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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 25, 2005

or

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

For the transition period from _____ to _____

Commission File Number: 0-20242

CENTRAL GARDEN & PET COMPANY

Delaware
(State or other jurisdiction
of incorporation or organization)

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

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)

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 July 22, 2005	19,349,425
Class B Stock Outstanding as of July 22, 2005	1,654,462

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	3
	Condensed Consolidated Balance Sheets as of September 25, 2004 and June 25, 2005	3
	Condensed Consolidated Statements of Operations Three and Nine Months Ended June 26, 2004 and June 25, 2005	4
	Condensed Consolidated Statements of Cash Flows Nine Months Ended June 26, 2004 and June 25, 2005	5
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	20
Item 4.	Controls and Procedures	20

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	20
Item 2.	Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities	20
Item 3.	Defaults Upon Senior Securities	21
Item 4.	Submission of Matters to a Vote of Security Holders	21
Item 5.	Other Information	21
Item 6.	Exhibits	21

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; and
- 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	June 25, 2005
ASSETS		
Current assets:		
Cash and equivalents	\$ 12,221	\$ 9,910
Restricted investments	14,936	15,327
Accounts receivable (less allowance for doubtful accounts of \$12,348 and \$11,238)	183,979	207,108
Inventories	237,913	277,381
Prepaid expenses and other	15,811	21,016
	<u>464,860</u>	<u>530,742</u>
Land, buildings, improvements and equipment—net	105,612	112,255
Goodwill	338,384	362,923
Deferred income taxes and other assets	51,341	69,802
	<u>960,197</u>	<u>\$ 1,075,722</u>
Total	\$ 960,197	\$ 1,075,722
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 105,933	\$ 99,896
Accrued expenses	64,948	88,524
Current portion of long-term debt	1,025	1,772
	<u>171,906</u>	<u>190,192</u>
Long-term debt	304,775	343,669
Other long-term obligations	3,720	4,182
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 33,055,020 shares issued and 18,772,970 and 19,299,811 shares outstanding at September 25, 2004 and June 25, 2005	325	331
Additional paid-in capital	555,436	570,832
Retained earnings	65,710	112,781
Deferred compensation	—	(4,584)
Treasury stock	(144,827)	(145,355)
Accumulated other comprehensive income	136	658
	<u>476,796</u>	<u>534,679</u>
Total	\$ 960,197	\$ 1,075,722

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	June 26, 2004	June 25, 2005	June 26, 2004	June 25, 2005
Net sales	\$ 374,431	\$ 413,193	\$ 955,766	\$ 1,057,623
Cost of goods sold and occupancy	256,506	282,941	663,744	714,456
Gross profit	117,925	130,252	292,022	343,167
Selling, general and administrative expenses	86,183	92,037	222,363	255,760
Income from operations	31,742	38,215	69,659	87,407
Interest expense	(4,959)	(6,130)	(13,523)	(17,038)
Interest income	89	127	411	337
Other income	1,665	2,939	1,935	4,593
Income before income taxes	28,537	35,151	58,482	75,299
Income taxes	10,596	12,968	22,342	28,228
Net income	\$ 17,941	\$ 22,183	\$ 36,140	\$ 47,071
Income per common share:				
Basic	\$ 0.89	\$ 1.06	\$ 1.81	\$ 2.27
Diluted	\$ 0.86	\$ 1.03	\$ 1.74	\$ 2.19
Weighted average shares used in the computation of income per common share:				
Basic	20,086	20,890	19,968	20,735
Diluted	20,974	21,603	20,753	21,454

See notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	June 26, 2004	June 25, 2005
Cash flows from operating activities:		
Net income	\$ 36,140	\$ 47,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,625	14,161
Amortization of deferred compensation	—	629
Change in assets and liabilities (excluding effects of businesses acquired):		
Receivables	(21,183)	(15,886)
Inventories	(2,578)	(28,147)
Prepaid expenses and other assets	902	(6,746)
Accounts payable	(5,023)	(8,988)
Accrued expenses	21,896	27,761
Other long-term obligations	(21)	462
Net cash provided by operating activities	43,758	30,317
Cash flows from investing activities:		
Additions to land, buildings, improvements and equipment	(10,503)	(13,425)
Businesses acquired, net of cash acquired	(122,926)	(61,562)
Restricted investments	(15,307)	(391)
Net cash used in investing activities	(148,736)	(75,378)
Cash flows from financing activities:		
Repayments on revolving line of credit	(51,823)	(271,000)
Borrowings on revolving line of credit	91,823	236,000
Proceeds from issuance of long-term debt	—	75,000
Repayments of long-term debt	(777)	(966)
Proceeds from issuance of stock	6,075	4,140
Treasury stock repurchases	—	(528)
Net cash provided by financing activities	45,298	42,646
Effect of exchange rate changes on cash and equivalents	287	104
Net decrease in cash and equivalents	(59,393)	(2,311)
Cash and equivalents at beginning of period	77,604	12,221
Cash and equivalents at end of period	\$ 18,211	\$ 9,910
Supplemental information:		
Cash paid for interest	\$ 9,795	\$ 13,197
Cash paid for income taxes—net	\$ 8,323	\$ 12,369

See notes to condensed consolidated financial statements.

CENTRAL GARDEN & PET COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Nine Months Ended June 25, 2005
(unaudited)

1. Basis of Presentation

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the "Company" or "Central") as of June 25, 2005, the condensed consolidated statements of operations for the three and nine months ended June 26, 2004 and June 25, 2005 and the condensed consolidated statements of cash flows for the nine months ended June 26, 2004 and June 25, 2005 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 \$47.6 million for the nine month period ended June 25, 2005 and includes net earnings of \$47.1 million and foreign currency translation adjustments of \$0.5 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 and nine months ended June 25, 2005 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. The fair value of restricted stock awards is recognized as deferred compensation at the time of the grant as a separate component of shareholders' equity with amortization over the vesting period. 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 expenses are recognized. As required by Statement of Financial Accounting Standards No. 148 (SFAS No. 148), *Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123*, 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		Nine Months Ended	
	June 26, 2004	June 25, 2005	June 26, 2004	June 25, 2005
	(in thousands)		(in thousands)	
Net income, as reported	\$17,941	\$22,183	\$36,140	\$47,071
Deduct: Total stock-based employee compensation expense determined under fair value based method for awards, net of related tax effects	(447)	(494)	(1,210)	(1,331)
Pro forma net income	\$17,494	\$21,689	\$34,930	\$45,740
Net income per common equivalent share:				
Basic – as reported	\$ 0.89	\$ 1.06	\$ 1.81	\$ 2.27
Basic – pro forma	\$ 0.87	\$ 1.04	\$ 1.75	\$ 2.21
Diluted – as reported	\$ 0.86	\$ 1.03	\$ 1.74	\$ 2.19
Diluted – pro forma	\$ 0.83	\$ 1.00	\$ 1.68	\$ 2.13

On December 16, 2004, the Financial Accounting Standards Board ("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 at the beginning of our next fiscal year, 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 Company's prior pro forma disclosures under SFAS No. 148.

The Company will adopt SFAS No. 123R at the beginning of fiscal year 2006, 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 June 25, 2005			Nine Months Ended June 25, 2005		
	Income	Shares	Per Share	Income	Shares	Per Share
(in thousands, except per share amounts)						
Basic EPS:						
Net income	\$ 22,183	20,890	\$ 1.06	\$ 47,071	20,735	\$ 2.27
Effect of dilutive securities:						
Options to purchase common stock		498	(0.02)		533	(0.06)
Restricted shares		129	(0.01)		100	(0.01)
Convertible preferred stock		86	—		86	(0.01)
Diluted EPS:						
Net income attributable to common shareholders	\$ 22,183	21,603	\$ 1.03	\$ 47,071	21,454	\$ 2.19
(in thousands, except per share amounts)						
Basic EPS:						
Net income	\$ 17,941	20,086	\$ 0.89	\$ 36,140	19,968	\$ 1.81
Effect of dilutive securities:						
Options to purchase common stock		802	(0.03)		747	(0.07)
Convertible preferred stock		86	—		38	—
Diluted EPS:						
Net income attributable to common shareholders	\$ 17,941	20,974	\$ 0.86	\$ 36,140	20,753	\$ 1.74

Options to purchase 1,873,103 shares of common stock at prices ranging from \$7.54 to \$48.14 per share were outstanding at June 25, 2005 and options to purchase 2,238,380 shares of common stock at prices ranging from \$1.30 to \$38.41 per share were outstanding at June 26, 2004. For the three month periods ended June 25, 2005 and June 26, 2004, options to purchase 7,800 and 7,500 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because the option exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive. For the nine month periods ended June 25, 2005 and June 26, 2004, options to purchase 30,680 and 52,310 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because the option exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

Shares of common stock from the assumed conversion of the Company's convertible preferred stock, issued in February 2004, were also included in the computation of diluted EPS for the three and nine month periods ended June 25, 2005, and June 26, 2004.

4. Businesses Acquired

In May 2005, the Company acquired Pets International, Ltd., for approximately \$35 million in cash, with possible contingent performance based payments over the next seven months. Pets International is a leading supplier of innovative small animal and specialty pet supplies including homes, habitats, exercise toys, feeding devices, chews and other care and maintenance products marketed under the proprietary brand name “Super Pet®.” The Company has not yet finalized its allocation of the purchase price to the fair value of assets acquired. The consolidated financial statements include the operating results of Pets International, Ltd. from the date of acquisition.

In April 2005, the Company acquired the remaining 60% of Cedar Works, LLC (“Cedar Works”), for approximately \$4.5 million in cash. The Company previously acquired its 40% interest in November 1999 which had been accounted for as an equity method investment. Cedar Works is primarily engaged in the manufacture and sale of bird feeders, bird homes and mailboxes. The Company has not yet finalized its allocation of the purchase price to the fair value of assets acquired. The consolidated financial statements include the operating results of Cedar Works from the date of acquisition.

In February 2005, the Company acquired Gulfstream Home & Garden, Inc. (“Gulfstream”), including its 20% equity interest in Tech Pac, LLC (“Tech Pac”), for approximately \$21 million in cash, with possible contingent performance based payments over the next ten years. Gulfstream is the exclusive marketer of the garden product brands Sevin(R), Over’n Out!(R), and RooTone(R) through its relationship with Tech Pac, a supplier of insect control products. The Company has not yet finalized its allocation of the purchase price to the fair value of assets acquired. The consolidated financial statements include the results of Gulfstream from the date of acquisition.

5. Segment Information

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

	Three Months Ended		Nine Months Ended	
	June 26, 2004	June 25, 2005	June 26, 2004	June 25, 2005
	(in thousands)			
Net sales:				
Garden Products	\$228,568	\$249,771	\$535,385	\$ 579,035
Pet Products	145,863	163,422	420,381	478,588
Total net sales	374,431	413,193	955,766	1,057,623
Income from operations:				
Garden Products	16,716	21,402	40,680	44,814
Pet Products	19,654	23,580	46,214	65,264
Corporate	(4,628)	(6,767)	(17,235)	(22,671)
Total income from operations	31,742	38,215	69,659	87,407
Interest expense—net	(4,870)	(6,003)	(13,112)	(16,701)
Other income	1,665	2,939	1,935	4,593
Income taxes	(10,596)	(12,968)	(22,342)	(28,228)
Net income	\$ 17,941	\$ 22,183	\$ 36,140	\$ 47,071
Depreciation and amortization:				
Garden Products	\$ 1,463	\$ 1,775	\$ 4,193	\$ 4,682
Pet Products	2,968	3,127	8,822	8,877
Corporate	261	184	610	602
Total depreciation and amortization	\$ 4,692	\$ 5,086	\$ 13,625	\$ 14,161

	September 25, 2004	June 25, 2005
(in thousands)		
Assets:		
Garden Products	\$ 330,362	\$ 354,924
Pet Products	245,212	274,324
Corporate	384,623	446,474
Total assets	\$ 960,197	\$ 1,075,722
Goodwill (included in corporate assets):		
Garden Products	\$ 165,506	\$ 164,634
Pet Products	172,878	198,289
Total goodwill	\$ 338,384	\$ 362,923

6. Contingencies

Central does not believe that the outcome of the following legal proceedings will have a material adverse effect on its results of operations, liquidity or financial position taken as a whole. However, because these proceedings may raise complex factual and legal issues and are subject to uncertainties, Central cannot predict with assurance the outcome of these proceedings. Accordingly, adverse settlements or resolutions may occur and negatively impact earnings 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, *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 trial in this matter began on April 4, 2005 and is currently ongoing.

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 was based on actions taken by Herbert Axelrod before Central acquired TFH, charged 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 serving his sentence in jail for this crime. Central has information that Herbert Axelrod has liquidated and transferred assets out of the United States. The status of 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 of \$10.2 million is included in Other Assets in the consolidated financial statements of Central.

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 appealed different aspects of the prior judgment and post-judgment orders. In connection with the appeal, Central paid approximately \$15 million into an escrow account, which is reported as restricted investments in the accompanying balance sheets as of September 25, 2004 and June 25, 2005. On April 12, 2005, the Sixth Circuit Court of Appeals issued its decision affirming the district court's decisions on all but two issues. The Sixth Circuit determined that the district court had erred in allowing Scotts to recover prejudgment interest at 18% rather than 10% as to a portion of its claim. The Sixth Circuit also ruled that prejudgment interest accrued to the date of the revised judgment filed in September 2003 rather than the original judgment entered in May 2002. The case was remanded back to the district court for redetermination of the interest amount. In July 2005, the Company and Scotts reached agreement on the amount due, and all litigation with Scotts has now been resolved. The award amount has been paid to Scotts from the escrow proceeds which are reported as restricted investments in the accompanying balance sheets as of September 25, 2004 and June 25, 2005. This settlement was provided for in prior years and had no impact on current results.

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. The trial for the remaining cases is currently scheduled for March 2006. Four of the business interruption lawsuits have been settled for amounts totaling approximately \$680,000, paid by Central's insurers. The overall amount of the damages to all parties caused by the fire, and the overall amount of damages which Central may sustain as a result of the fire, have not been quantified. At the time of the fire, Central maintained property insurance covering losses to the leased premises, Central's inventory and equipment, and loss of business income. Central also maintained insurance providing \$51 million of coverage (with no deductible) against third party liability. Central believes that this insurance coverage will be available with respect to third party claims against Central if parties other than Central are not found responsible. The precise amount of the damages sustained in the fire, the ultimate determination of the parties responsible and the availability of insurance coverage are likely to depend on the outcome of complex litigation, involving numerous claimants, defendants and insurance companies.

7. 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 Parent financial results below. Those subsidiaries that are guarantors of the Notes are as follows:

- Four Paws Products Ltd.
- Grant Laboratories, Inc.
- Gulfstream Home & Garden, Inc.
- Interpet USA, LLC
- 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.), Cedar Works, LLC.)
- Pets International, Ltd.
- T.F.H. Publications, Inc.
- Wellmark International

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 June 25, 2005
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 152,246	\$ 304,742	\$ (43,795)	\$ 413,193
Cost of products sold and occupancy	114,449	212,287	(43,795)	282,941
Gross profit	37,797	92,455	—	130,252
Selling, general and administrative expenses	32,580	59,457	—	92,037
Income from operations	5,217	32,998	—	38,215
Interest – net	(6,038)	35	—	(6,003)
Other income	1,668	1,271	—	2,939
Income before income taxes	847	34,304	—	35,151
Income taxes	(321)	(12,982)	335	(12,968)
Net income	526	21,322	335	22,183
Equity in undistributed income of guarantor subsidiaries	21,657	—	\$ (21,657)	—
Net income (loss)	\$ 22,183	\$ 21,322	\$ (21,322)	\$ 22,183

**CONSOLIDATING CONDENSED STATEMENT OF
OPERATIONS**
Three Months Ended June 26, 2004
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 118,775	\$ 277,963	\$ (22,307)	\$ 374,431
Cost of products sold and occupancy	85,210	193,908	(22,612)	256,506
Gross profit	33,565	84,055	305	117,925
Selling, general and administrative expenses	30,816	55,367	—	86,183
Income from operations	2,749	28,688	305	31,742
Interest – net	(4,913)	43	—	(4,870)
Other income	774	891	—	1,665
Income (loss) before income taxes	(1,390)	29,622	305	28,537
Income taxes	521	(11,003)	(114)	(10,596)
Net income (loss)	(869)	18,619	191	17,941
Equity in undistributed income of guarantor subsidiaries	18,810	—	\$ (18,810)	—
Net income (loss)	\$ 17,941	\$ 18,619	\$ (18,619)	\$ 17,941

**CONSOLIDATING CONDENSED STATEMENT OF
OPERATIONS**
Nine Months Ended June 25, 2005
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 398,322	\$ 777,840	\$ (118,539)	\$ 1,057,623
Cost of products sold and occupancy	295,973	537,022	(118,539)	714,456
Gross profit	102,349	240,818	—	343,167
Selling, general and administrative expenses	89,991	165,769	—	255,760
Income from operations	12,358	75,049	—	87,407
Interest – net	(16,902)	201	—	(16,701)
Other income (expense)	2,255	2,338	—	4,593
Income (loss) before income taxes	(2,289)	77,588	—	75,299
Income taxes	873	(29,421)	320	(28,228)
Net income (loss)	(1,416)	48,167	320	47,071
Equity in undistributed income of guarantor subsidiaries	48,487	—	(48,487)	—
Net income (loss)	\$ 47,071	\$ 48,167	\$ (48,167)	\$ 47,071

**CONSOLIDATING CONDENSED STATEMENT OF
OPERATIONS**
Nine Months Ended June 26, 2004
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 314,463	\$ 706,945	\$ (65,642)	\$ 955,766
Cost of products sold and occupancy	228,950	499,983	(65,189)	663,744
Gross profit	85,513	206,962	(453)	292,022
Selling, general and administrative expenses	82,016	140,347	—	222,363
Income (loss) from operations	3,497	66,615	(453)	69,659
Interest – net	(13,221)	109	—	(13,112)
Other income (expense)	413	1,522	—	1,935
Income (loss) before income taxes	(9,311)	68,246	(453)	58,482
Income taxes	3,628	(26,153)	183	(22,342)
Net income (loss)	(5,683)	42,093	(270)	36,140
Equity in undistributed income of guarantor subsidiaries	41,823	—	(41,823)	—
Net income (loss)	\$ 36,140	\$ 42,093	\$ (42,093)	\$ 36,140

CONSOLIDATING CONDENSED BALANCE SHEET
June 25, 2005
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
Cash and equivalents	\$ 8,926	\$ 984	\$ —	\$ 9,910
Restricted investments	15,327	—	—	15,327
Accounts receivable	64,251	154,585	(11,728)	207,108
Inventories	81,596	195,785	—	277,381
Prepaid expenses and other	13,757	7,259	—	21,016
Total current assets	183,857	358,613	(11,728)	530,742
Land, buildings, improvements and equipment, net	10,548	101,707	—	112,255
Goodwill	362,923	—	—	362,923
Investment in guarantor subsidiaries	383,818	—	(383,818)	—
Deferred income taxes and other assets	52,061	34,278	(16,537)	69,802
Total	\$ 993,207	\$ 494,598	\$ (412,083)	\$ 1,075,722
LIABILITIES AND SHAREHOLDERS' EQUITY				
Accounts payable	\$ 64,131	\$ 47,493	\$ (11,728)	\$ 99,896
Accrued expenses and other current liabilities	46,657	43,639	—	90,296
Total current liabilities	110,788	91,132	(11,728)	190,192
Long-term debt	343,595	74	—	343,669
Other long-term obligations	1,145	19,574	(16,537)	4,182
Convertible redeemable preferred stock	3,000	—	—	3,000
Shareholders' equity	534,679	383,818	(383,818)	534,679
Total	\$ 993,207	\$ 494,598	\$ (412,083)	\$ 1,075,722

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

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
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
Total current assets	146,215	331,594	(12,949)	464,860
Land, buildings, improvements and equipment, net	10,376	95,236	—	105,612
Goodwill	338,384	—	—	338,384
Investment in guarantor subsidiaries	319,403	—	(319,403)	—
Deferred income taxes and other assets	49,735	18,143	(16,537)	51,341
Total	\$ 864,113	\$ 444,973	\$ (348,889)	\$ 960,197
LIABILITIES AND SHAREHOLDERS' EQUITY				
Accounts payable	\$ 56,360	\$ 62,522	\$ (12,949)	\$ 105,933
Accrued expenses and other current liabilities	22,364	43,609	—	65,973
Total current liabilities	78,724	106,131	(12,949)	171,906
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
Total	\$ 864,113	\$ 444,973	\$ (348,889)	\$ 960,197

**CONSOLIDATING CONDENSED STATEMENT OF
CASH FLOWS
Nine Months Ended June 25, 2005
(in thousands)
(unaudited)**

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net cash provided (used) by operating activities	\$ 83,671	\$ (5,187)	\$ (48,167)	\$ 30,317
Expenditures for land, buildings, improvements and equipment	3,498	(16,923)	—	(13,425)
Businesses acquired	(61,562)	—	—	(61,562)
Investments	(391)	—	—	(391)
Investment in guarantor subsidiaries	(63,893)	15,726	48,167	—
Net cash provided (used) by investing activities	(122,348)	(1,197)	48,167	(75,378)
Repayments on revolving line of credit	(35,000)	—	—	(35,000)
Payments on long-term debt	(1,037)	71	—	(966)
Proceeds from issuance of long-term debt	75,000	—	—	75,000
Proceeds from issuance of stock	4,140	—	—	4,140
Payments to reacquire stock	(528)	—	—	(528)
Net cash provided by financing activities	42,575	71	—	42,646
Effect of exchange rates on cash	—	104	—	104
Net increase (decrease) in cash and equivalents	3,898	(6,209)	—	(2,311)
Cash and equivalents at beginning of period	5,028	7,193	—	12,221
Cash and equivalents at end of period	\$ 8,926	\$ 984	\$ —	\$ 9,910

**CONSOLIDATING CONDENSED STATEMENT OF
CASH FLOWS
Nine Months Ended June 26, 2004
(in thousands)
(unaudited)**

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net cash provided (used) by operating activities	\$ 79,792	\$ 6,059	\$ (42,093)	\$ 43,758
Expenditures for land, buildings, improvements and equipment	(1,394)	(9,109)	—	(10,503)
Businesses acquired	(122,926)	—	—	(122,926)
Investments	(15,307)	—	—	(15,307)
Investment in guarantor subsidiaries	(49,649)	7,556	42,093	—
Net cash provided (used) by investing activities	(189,276)	(1,553)	42,093	(148,736)
Borrowings on revolving line of credit	(51,823)	—	—	(51,823)
Proceeds from long-term debt	91,823	—	—	91,823
Payments on long-term debt	(750)	(27)	—	(777)
Proceeds from issuance of stock	6,075	—	—	6,075
Net cash provided (used) by financing activities	45,325	(27)	—	45,298
Effect of exchange rates on cash	—	287	—	287
Net increase (decrease) in cash and equivalents	(64,159)	4,766	—	(59,393)
Cash and equivalents at beginning of period	76,354	1,250	—	77,604
Cash and equivalents at end of period	\$ 12,195	\$ 6,016	\$ —	\$ 18,211

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 Super Pet, 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; Kent Marine, New England Pottery, Interpet, KRB Seed Company (dba Budd 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

Acquisition of Pets International

In May 2005, the Company acquired Pets International, Ltd., for approximately \$35 million in cash, with possible contingent performance based payments over the next seven months. Pets International is a leading supplier of innovative small animal and specialty pet supplies including homes, habitats, exercise toys, feeding devices, chews and other care and maintenance products marketed under the proprietary brand name "Super Pet[®]." The consolidated financial statements include the operating results of Pets International, Ltd. from the date of acquisition.

Acquisition of Cedar Works

In April 2005, the Company acquired the remaining 60% of Cedar Works, LLC, for approximately \$4.5 million in cash. The Company previously acquired its 40% interest in November 1999 which had been accounted for as an equity method investment. Cedar Works is primarily engaged in the manufacture and sale of bird feeders, bird homes and mailboxes. The consolidated financial statements include the operating results of Cedar Works from the date of acquisition.

Acquisition of Gulfstream

In February 2005, the Company acquired Gulfstream Home & Garden, Inc. ("Gulfstream"), including its 20% equity interest in Tech Pac, L.L.C. ("Tech Pac"), for approximately \$21 million in cash, with possible contingent performance based payments over the next ten years. Gulfstream is the exclusive marketer of the garden product brands Sevin(R), Over'n Out!(R), and RooTone(R) through its relationship with Tech Pac, a supplier of insect control products. The consolidated financial statements include the results of Gulfstream from the date of acquisition.

Scott's Payment

In July 2005 the Company and Scotts reached agreement on the amount due and all litigation with Scotts has now been resolved. The award amount has been paid to Scotts from the escrow proceeds which are reported as restricted investments in the accompanying balance sheets as of September 25, 2004 and June 25, 2005. This settlement was provided for in prior years and had no impact on current results.

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 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, all employee stock option awards will be recognized as an expense in our 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 Company's prior period pro forma disclosures under SFAS No. 148.

SFAS 123R was originally effective for reporting periods that began after June 15, 2005. In April 2005, the SEC announced the adoption of a new rule allowing companies to implement SFAS 123R at the beginning of their next fiscal year that begins after June 15, 2005. We will adopt SFAS No. 123R effective September 25, 2005, 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 June 25, 2005, we will record additional compensation expense of approximately \$2 million, impacting fully diluted earnings per share by approximately \$0.07 per share for the 2006 fiscal year. Grants subsequent to June 25, 2005 and during fiscal 2006 would have further impact on fully diluted earnings per share.

Exchanges of Nonmonetary Assets

In December 2004, the FASB issued SFAS 153, *Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29* (SFAS 153). The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges in fiscal periods beginning after June 15, 2005. We do not believe that the adoption of SFAS 153 will have a material impact on our results of operations or financial position.

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 June 25, 2005 Compared with Three Months Ended June 26, 2004

Net sales for the three months ended June 25, 2005 increased \$38.8 million, or 10.4%, to \$413.2 million from \$374.4 million for the three months ended June 26, 2004. Pet Products' net sales increased \$17.5 million, or 12.0%, to \$163.4 million for the three months ended June 25, 2005 from \$145.9 million in the comparable fiscal 2004 period. Garden Products' net sales increased \$21.3 million, or 9.3%, to \$249.8 million for the three months ended June 25, 2005 from \$228.5 million in the comparable fiscal 2004 period. Our branded product sales increased \$37.3 million and sales of other manufacturers' products increased \$1.5 million. Our Pet Products' branded product sales increased \$14.3 million of which \$6.6 million was from recent acquisitions and the remainder representing organic growth. Our Garden Products' branded product sales increased \$23.0 million due primarily to increased organic sales and \$5.9 million from fiscal year 2005 acquisitions.

Gross profit for the three months ended June 25, 2005 increased \$12.3 million, or 10.4%, to \$130.2 million from \$117.9 million for the three months ended June 26, 2004. Gross profit increased \$3.3 million in Garden Products and \$9.0 million in Pet Products. The improvements were due primarily to contributions from acquisitions in the past year of approximately \$5 million, sales of branded products and improvement in our grass seed operations. Gross profit as a percentage of net sales was 31.5% for the three months ended June 25, 2005 and for the three months ended June 26, 2004.

Selling, general and administrative expenses increased \$5.8 million, or 6.8%, from \$86.2 million for the three months ended June 26, 2004 to \$92.0 million for the three months ended June 25, 2005. As a percentage of net sales, selling, general and administrative expenses decreased to 22.3% for the three months ended June 25, 2005, compared to 23.0% in the comparable prior year period.

Selling and delivery expenses increased \$2.2 million, or 4.5%, from \$49.0 million for the three months ended June 26, 2004 to \$51.2 million for the three months ended June 25, 2005. The increase was primarily attributable to \$1.5 million from acquisitions and from increased common carrier charges and increased fuel charges.

Facilities expense remained relatively flat, decreasing \$0.1 million to \$2.8 million for the three months ended June 25, 2005 from \$2.9 million for the three months ended June 26, 2004.

Warehouse and administrative expenses increased \$3.7 million, or 10.8%, from \$34.3 million for the three months ended June 26, 2004 to \$38.0 million for the three months ended June 25, 2005. The increase was primarily related to professional fees for litigation of \$2.4 million and Sarbanes-Oxley compliance of \$1.3 million.

Net interest expense for the three months ended June 25, 2005 increased \$1.1 million, or 23.3%, to \$6.0 million from \$4.9 million for the three months ended June 26, 2004. The increase was due primarily to increased average long-term debt balances during the fiscal 2005 quarter as compared to the prior year quarter, as a result of acquisitions made subsequent to the third quarter of fiscal 2004, and slightly higher interest rates on our floating rate debt.

Other income increased \$1.2 million to \$2.9 million for the quarter ended June 25, 2005 from \$1.7 million for the quarter ended June 26, 2004. Other income represents income from equity method investments. An equity investment acquired in fiscal 2005 contributed \$0.5 million of the increase. The remaining previously held equity investments also experienced more favorable results in the current quarter.

Our effective income tax rate for the quarter ended June 25, 2005 was 36.9% compared with 37.1% for the quarter ended June 26, 2004. The effective income tax rate is for the current quarter only and is not reflective of the rate applicable to the Company for the full fiscal year 2005. The effective tax rate was lower in the third quarter due to a one-time net tax benefit resulting from the favorable resolution of various tax issues plus the additional recognition of tax credits.

Nine Months Ended June 25, 2005
Compared with Nine Months Ended June 26, 2004

Net sales for the nine months ended June 25, 2005 increased \$101.8 million, or 10.7%, to \$1,057.6 million from \$955.8 million for the nine months ended June 26, 2004. Pet Products' net sales increased \$58.2 million, or 13.8%, to \$478.6 million for the nine months ended June 25, 2005 from \$420.4 million in the comparable fiscal 2004 period. Garden Products' net sales increased \$43.6 million, or 8.2%, to \$579.0 million for the nine months ended June 25, 2005 from \$535.4 million in the comparable fiscal 2004 period. Our branded product sales increased \$99.0 million and sales of other manufacturers' products increased \$2.8 million. Our Pet Products' branded product sales increased \$47.7 million of which approximately \$33.8 million related to acquisitions and approximately \$13.9 million related to increased organic brand sales. Our Garden Products' branded product sales increased \$51.4 of which \$32.7 million related to acquisitions and approximately \$18.8 million related to increased organic brand sales.

Gross profit for the nine months ended June 25, 2005 increased \$51.2 million, or 17.5%, to \$343.2 million from \$292.0 million for the nine months ended June 26, 2004. Gross profit increased \$16.7 million in Garden Products and \$34.5 million in Pet Products. Gross profit as a percentage of net sales increased to 32.4% for the nine months ended June 25, 2005, from 30.6% for the nine months ended June 26, 2004, as both Garden Products' and Pet Products' margins improved. The margin improvements were due primarily to the contributions from our acquisitions of approximately \$29 million, increased gross seed margins of approximately \$3 million resulting from focusing on higher profit product and the resulting flow through of our organic sales increase.

Selling, general and administrative expenses increased \$33.4 million, or 15.0%, from \$222.4 million for the nine months ended June 26, 2004 to \$255.8 million for the nine months ended June 25, 2005. As a percentage of net sales, selling, general and administrative expenses increased to 24.2% for the nine months ended June 25, 2005, compared to 23.3% in the comparable prior year period.

Selling and delivery expenses increased \$18.3 million, or 16.0%, from \$114.7 million for the nine months ended June 26, 2004 to \$133.0 million for the nine months ended June 25, 2005. The increase was primarily attributable to \$10 million from acquisitions subsequent to the third quarter of fiscal 2004 and increased common carrier and fuel costs.

Facilities expense remained relatively flat, increasing \$0.3 million to \$8.7 million for the nine months ended June 25, 2005 from \$8.4 million for the nine months ended June 26, 2004.

Warehouse and administrative expenses increased \$14.8 million, or 14.9%, from \$99.3 million for the nine months ended June 26, 2004 to \$114.1 million for the nine months ended June 25, 2005. Approximately \$9 million of the increase was due to recent acquisitions and professional fees of \$3.9 million related to Sarbanes-Oxley compliance and litigation.

Net interest expense for the nine months ended June 25, 2005 increased \$3.6 million, or 27.4%, to \$16.7 million from \$13.1 million for the nine months ended June 26, 2004. The increase was due primarily to increased average total long-term debt balances during the fiscal 2005 period as compared to the prior year period, resulting from acquisitions that were made subsequent to the third quarter of fiscal 2004, and slightly higher interest rates on our floating rate debt.

Other income increased \$2.7 million to \$4.6 million for the nine months ended June 25, 2005 from \$1.9 million for the nine months ended June 26, 2004. Other income represents income from equity method investments. While our investments performed better in the current year, the majority of the increase was related to one of our equity method investments being positively impacted by sales in the current fiscal year, originally expected in the next fiscal year, due to a change in the buying pattern of a customer. As such, it is possible there will be no earnings in fiscal year 2006 from this investment.

Our effective income tax rate for the nine months ended June 25, 2005 was 37.5% compared with 38.2% for the nine months ended June 26, 2004. The lower rate reflects a one-time net tax benefit and additional tax credits recognized in the fiscal quarter ended June 25, 2005 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 cash flows for the nine months ended June 25, 2005 were \$75.4 million in cash used in investing activities partially offset by \$42.6 million provided by financing activities and \$30.3 million of cash provided by operating activities. Net cash used in investing activities decreased \$73.3 million from the prior year due to a \$61.5 million decrease in cash used for acquisitions and \$15 million paid into an escrow account in the prior fiscal year, which is classified as restricted investments on the condensed consolidated balance sheet, in connection with our appeal in the Scotts litigation. Net cash provided by financing activities decreased \$2.7 million as both periods included significant borrowings by the company to finance seasonal working capital needs and to fund acquisitions.

At June 25, 2005, our total debt was \$345.4 million versus \$289.5 million at June 26, 2004, resulting from borrowings on our credit facility to finance our acquisitions since the third quarter of fiscal 2004.

We currently maintain a \$300 million senior secured credit facility consisting of a \$125 million revolving credit facility maturing in May 2008 and a \$175 million term loan maturing in May 2009. 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. In February 2005, we exercised an option contained in our credit agreement to borrow an additional \$75 million under our six year term loan. The total outstanding borrowings after the draw down under the term loan was approximately \$173.5 million. The term loan is payable in quarterly installments of \$437,500 with the balance payable in May 2009. 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 June 25, 2005. This facility also requires the lenders' prior written consent to any material investments in or acquisitions of a business. The balance outstanding at June 25, 2005 under the \$125 million revolving credit facility was \$20.0 million, and the remaining available borrowing capacity was \$96.6 million, with \$8.4 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 6 - "Contingencies" to our unaudited condensed consolidated financial statements. In July 2005, we reached agreement with Scotts on the amount due and all litigation with Scotts has now been resolved. The award amount has been paid to Scotts from the escrow proceeds which are reported as restricted investments in the accompanying balance sheets as of September 25, 2004 and June 25, 2005. The award amount had been previously accrued for.

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.

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 have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Not applicable.

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

- 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.

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: August 4, 2005

/s/ GLENN W. NOVOTNY

Glenn W. Novotny
President and Chief Executive Officer

/s/ STUART W. BOOTH

Stuart W. Booth
Vice President and Chief Financial Officer

I, Glenn W. Novotny, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended June 25, 2005 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 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 the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2005

/s/ GLENN W. NOVOTNY

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

I, Stuart W. Booth, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended June 25, 2005 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 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 the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2005

/s/ STUART W. BOOTH

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

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

In connection with the accompanying quarterly report on Form 10-Q of Central Garden & Pet Company for the quarter ended June 25, 2005 (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.

August 4, 2005

/s/ GLENN W. NOVOTNY

Glenn W. Novotny
Chief Executive Officer

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

In connection with the accompanying quarterly report on Form 10-Q of Central Garden & Pet Company for the quarter ended June 25, 2005 (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.

August 4, 2005

/s/ STUART W. BOOTH

Stuart W. Booth
Chief Financial Officer