2,516

**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**  
**Three Months Ended December 27, 2003**  
(in thousands)  
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 77,313	\$ 161,211	\$ (16,174)	\$ 222,350
Cost of products sold and occupancy	57,270	119,006	(15,997)	160,279
Gross profit	20,043	42,205	(177)	62,071
Selling, general and administrative expenses	21,984	36,527	—	58,511
Income (loss) from operations	(1,941)	5,678	(177)	3,560
Interest – net	(4,024)	118	—	(3,906)
Other expense	(564)	(151)	—	(715)
Income (loss) before income taxes	(6,529)	5,645	(177)	(1,061)
Income taxes	2,561	(2,214)	69	416
Net income (loss)	(3,968)	3,431	(108)	(645)
Equity in undistributed income of guarantor subsidiaries	3,323	—	(3,323)	—
Net income (loss)	\$ (645)	\$ 3,431	\$ (3,431)	\$ (645)

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**CONSOLIDATING CONDENSED BALANCE SHEET**  
December 25, 2004  
(in thousands)  
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>				
Cash and equivalents	\$ 7,360	\$ 6,740	\$ —	\$ 14,100
Restricted investments	15,066	—	—	15,066
Accounts receivable	46,363	110,683	(13,390)	143,656
Inventories	83,034	205,158	—	288,192
Prepaid expenses and other	10,625	8,093	—	18,718
<b>Total current assets</b>	<b>162,448</b>	<b>330,674</b>	<b>(13,390)</b>	<b>479,732</b>
Land, buildings, improvements and equipment, net	10,605	96,288	—	106,893
Goodwill	340,088	—	—	340,088
Investment in Guarantors	316,520	—	(316,520)	—
Deferred income taxes and other assets	48,855	17,974	(16,537)	50,292
<b>Total</b>	<b>\$ 878,516</b>	<b>\$ 444,936</b>	<b>\$ (346,447)</b>	<b>\$ 977,005</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 65,985	\$ 66,423	\$ (13,390)	\$ 119,018
Accrued expenses and other current liabilities	28,043	42,430	—	70,473
<b>Total current liabilities</b>	<b>94,028</b>	<b>108,853</b>	<b>(13,390)</b>	<b>189,491</b>
Long-term debt	294,296	—	—	294,296
Other long-term obligations	941	19,563	(16,537)	3,967
Convertible redeemable preferred stock	3,000	—	—	3,000
Shareholders' equity	486,251	316,520	(316,520)	486,251
<b>Total</b>	<b>\$ 878,516</b>	<b>\$ 444,936</b>	<b>\$ (346,447)</b>	<b>\$ 977,005</b>

**CONSOLIDATING CONDENSED BALANCE SHEET**  
September 27, 2004  
(in thousands)  
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>				
Cash and equivalents	\$ 5,028	\$ 7,193	\$ —	\$ 12,221
Restricted investments	14,936	—	—	14,936
Accounts receivable	50,540	146,388	(12,949)	183,979
Inventories	67,420	170,493	—	237,913
Prepaid expenses and other	8,291	7,520	—	15,811
<b>Total current assets</b>	<b>146,215</b>	<b>331,594</b>	<b>(12,949)</b>	<b>464,860</b>
Land, buildings, improvements and equipment, net	10,376	95,236	—	105,612
Goodwill	338,384	—	—	338,384
Investment in Guarantors	319,403	—	(319,403)	—
Deferred income taxes and other assets	49,735	18,143	(16,537)	51,341
<b>Total</b>	<b>\$ 864,113</b>	<b>\$ 444,973</b>	<b>\$ (348,889)</b>	<b>\$ 960,197</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 56,360	\$ 62,522	\$ (12,949)	\$ 105,933
Accrued expenses and other current liabilities	22,364	43,609	—	65,973
<b>Total current liabilities</b>	<b>78,724</b>	<b>106,131</b>	<b>(12,949)</b>	<b>171,906</b>
Long-term debt	304,775	—	—	304,775
Other long-term obligations	818	19,439	(16,537)	3,720
Convertible redeemable preferred stock	3,000	—	—	3,000
Shareholders' equity	476,796	319,403	(319,403)	476,796
<b>Total</b>	<b>\$ 864,113</b>	<b>\$ 444,973</b>	<b>\$ (348,889)</b>	<b>\$ 960,197</b>

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**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**  
**Three Months Ended December 25, 2004**  
(in thousands)  
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	\$ 8,381	\$ 12,498	\$ (5,706)	\$ 15,173
Expenditures for land, buildings, improvements and equipment	(1,191)	(4,372)	—	(5,563)
Restricted investments	(130)	—	—	(130)
Investment in guarantor subsidiaries	5,393	(11,099)	5,706	—
<b>Net cash provided (used) by investing activities</b>	<b>4,072</b>	<b>(15,471)</b>	<b>5,706</b>	<b>(5,693)</b>
Repayments under lines of credit, net	(10,000)	—	—	(10,000)
Payments on long-term debt	(250)	—	—	(250)
Proceeds from issuance of stock	2,329	—	—	2,329
Payments to reacquire stock	(528)	—	—	(528)
<b>Net cash provided (used) by financing activities</b>	<b>(8,449)</b>	<b>—</b>	<b>—</b>	<b>(8,449)</b>
Effect of exchange rates on cash	(1,672)	2,520	—	848
Net increase (decrease) in cash and equivalents	2,332	(453)	—	1,879
Cash and equivalents at beginning of period	5,028	7,193	—	12,221
<b>Cash and equivalents at end of period</b>	<b>\$ 7,360</b>	<b>\$ 6,740</b>	<b>\$ —</b>	<b>\$ 14,100</b>

**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**  
**Three Months Ended December 27, 2003**  
(in thousands)  
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	\$ 162	\$ 9,196	\$ (3,431)	\$ 5,927
Expenditures for land, buildings, improvements and equipment	(958)	(3,592)	—	(4,550)
Investments	(15,052)	—	—	(15,052)
Investment in guarantor subsidiaries	890	(4,321)	3,431	—
<b>Net cash provided (used) by investing activities</b>	<b>(15,120)</b>	<b>(7,913)</b>	<b>3,431</b>	<b>(19,602)</b>
Payments on long-term debt	(250)	—	—	(250)
Proceeds from issuance of stock	1,586	—	—	1,586
<b>Net cash provided (used) by financing activities</b>	<b>1,336</b>	<b>—</b>	<b>—</b>	<b>1,336</b>
Net increase (decrease) in cash and equivalents	(13,622)	1,283	—	(12,339)
Cash and equivalents at beginning of period	76,354	1,250	—	77,604
<b>Cash and equivalents at end of period</b>	<b>\$ 62,732</b>	<b>\$ 2,533</b>	<b>\$ —</b>	<b>\$ 65,265</b>

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### **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 \$50 billion U.S. lawn and garden and related supplies industry. Our pet products include pet bird and small animal 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, Four Paws, Kent Marine, Interpet and Energy Savers Unlimited. Our lawn and garden products include grass seed, wild bird food, weed and insect control products, decorative outdoor patio products, Christmas products and lighting and ant control products. These products are sold under a number of brand names, including Pennington, Norcal Pottery, New England Pottery, GKI/Bethlehem Lighting, Lilly Miller, Matthews Four Seasons, AMDRO and Grant's. In fiscal 2004, consolidated net sales were \$1.27 billion, of which our pet products segment, or Pet Products, accounted for \$568.9 million and our lawn and garden products segment, or Garden Products, accounted for \$697.5 million. In fiscal 2004, income from operations was \$82.1 million, of which Pet Products accounted for \$61.4 million and Garden Products accounted for \$42.9 million, before corporate expenses and eliminations of \$22.2 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 transitioned our company to a leading marketer and producer of branded products from a traditional pet and lawn and garden supplies distributor. We made 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, New England Pottery, Interpet, KRB Seed Company, (dba Budd's Seed), and Energy Savers Unlimited 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 \$959 million, or approximately 76% of total sales, in fiscal 2004. During this same period, our sales of other manufacturers' products have declined to approximately 24% of total sales, and our gross profit margins have improved from 13.6% in fiscal 1996 to 30.3% in fiscal 2004.

#### **Recent Developments**

##### **Universal Shelf Registration Statement**

In January 2005, we filed a \$300 million universal shelf registration statement on Form S-3 with the SEC, which was declared effective on February 2, 2005. The filing provides that we may offer and sell in one or more offerings up to \$300 million of any combination of the following securities: debt securities, subsidiary guarantees of debt securities, common stock, preferred stock, debt warrants and equity warrants. While we have no imminent intentions to draw upon this capacity, it is designed to give us maximum flexibility to pursue our strategic growth objectives utilizing any type of financial instrument if necessary.

##### **New Accounting Pronouncements**

###### **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

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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 December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. The statement supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS No. 123R requires all entities to recognize compensation expense in an amount equal to the fair-value of share-based payments. Upon adoption, after June 15, 2005, all employee stock option awards will be recognized as an expense in the Company's statement of operations, typically, over the related vesting period of the options. SFAS No. 123R requires use of fair value to measure share-based awards issued to employees, computed at the date of grant. Additionally, SFAS No. 123R requires companies to record compensation expense for the unvested portion of previously granted awards as they continue to vest, as calculated previously and included in the companies prior period pro forma disclosures under SFAS No. 123.

We will adopt SFAS No. 123R beginning with our fiscal 2005 fourth quarter, as required, and will adopt the standard using the modified prospective method requiring us to record compensation expense for all awards granted after the date of adoption, and for the unvested portion of previously granted awards outstanding as of the date of adoption.

We will recognize substantially more compensation expense in future periods as a result of adopting SFAS No. 123R and expensing the calculated fair value of employee stock options. Based on employee stock options outstanding at December 25, 2004, we will record additional compensation expense of approximately \$0.8 million, impacting fully diluted earnings per share by approximately \$0.03, in the fourth quarter of the fiscal year ending September 24, 2005, and \$0.08 per share for the fiscal year ending in 2006.

### **Critical Accounting Policies, Estimates and Judgments**

There have been no material changes to our critical accounting policies, estimates and assumptions or the judgments affecting the application of those accounting policies since our Annual Report on Form 10-K for the fiscal year ended September 25, 2004.

### **Results of Operations**

#### **Three Months Ended December 25, 2004 Compared with Three Months Ended December 27, 2003**

Net sales for the three months ended December 25, 2004 increased \$43.2 million, or 19.4%, to \$265.6 million from \$222.4 million for the three months ended December 27, 2003. Pet Products' net sales increased \$27.2 million, or 21.0%, to \$156.8 million for the three months ended December 25, 2004 from \$129.6 in the comparable fiscal 2003 period. Garden Products' net sales increased \$16.0 million, or 17.2%, to \$108.8 million for the three months ended December 25, 2004 from \$92.8 million in the comparable fiscal 2003 period. Our branded product sales increased \$38.4 million and sales of other manufacturers' products increased \$4.8 million. Our Pet Products' branded product sales increased \$22.6 million of which approximately \$15 million related to our recent acquisitions of Kent Marine, Interpet and ESU and approximately \$8 million related to increased organic brand sales. Our Garden Products' branded product sales increased \$15.8 million due primarily to the sales from New England Pottery, which was acquired in February 2004.

Gross profit for the three months ended December 25, 2004 increased \$23.9 million, or 38.6%, to \$86.0 million from \$62.1 million for the three months ended December 27, 2003. Gross profit increased \$9.7 million in Garden Products and \$14.2 million in Pet Products. Gross profit as a percentage of net sales increased to 32.4% for the three months ended December 25, 2004, from 27.9% for the three months ended December 27, 2003, as both Garden Products' and Pet Products' margins improved. The margin improvements were due primarily to the contributions from our fiscal year 2004 acquisitions of approximately \$13 million, increased grass seed margins of approximately \$2 million resulting from focusing on higher profit product and the resulting flow through of our organic sales increase.

Selling, general and administrative expenses increased \$18.0 million, or 30.8%, from \$58.5 million for the three months ended December 27, 2003 to \$76.5 million for the three months ended December 25, 2004. As a percentage of net sales, selling, general and administrative expenses increased to 28.8% for the three months ended December 25, 2004, compared to 26.3% in the comparable prior year period.

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Selling and delivery expenses increased \$9.0 million, or 31.7%, from \$28.4 million for the three months ended December 27, 2003 to \$37.4 million for the three months ended December 25, 2004. The increase was primarily attributable to the quarter's increased revenues and approximately \$1 million from increased fuel costs.

Facilities expense increased \$0.3 million to \$2.8 million for the three months ended December 25, 2004 from \$2.5 million for the three months ended December 27, 2003. The increase was primarily related to our fiscal 2004 acquisitions.

Warehouse and administrative expenses increased \$8.7 million, or 31.5%, from \$27.6 million for the three months ended December 27, 2003 to \$36.3 million for the three months ended December 25, 2004. Approximately \$4 million of the increase was due to our recent acquisitions, approximately \$1 million from employee compensation, including increased headcount, and approximately \$1 million to increased professional fees for projects, including Sarbanes-Oxley compliance.

Net interest expense for the three months ended December 25, 2004 increased \$1.3 million, or 33.3%, to \$5.2 million from \$3.9 million for the three months ended December 27, 2003. The increase was due primarily to an approximately \$50 million increased average total long-term debt balance during the fiscal 2005 quarter as compared to the prior year quarter, due to fiscal 2004 acquisitions that were made subsequent to the first quarter of fiscal 2004, and the changes in interest rates on our floating rate debt.

Other expense decreased \$0.4 million to \$0.3 million for the quarter ended December 25, 2004 from \$0.7 million for the quarter ended December 27, 2003. Other expense represents losses from equity method investments. Losses booked in the first quarter of the fiscal year from these investments are principally due to the seasonality of the businesses.

Our effective income tax rate for the quarter ended December 25, 2004 was 37.1% compared with 39.2% for the quarter ended December 27, 2003. The decreased rate reflects estimated state tax decreases and the impact of non-US tax rates at our U.K. based subsidiary.

## **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 sell 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 us to give extended credit terms to either our distributor or retailer customers. On the other hand, our lawn and garden businesses are highly seasonal with approximately 63% of Garden Products' aggregate sales occurring during the second and third fiscal quarters. For many manufacturers of garden products, this seasonality requires them to deliver large quantities of their product well ahead of the peak selling periods. To encourage distributors to carry large amounts of inventory, it has been industry practice for manufacturers to give extended credit terms and/or promotional discounts.

The primary sources of cash and equivalents for the three months ended December 25, 2004 were \$15.2 million in cash generated by operating activities partially offset by cash used in investing activities of \$5.7 million and cash used in financing activities of \$8.4 million. Net cash used in investing activities decreased \$13.9 million from the prior year quarter due to \$15 million paid into an escrow account in the fiscal quarter ended December 27, 2003, which is classified as restricted investments on the balance sheet, in connection with our appeal in the Scotts litigation. Financing activities provided net cash of \$1.3 million in the prior year quarter but used cash of \$8.4 million for the three months ended December 25, 2004, a decrease of \$9.7 million primarily due to \$10 million repayment on our revolving line of credit.



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At December 25, 2004, our total debt was \$295.3 million versus \$250.8 million at December 27, 2003, due to borrowings on our line of credit to finance our acquisitions in fiscal 2004 subsequent to the first quarter.

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 to include the option to borrow in Euros, Canadian Dollars and Pounds Sterling. In December 2004, we amended the facility to reduce the applicable interest rates on our term loan and revolver by 0.50%. Interest on the term loan is based on a rate equal to LIBOR + 1.75% or the prime rate plus 0.25%, 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 0.75% or LIBOR plus a margin which fluctuates from 1.25% to 2.25%, 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 requiring maintenance of minimum levels of interest coverage 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 December 25, 2004. This facility also requires the lenders' prior written consent to any material investments in or acquisitions of a business. The balance outstanding at December 25, 2004 under the \$125 million revolving credit facility was \$45.0 million, and the remaining available borrowing capacity was \$73.3 million, with \$6.7 million outstanding under certain letters of credit.

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 % 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. See Note 5 – "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 \$20 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 25, 2004 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 25, 2004.

### **Weather and Seasonality**

Historically, our sales of lawn and garden products have been influenced by weather and climate conditions in the markets we serve. Additionally, Garden Products' business has been highly seasonal. In fiscal 2004, 63% of Garden Products' net sales and 58% 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 2004 Annual Report filed on Form 10-K.

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### 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 5 “Contingencies” to the unaudited condensed consolidated financial statements in Part I – Item 1 of this report.

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

#### *Issuer Purchases of Equity Securities*

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
09/26/04 – 10/30/04	—	—	—	—
10/31/04 – 11/27/04	—	—	—	—
11/28/04 – 12/25/05	12,959(1)	\$ 40.73	—	—
Total	12,959(1)	\$ 40.73	—	—

(1) Represents a stock-for-stock exchange where an optionee delivered previously owned shares to satisfy the exercise price of options.

### Item 3. Defaults Upon Senior Securities

Not applicable

### Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

### Item 5. Other Information

Not applicable

### Item 6. Exhibits

- 10.2.5 Fifth Amendment to Credit Agreement dated December 17, 2004, between Central Garden & Pet Company and Canadian Imperial Bank of Commerce et al.
- 10.6.1\* Form of Nonstatutory Stock Option Agreement for Nonemployee Director Equity Incentive Plan.
- 10.6.2\* Form of Restricted Stock Agreement for Nonemployee Director Equity Incentive Plan.
- 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.

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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.

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\* Management contract or compensatory plan or arrangement.

**SIGNATURES**

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

CENTRAL GARDEN & PET COMPANY  
Registrant

Dated: February 3, 2005

/s/ GLENN W. NOVOTNY

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Glenn W. Novotny  
President and Chief Executive Officer

/s/ STUART W. BOOTH

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Stuart W. Booth  
Vice President and Chief Financial Officer

## CENTRAL GARDEN &amp; PET COMPANY

## FIFTH AMENDMENT

## TO CREDIT AGREEMENT

This **FIFTH AMENDMENT TO CREDIT AGREEMENT** (this “**Amendment**”) is dated as of December 17, 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 reduce the Applicable LIBOR Margin with respect to the Tranche B Term Loans and the Revolving Loans, (ii) to reduce the commitment fee with respect to the Revolving Loans, (iii) to permit certain acquisitions by the Borrower in addition to those provided for in the acquisition covenant, (iv) to provide for a premium for the holders of the Tranche B Term Loan in the event of future repricing amendments, 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. Applicable LIBOR Margin.** Subsection 1.1 of the Credit Agreement is hereby amended by deleting the definition of “Applicable LIBOR Margin” appearing therein in its entirety and substituting the following therefor:

“**Applicable LIBOR Margin**” means (a) with respect to Tranche B Term Loans that are LIBOR Loans, 1.75% per annum, and (b) with respect to Revolving Loans that are LIBOR Loans, a percentage per annum as set forth below opposite the applicable Consolidated Total Leverage Ratio:

<u>Consolidated Total Leverage Ratio</u>	<u>Applicable LIBOR Margin</u>	<u>Commitment Fee Percentage</u>
greater than or equal to 3.50:1.00	2.25%	0.500%
less than 3.50:1.00 but greater than or equal to 3.00:1.00	2.00%	0.375%
less than 3.00:1.00 but greater than or equal to 2.50:1.00	1.75%	0.375%
less than 2.50:1.00 but greater than or equal to 2.00:1.00	1.50%	0.250%
less than 2.00:1.00	1.25%	0.250%

**B. Commitment Fee Percentage.** Subsection 1.1 of the Credit Agreement is hereby further amended by deleting the definition of “Commitment Fee Percentage” appearing therein in its entirety and substituting the following therefor:

“ ‘**Commitment Fee Percentage**’ means, as of any date of determination, the amount set forth opposite the applicable Consolidated Total Leverage Ratio for the most recently ended Fiscal Quarter in the table appearing in the definition of ‘Applicable LIBOR Margin’ .”

**1.2 Amendments to Section 6: Borrower’s Affirmative Covenants**

Section 6 of the Credit Agreement is hereby amended by adding a new subsection 6.12 to the end thereof as follows:

**“6.12 Repricing Premium.**

If subsection 2.2 of this Agreement or the definitions of “Applicable LIBOR Margin” or “Applicable Base Rate Margin” are amended or modified in any manner that decreases the interest rate applicable to the Term Loans, Borrower shall pay a premium to Administrative Agent for the ratable benefit of the Lenders of the Term Loans equal to 1.00% of the principal amount of the Term Loans so repriced.”

**1.3 Amendments to Section 7: Borrower’s Negative Covenants**

Subsection 7.3 of the Credit Agreement is hereby amended by deleting clause (viii) thereof in its entirety and substituting the following therefor:

“(viii) in addition to acquisitions permitted pursuant to clause (v) and investments permitted pursuant to clause (vi) above, Borrower may (1) consummate the Kent Marine Acquisition and the New England Pottery

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Acquisition as described in the definitions thereof, (2) acquire substantially all of the assets of the global pet supplies business of Lawrence PLC and Interpet Limited pursuant to that certain Agreement of Purchase and Sale dated as of January 31, 2004, (3) acquire substantially all of the assets of KRB Seed Company, LLC on terms and conditions acceptable to Administrative Agent, and (4) acquire substantially all of the assets of Burden's Birds and Energy Savers Unlimited, Inc., on terms and conditions acceptable to Administrative Agent; 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 "**Fifth Amendment Effective Date**"):

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

**C.** On or before the Fifth 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 5 of the Credit Agreement are and will be true, correct and complete in all material respects on and as of the Fifth 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) guaranteed 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 Fifth 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 Fifth 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.

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(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: \_\_\_\_\_

Name: Stuart W. Booth  
Title: Vice President & Chief Financial Officer

**ALL-GLASS AQUARIUM CO., INC.  
CGP ACQUISITION CORP. I, LLC  
FOUR PAWS PRODUCTS LTD.  
GRANT LABORATORIES, INC.  
GRO TEC, INC.  
KAYTEE PRODUCTS, INC.  
MATTHEWS REDWOOD &  
NURSERY SUPPLY, INC.  
NEW ENGLAND POTTERY, LLC  
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: \_\_\_\_\_

Name: Stuart W. Booth  
Title: Vice President & Chief Financial Officer

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**CANADIAN IMPERIAL BANK OF COMMERCE,**  
as Administrative Agent

By: \_\_\_\_\_

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

**CONSENT OF LENDER**

Reference is hereby made to the Fifth Amendment to Credit Agreement (the "**Amendment**") dated as of December \_\_, 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 to date (as so amended, 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.

Dated: December \_\_, 2004

\_\_\_\_\_  
[Name of Institution]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**CENTRAL GARDEN & PET COMPANY  
NONEMPLOYEE DIRECTOR EQUITY INCENTIVE PLAN  
NONQUALIFIED STOCK OPTION AGREEMENT**

1. Grant of Option. Central Garden & Pet Company (the "Company") hereby grants to [Name of Director]. (the "Director") under the Central Garden & Pet Company Nonemployee Director Equity Incentive Plan (the "Plan"), as a separate incentive in connection with his or her service on the Board and not in lieu of any fees or other compensation for his or her services, a nonqualified stock option to purchase, on the terms and conditions set forth in this Agreement and the Plan, all or any part of an aggregate of [**\$100,000/Fair Market Value per Share**] shares of authorized but unissued or treasury shares of common stock, \$0.01 par value, of the Company ("Shares"). The option granted hereby is not intended to be an incentive stock option within the meaning of section 422 of the Code.

2. Exercise Price. The purchase price per Share for this option (the "Exercise Price") shall be **\$(Average of high and low selling price OR closing sale price on date of grant)**, which is the Fair Market Value per Share on [Insert Grant Date], 200[ ], the effective date of this Agreement (the "Grant Date").

3. Number of Shares. The number and class of Shares specified in Paragraph 1 above, and/or the Exercise Price, are subject to appropriate adjustment in the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, split-up, Share combination or other change in the corporate structure of the Company affecting the Shares; provided, however, that the number of Shares subject to this option shall always be a whole number. Subject to any required action of the stockholders of the Company, if the Company is the surviving corporation in any merger or consolidation, the option granted hereunder (to the extent that it is still outstanding) shall pertain to and apply to the securities to which a holder of the same number of Shares that are then subject to the option would have been entitled.

4. Commencement of Exercisability. The right to exercise this option shall accrue as to one-third (1/3) of the Shares subject thereto six (6) months from the Grant Date, an additional one-third (1/3) of the Shares subject thereto eighteen (18) months from the Grant date, and the final one-third (1/3) of the Shares subject thereto thirty (30) months from the Grant Date; provided, however, that, if prior to any such date, the Director terminates his service on the Board on account of death or permanent and total disability within the meaning of Section 22(e)(3) of the Code, the option shall become exercisable in full on the date of such termination of service.

5. Termination of Option. The right to exercise this option shall terminate forty-two (42) months from the Grant Date.

6. Persons Eligible to Exercise. This option shall be exercisable during the Director's lifetime only by the Director. This option is not transferable, except that the Director may transfer this option (a) by a valid beneficiary designation made in a form and manner acceptable to the Committee, or (b) by will or the applicable laws of descent and distribution.

7. Death of the Director. To the extent exercisable after the Director's death, this option shall be exercised only by the Director's designated beneficiary or beneficiaries, or if no beneficiary survives the Director, by the person or persons entitled to the option under the

Director's will, or if the Director fails to make a testamentary disposition of the option, his or her legal representative. Any such transferee must furnish the Company (a) written notice of his or her status as a transferee, (b) evidence satisfactory to the Company to establish the validity of the transfer of this option and compliance with any laws or regulations pertaining to such transfer, and (c) written acceptance of the terms and conditions of this option as set forth in this Agreement.

8. Exercise of Option. This option may be exercised by the person then entitled to do so as to any Shares which may then be purchased (a) by giving written notice of exercise to the Secretary of the Company (or his or her designee), specifying the number of full Shares to be purchased and accompanied by full payment of the Exercise Price thereof (and the amount of any income tax the Company is required by law to withhold by reason of such exercise), and (b) by giving satisfactory assurances in writing if requested by the Company, signed by the person exercising the option, that the Shares to be purchased upon such exercise are being purchased for investment and not with a view to the distribution thereof.

9. Suspension of Exercisability. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of the purchase of Shares hereunder, this option may not be exercised, in whole or in part, unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. The Company shall make reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

10. No Rights of Stockholder. Neither the Director nor any person claiming under or through the Director shall be or have any of the rights or privileges of a stockholder of the Company in respect of any of the Shares issuable pursuant to the exercise of this option, unless and until certificates representing such Shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Director (or such other person).

11. No Effect on Service. Nothing in this Agreement or the Plan shall interfere with or limit in any way the right of the Company to terminate the Director's service on the Board at any time, with or without cause.

12. Addresses for Notices. Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company, in care of its Secretary, 1340 Treat Blvd., Suite 600, Walnut Creek, CA 94597, or at such other address as the Company may hereafter designate in writing. Any notice to be given to the Director shall be addressed to the Director at the address set forth beneath the Director's signature hereto, or at such other address as the Director may hereafter designate in writing. Any such notice shall be deemed to have been duly given if and when enclosed in a properly sealed envelope, addressed as aforesaid, registered or certified and deposited, postage and registry fee prepaid, in a United States post office.

13. Option is Not Transferable. Except as otherwise provided herein, this option and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge,

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hypothecate or otherwise dispose of this option, or of any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this option and the rights and privileges conferred hereby immediately shall become null and void.

14. Binding Agreement. Subject to the limitation on the transferability of this option contained herein, this Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

15. Conditions to Exercise. The Exercise Price for this option must be paid in the legal tender of the United States. Exercise of this option will not be permitted until satisfactory arrangements have been made for the payment of the appropriate amount of withholding taxes (as determined by the Company).

16. Plan Governs. This Agreement is subject to all of the terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan shall govern. Capitalized terms and phrases used and not defined in this Agreement shall have the meaning set forth in the Plan.

17. Board Authority. The Board shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith. All actions taken and all interpretations and determinations made by the Board in such connection shall be final and binding upon the Director, the Company and all other interested persons, and shall be given the maximum deference permitted by law. No member of the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

18. Captions. The captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

19. Agreement Severable. In the event that any provision in this Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Agreement.



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IN WITNESS WHEREOF, the parties hereto have executed this Agreement, in duplicate, effective as of the Grant Date.

CENTRAL GARDEN & PET COMPANY

By \_\_\_\_\_

[Name]  
[Title]

\_\_\_\_\_  
[Name of Director]

\_\_\_\_\_  
Address

\_\_\_\_\_  
Social Security Number

**CENTRAL GARDEN & PET COMPANY  
NONEMPLOYEE DIRECTOR EQUITY INCENTIVE PLAN  
RESTRICTED STOCK AWARD AGREEMENT**

THIS AGREEMENT, made as of this [\_\_]th day of February, 200[\_\_\_], between CENTRAL GARDEN & PET COMPANY, a Delaware corporation (the "Company") and [Name of Director] (the "Director").

1. Grant of Award. The Company hereby grants to the Director under the Central Garden & Pet Company Nonemployee Director Equity Incentive Plan (the "Plan"), as a separate incentive in connection with his or her Board service and not in lieu of any salary or other compensation for his or her services, an award of [**\$10,000/Fair Market Value per Share**] shares of restricted common stock, \$.01 par value ("Common Stock") of the Company ("Restricted Shares") on the date hereof, subject to all of the terms and conditions in this Agreement and the Plan.

2. Shares Held in Escrow. Unless and until the Restricted Shares shall have vested in the manner set forth in paragraphs 4 or 5, such shares shall be issued in the name of the Director and held by the Secretary of the Company as escrow agent (the "Escrow Agent"), and shall not be sold, transferred or otherwise disposed of and shall not be pledged or otherwise hypothecated. The Company may instruct the transfer agent for its Common Stock to place a legend on the certificates representing the Restricted Shares or otherwise note its records as to the restrictions on transfer set forth in this Agreement. The certificate or certificates representing such shares shall be delivered by the Escrow Agent to the Director only after the shares have vested and all other terms and conditions in this Agreement have been satisfied.

3. Certificate Legend. In addition to any legends placed on the certificates pursuant to paragraph 2 of this Agreement, and until the restrictions on such shares shall have lapsed, each certificate representing Restricted Shares shall bear the following legend:

"The sale or other transfer of the shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in a Restricted Stock Award Agreement. A copy of such Restricted Stock Award Agreement may be obtained from the Secretary of Central Garden & Pet Company."

4. Restriction on Shares. Except as otherwise provided in this Agreement, the restrictions on the Restricted Shares shall lapse as to 100% of such shares six (6) months from the date of this Agreement. If, prior to such date, the Director terminates his or her service on the Board on account of death or permanent and total disability within the meaning of Section 22(e)(3) of the Internal Revenue Code, such restrictions shall lapse in full upon such termination of service.

5. Committee Discretion. The Board may decide, in its absolute discretion, to accelerate the lapse of any restrictions on the balance, or some lesser portion of the balance, of Restricted Shares at any time. If so accelerated, such restrictions shall be considered to have lapsed as of the date specified by the Board.

6. Withholding of Taxes. Notwithstanding anything in this Agreement to the contrary, no certificate representing Restricted Shares may be released from the escrow established pursuant to paragraph 2 of this Agreement unless and until the Director shall have delivered to the Company the full amount of any federal, state or local income or other taxes which the Company may be required by law to withhold with respect to such shares. Pursuant to such procedures as may be established by the Board in its discretion, the Director may elect to satisfy any such income tax withholding requirement by having the Company withhold shares of Common Stock otherwise deliverable to the Director or by delivering to the Company already-owned shares of Common Stock, provided that the Board, in its discretion, may disallow satisfaction of such withholding by the delivery or withholding of stock.

7. After the Death of the Director. Any distribution or delivery to be made to the Director under this Agreement shall, if the Director is then deceased, be made to the Director's designated beneficiary, or if no such beneficiary survives the Director, the person or persons entitled to such distribution or delivery under the Director's will or, if the Director shall fail to make testamentary disposition of such property, his or her legal representative. Any transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

8. Conditions to Issuance of Restricted Shares. The Restricted Shares deliverable to the Director may be either previously authorized but unissued shares or issued shares which have been reacquired by the Company. The Company shall not be required to issue any certificate or certificates for shares of stock hereunder prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and
- (b) The completion of any registration or other qualification of such shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Board shall, in its absolute discretion, deem necessary or advisable; and
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency, which the Board shall, in its absolute discretion, determine to be necessary or advisable; and
- (d) The lapse of such reasonable period of time following the date of grant of Restricted Shares as the Board may establish from time to time for reasons of administrative convenience.

9. No Rights of Stockholder. Neither the Director nor any person claiming under or through the Director shall be, or have any of the rights or privileges of, a stockholder of the

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Company in respect of any shares deliverable hereunder unless and until certificates representing such shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Director or the Escrow Agent. Except as provided in paragraph 10, after such issuance, recordation and delivery, the Director shall have all the rights of a stockholder of the Company with respect to voting such shares and receipt of dividends and distributions on such Shares.

10. Changes in Stock. In the event that as a result of a stock dividend, stock split, reclassification, recapitalization, combination of shares or the adjustment in capital stock of the Company or otherwise, or as a result of a merger, consolidation, spin-off or other reorganization, the Company's Common Stock shall be increased, reduced or otherwise changed, and by virtue of any such change the Director shall in his or her capacity as owner of Restricted Shares which have been awarded to him or her (the "Prior Shares") be entitled to new or additional or different shares of stock or securities (other than rights or warrants to purchase securities), such new or additional or different shares or securities shall thereupon be considered to be Restricted Shares and shall be subject to all of the restrictions and other conditions which were applicable to the Prior Shares pursuant to this Agreement. If the Director receives rights or warrants with respect to any Prior Shares, such rights or warrants may be held or exercised by the Director, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants shall be considered to be subject to all of the restrictions and other conditions which were applicable to the Prior Shares pursuant to this Agreement. The Committee in its absolute discretion at any time may accelerate the lapse of restrictions on all or any portion of such new or additional shares of stock or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants.

11. Committee Authority. The Board shall have the power to interpret this Agreement and to adopt such rules for the administration, interpretation and application of this Agreement as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Board in good faith shall be final and binding upon the Director, the Company and all other interested persons, and shall be given the maximum deference permitted by law. No member of the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to this Agreement.

12. Non-Transferability of Award. Except as otherwise herein provided, the shares of Restricted Shares herein granted and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of such award, or of any right or privilege conferred hereby, contrary to the provisions hereof, or upon any attempted sale under any execution, attachment or similar process upon the rights and privileges conferred hereby, such award and the rights and privileges conferred hereby shall immediately become null and void.

13. Binding Agreement. Subject to the limitation on the transferability of the Restricted Shares contained in paragraph 12, this Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

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14. Addresses for Notices. Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company, in care of its Secretary, at 1340 Treat Blvd., Suite 600, Walnut Creek, CA 94597 or at such other address as the Company may hereafter designate in writing. Any notice to be given to the Director shall be addressed to the Director at the address set forth beneath the Director's signature hereto, or at such other address as the Director may hereafter designate in writing. Any such notice shall be deemed to have been duly given if and when enclosed in a properly sealed envelope, addressed as aforesaid, registered or certified and deposited, postage and registry fee prepaid, in a United States post office.

15. Captions. The captions provided herein are for convenience only and are not to serve as a basis for any interpretation or construction of this Agreement.

16. Plan Governs. This Agreement is subject to all of the terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan shall govern. Capitalized terms and phrases used and not defined in this Agreement shall have the meaning set forth in the Plan.

17. Severability of Agreement. In the event that any provision in this Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Agreement.

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IN WITNESS WHEREOF, the parties have executed this Agreement, in duplicate, the day and year first above written.

CENTRAL GARDEN & PET COMPANY

By: \_\_\_\_\_

**[Officer]**  
**[Title]**

\_\_\_\_\_  
**[Name of Director]**

\_\_\_\_\_  
Address

\_\_\_\_\_  
Social Security Number

I, Glenn W. Novotny, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended December 25, 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: February 3, 2005

/s/ GLENN W. NOVOTNY

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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 December 25, 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: February 3, 2005

/s/ STUART W. BOOTH

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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 December 25, 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.

February 3, 2005

/s/ GLENN W. NOVOTNY

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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 December 25, 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.

February 3, 2005

/s/ STUART W. BOOTH

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Stuart W. Booth  
Chief Financial Officer