

CENTRAL GARDEN & PET CO

Form 10-Q

May 06, 2010

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 27, 2010

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: 001-33268

CENTRAL GARDEN & PET COMPANY

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

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

Common Stock Outstanding as of April 30, 2010	17,049,574
Class A Common Stock Outstanding as of April 30, 2010	45,790,540
Class B Stock Outstanding as of April 30, 2010	1,652,262

Table of Contents**PART I. FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	4
	<u>Condensed Consolidated Balance Sheets as of March 28, 2009, March 27, 2010 and September 26, 2009</u>	4
	<u>Condensed Consolidated Statements of Operations Three and Six Months Ended March 28, 2009 and March 27, 2010</u>	5
	<u>Condensed Consolidated Statements of Cash Flows Six Months Ended March 28, 2009 and March 27, 2010</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4.	<u>Controls and Procedures</u>	29

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	29
Item 1A.	<u>Risk Factors</u>	29
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 3.	<u>Defaults Upon Senior Securities</u>	30
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	30
Item 5.	<u>Other Information</u>	31
Item 6.	<u>Exhibits</u>	31

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 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 26, 2009 including the factors described in the section entitled 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:

seasonality and fluctuations in our operating results and cash flow;

fluctuations in market prices for seeds and grains;

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

declines in consumer spending during economic downturns;

inflation, deflation and other adverse macro-economic conditions;

supply shortages in small animals and pet birds;

adverse weather conditions;

fluctuations in energy prices, fuel and related petrochemical costs;

Table of Contents

our ability to refinance our indebtedness on reasonable terms;

future reductions in our debt capacity in the event of a future deterioration in operating results;

access to and cost of additional capital;

dependence on a few customers for a significant portion of our business;

consolidation trends in the retail industry;

uncertainty about new product innovations and marketing programs;

competition in our industries;

risks associated with our acquisition strategy;

dependence upon our key executive officers;

implementation of a new enterprise resource planning information technology system;

potential environmental liabilities;

risk associated with international sourcing;

litigation and product liability claims;

the voting power associated with our Class B stock; and

potential dilution from issuance of authorized shares.

Table of Contents**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

	March 28, 2009	March 27, 2010	(See Note 1) September 26, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,545	\$ 27,037	\$ 85,668
Accounts receivable (less allowance for doubtful accounts of \$13,393, \$16,809 and \$18,014)	317,713	277,354	206,565
Inventories	380,156	330,570	284,834
Prepaid expenses and other	40,030	30,167	44,425
Total current assets	746,444	665,128	621,492
Land, buildings, improvements and equipment net	168,536	162,296	164,734
Goodwill	207,173	208,630	207,749
Other intangible assets net	105,520	101,007	103,366
Deferred income taxes and other assets	84,505	58,644	53,584
Total	\$ 1,312,178	\$ 1,195,705	\$ 1,150,925
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 137,558	\$ 147,698	\$ 108,836
Accrued expenses	94,571	88,573	82,143
Current portion of long-term debt	3,322	14,957	3,270
Total current liabilities	235,451	251,228	194,249
Long-term debt	543,629	400,171	404,815
Other long-term obligations	6,379	4,274	4,526
Shareholders equity:			
Common stock, \$.01 par value: 19,683,660, 17,050,384 and 18,777,155 shares outstanding at March 28, 2009, March 27, 2010 and September 26, 2009	197	171	188
Class A common stock, \$.01 par value: 48,381,234, 45,719,395 and 47,532,954 shares outstanding at March 28, 2009, March 27, 2010 and September 26, 2009	484	457	475
Class B stock, \$.01 par value: 1,652,262 shares outstanding	16	16	16
Additional paid-in capital	548,955	505,170	531,300
Accumulated earnings (deficit)	(23,627)	33,541	12,044
Accumulated other comprehensive income (loss)	(309)	403	1,062
Total Central Garden & Pet Company shareholders equity	525,716	539,758	545,085

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

Noncontrolling interest	1,003	274	2,250
Total shareholders' equity	526,719	540,032	547,335
Total	\$ 1,312,178	\$ 1,195,705	\$ 1,150,925

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	March 28, 2009	March 27, 2010	March 28, 2009	March 27, 2010
Net sales	\$ 476,425	\$ 441,936	\$ 768,967	\$ 711,172
Cost of goods sold and occupancy	315,872	280,747	522,933	462,214
Gross profit	160,553	161,189	246,034	248,958
Selling, general and administrative expenses	103,397	100,667	191,544	187,915
Income from operations	57,156	60,522	54,490	61,043
Interest expense	(5,751)	(9,814)	(12,635)	(14,758)
Interest income	270	1	602	11
Other income (expense)	(131)	(206)	(1,081)	386
Income before income taxes and noncontrolling interest	51,544	50,503	41,376	46,682
Income taxes	17,980	18,568	14,127	17,166
Income including noncontrolling interest	33,564	31,935	27,249	29,516
Net income attributable to noncontrolling interest	544	315	413	790
Net income attributable to Central Garden & Pet Company	\$ 33,020	\$ 31,620	\$ 26,836	\$ 28,726
Net income per share attributable to Central Garden & Pet Company:				
Basic	\$ 0.48	\$ 0.49	\$ 0.38	\$ 0.44
Diluted	\$ 0.47	\$ 0.49	\$ 0.38	\$ 0.43
Weighted average shares used in the computation of net income per share:				
Basic	69,122	63,988	70,122	65,408
Diluted	69,872	64,950	70,588	66,435

See notes to condensed consolidated financial statements.

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

	Six Months Ended	
	March 28, 2009	March 27, 2010
Cash flows from operating activities:		
Net income	\$ 27,249	\$ 29,516
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,696	14,463
Stock-based compensation	6,383	2,610
Excess tax benefits from stock-based awards	(74)	(422)
Deferred income taxes	(682)	(640)
Loss on extinguishment of debt, net of premium paid		1,122
Loss on sale of a business and equipment	435	161
Proceeds from interest rate swap termination, net of amounts reclassified into earnings	2,186	
Change in assets and liabilities:		
Accounts receivable	(58,301)	(71,206)
Inventories	(33,454)	(46,141)
Prepaid expenses and other assets	1,273	16,150
Accounts payable	3,607	38,254
Accrued expenses	10,526	6,854
Other long-term obligations	(658)	(251)
Net cash used in operating activities	(26,814)	(9,530)
Cash flows from investing activities:		
Additions to property and equipment	(7,110)	(9,426)
Business acquired, net of cash acquired	(4,799)	
Net cash used in investing activities	(11,909)	(9,426)
Cash flows from financing activities:		
Borrowings on revolving line of credit	374,000	
Repayments of revolving line of credit	(315,000)	
Proceeds from issuance of long-term debt		400,000
Repayments of long-term debt	(23,321)	(391,206)
Proceeds from issuance of common stock	109	722
Repurchase of common stock	(12,812)	(37,148)
Distribution to noncontrolling interest	(2,082)	(2,761)
Excess tax benefits from stock-based awards	74	422
Payment of financing costs	(75)	(9,468)
Net cash provided by (used in) financing activities	20,893	(39,439)
Effect of exchange rate changes on cash and cash equivalents	(554)	(236)
Net decrease in cash and cash equivalents	(18,384)	(58,631)
Cash and equivalents at beginning of period	26,929	85,668

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

Cash and equivalents at end of period	\$ 8,545	\$ 27,037
Supplemental information:		
Cash paid for interest	\$ 12,899	\$ 13,330
Non-cash financing activities		
Offset of subordinated notes with escrow	\$ 12,825	\$

See notes to condensed consolidated financial statements.

Table of Contents

CENTRAL GARDEN & PET COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 27, 2010

(unaudited)

1. Basis of Presentation

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the Company or Central) as of March 28, 2009 and March 27, 2010, the condensed consolidated statements of operations for the three and six months ended March 28, 2009 and March 27, 2010 and the condensed consolidated statements of cash flows for the six months ended March 27, 2010 and March 28, 2009 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. 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. See Note 7, Supplemental Equity and Comprehensive Income Information, for further detail.

Due to the seasonal nature of the Company's garden business, the results of operations for the three and six month periods ended March 27, 2010 and March 28, 2009 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 2009 Annual Report on Form 10-K, which has previously been filed with the Securities and Exchange Commission. The September 26, 2009 balance sheet presented herein was derived from the audited statements.

The Company has evaluated subsequent events through the filing date of this Form 10-Q, and has determined that there were no subsequent events to recognize or disclose in these financial statements.

Noncontrolling Interest

Noncontrolling interest in the Company's condensed consolidated financial statements represents the 20% interest not owned by Central in a consolidated subsidiary. Since the Company controls this subsidiary, its financial statements are fully consolidated with those of the Company, and the noncontrolling owner's 20% share of the subsidiary's net assets and results of operations is deducted and reported as noncontrolling interest on the consolidated balance sheets and as net income (loss) attributable to noncontrolling interest in the consolidated statements of operations. Effective September 27, 2009, the Company adopted new accounting guidance, as discussed further below, concerning the treatment of noncontrolling interests in consolidated financial statements. The new guidance changed the accounting and reporting for minority interests, which have been re-characterized as noncontrolling interests, as discussed above. Prior period financial statements and disclosures for existing minority interests have been restated in accordance with the new guidance. As of March 28, 2009, September 26, 2009, September 27, 2008 and September 29, 2007 the liability related to noncontrolling interest was \$1.0 million, \$2.3 million, \$2.7 million and \$1.8 million, respectively, and was included as mezzanine equity on the consolidated balance sheets. For the three and six months ended March 28, 2009 and the fiscal years ended September 26, 2009, September 27, 2008 and September 29, 2007, the net income (loss) attributable to noncontrolling interest was \$0.5 million, \$0.4 million, \$1.7 million, \$0.8 million and \$1.4 million, respectively, and was included as minority interest on the consolidated statements of operations. All other requirements of the new guidance will be applied prospectively. See Note 7, Supplemental Equity and Comprehensive Income Information, for additional information and revised disclosures required by the adoption of that guidance.

Derivative Instruments

The Company principally uses a combination of purchase orders and various short and long-term supply arrangements in connection with the purchase of raw materials, including certain commodities. The Company also enters into commodity futures and options contracts to reduce the volatility of price fluctuations of corn, which impacts the cost of raw materials. The Company's primary objective when entering into these derivative contracts is to achieve greater certainty with regard to the future price of commodities purchased for use in its supply chain. These derivative contracts are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of

those exposures. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments.

Table of Contents

The Company does not perform the assessments required to achieve hedge accounting for commodity derivative positions. Accordingly, the changes in the values of these derivatives are recorded currently in cost of sales in its condensed consolidated statements of operations. As of March 27, 2010, the notional amount of these contracts was not significant.

Recent Accounting Pronouncements

Accounting Standards Codification (ASC) Subtopic 820, Fair Value Measurements and Disclosures, provides a consistent definition of fair value that focuses on exit price, prioritizes the use of market-based inputs over entity-specific inputs for measuring fair value and establishes a three-level hierarchy for fair value measurements. On September 28, 2008, the Company adopted the applicable sections of ASC 820 for financial assets and financial liabilities and for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. At that time, the Company elected to defer adoption of ASC 820 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. On September 27, 2009, the Company adopted the sections of ASC 820 regarding nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Fair value measurements of non-financial assets and liabilities are used primarily in the impairment analyses of long-lived assets, goodwill and other intangible assets. The applicable sections of ASC 820 were applied prospectively. The adoption of the various sections of ASC 820 on September 28, 2008 and September 27, 2009 did not have a material impact on the Company's consolidated financial statements.

On September 27, 2009, the Company adopted the applicable sections of ASC 805, Business Combinations. ASC 805 provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed and any noncontrolling interest in the acquiree in a business combination. Additionally, this ASC provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805 amends the applicable sections of ASC 740, Income Taxes, such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies related to acquisitions made prior to September 27, 2009 also fall within the scope of these sections. The adoption of the applicable sections of this ASC may have an impact on the accounting for any future acquisitions or divestitures.

On September 27, 2009, the Company adopted the applicable sections of ASC 805, Business Combinations, that address accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. These applicable sections address application issues raised on the initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. These sections generally apply to assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope of ASC 450, Contingencies, if not acquired or assumed in a business combination. The adoption of these applicable sections may have an impact on the accounting for any future acquisitions or divestitures.

On September 27, 2009, the Company adopted ASC 810-10-65-1, Consolidation. This section requires reporting entities to present noncontrolling interests in any of its consolidated entities as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. The adoption did not have an impact on net earnings or equity available to the Company's shareholders, but impacted the presentation format of the Company's consolidated statements of operations and consolidated balance sheets as follows:

Consolidated net income (loss) was recast to include net income (loss) attributable to both the Company and noncontrolling interests in the condensed consolidated statements of operations.

Noncontrolling interests were reclassified from mezzanine equity to equity, separate from the Company's shareholders' equity, in the condensed consolidated balance sheets.

The condensed consolidated statements of cash flows now begin with net income (loss) (including noncontrolling interests) instead of net income (loss) attributable to Central Garden & Pet Company, with net income (loss) from noncontrolling interests no longer a reconciling item in arriving at net cash provided by operating activities.

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

Interim disclosures of consolidated shareholders' equity and comprehensive income have been added as part of the disclosure requirements.

On September 27, 2009, the Company adopted provisions of ASC 815, Derivatives and Hedging, which requires entities to disclose: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The adoption of the provisions of this ASC did not have a material impact on the Company's consolidated financial statements.

On September 27, 2009, the Company adopted the applicable sections of ASC 275, Risks and Uncertainties, and ASC 350, Intangibles Goodwill and Other, that address the determination of the useful life of intangible assets. These sections address the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The adoption of these applicable sections may have an impact on the accounting for intangible assets that are a part of any future acquisitions.

Table of Contents

On September 27, 2009, the Company adopted the applicable sections of ASC 260-10, Earnings Per Share, that address whether instruments granted in share-based payment transactions are participating securities. These sections conclude that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic earnings per share pursuant to the two-class method. The adoption of these applicable sections did not have a material impact on the Company's consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, Measuring Liabilities at Fair Value. ASU 2009-05 amends ASC 820, Fair Value Measurements, by providing additional guidance on determining the fair value of liabilities when a quoted price in an active market for an identical liability is not available. This ASU became effective for the Company on September 27, 2009 and did not have a significant impact on the measurement of its liabilities as of that date; however, the ASU may affect the fair value measurement of liabilities for future acquisitions and divestitures.

In December 2009, the FASB issued ASU No. 2009-16, Accounting for Transfers of Financial Assets. ASU 2009-16 amends the guidance on accounting for transfers of financial assets, including securitization transactions, where entities have continued exposure to risks related to transferred financial assets, and also expands the disclosure requirements for such transactions. This ASU will become effective for the Company on September 26, 2010. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In December 2009, the FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This ASU amends the guidance for consolidation of VIEs primarily related to the determination of the primary beneficiary of the VIE. This ASU will become effective for the Company on September 26, 2010. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-6, Improving Disclosures about Fair Value Measurements. This ASU requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring presentation on a gross basis information about purchases, sales, issuances and settlements in Level 3 fair value measurements. The ASU also clarifies existing disclosures regarding level of disaggregation, inputs and valuation techniques. The ASU is effective for interim and annual reporting periods beginning after December 15, 2009 and became effective for the Company on December 27, 2009. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010 and will be effective for the Company on September 25, 2011.

In February 2010, the FASB issued an additional accounting pronouncement that amended certain requirements for subsequent events (FASB ASC Topic 855), which requires an SEC filer to evaluate subsequent events through the date the financial statements are available to be issued and removes the previous requirement to disclose the date through which subsequent events have been evaluated. The amended amendments were effective on issuance of the final pronouncement. The adoption of this pronouncement had no effect on our consolidated financial statements.

2. Fair Value Measurements

ASC 820 establishes a single authoritative definition of fair value, a framework for measuring fair value and expands disclosure of fair value measurements. ASC 820 requires financial assets and liabilities to be categorized based on the inputs used to calculate their fair values as follows:

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

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the asset or liability, which reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company had no significant financial assets or liabilities on the balance sheet that were measured at fair value as of March 27, 2010.

In February 2009, the Company's \$75 million pay-floating interest rate swap was terminated prior to its maturity by the counterparty in accordance with the terms of the interest rate swap agreement. Prior to its termination, the swap was measured under Level 2 inputs in the fair value hierarchy. As a result of this swap termination, the Company received cash proceeds and realized a settlement gain of \$2.3 million that

was recorded as an adjustment to the carrying amount of the related debt. In conjunction with the

Table of Contents

tender offer and purchase of our 9.125% senior subordinated notes, the remaining unrecognized gain on the pay-floating interest rate swap was recognized and included as part of the loss on extinguishment of debt included in interest expense on the condensed consolidated statements of operations. See Note 6, Long Term Debt, for further information.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company measures certain non-financial assets and liabilities, including long-lived assets, goodwill and intangible assets, at fair value on a non-recurring basis. Fair value measurements of non-financial assets and non-financial liabilities are used primarily in the impairment analyses of long-lived assets, goodwill and other intangible assets. During the period ended March 27, 2010, the Company was not required to measure any significant non-financial assets and liabilities at fair value.

3. Financial Instruments

The Company's financial instruments include cash and equivalents, accounts receivable and payable, short-term borrowings, and accrued liabilities. The carrying amount of these instruments approximates fair value because of their short-term nature.

The carrying value of the Company's remaining outstanding 9.125% senior subordinated notes due 2013 (2013 Notes) as of March 27, 2010 was \$14.7 million. The remaining outstanding 2013 notes were redeemed by the Company on April 21, 2010 for \$14.9 million, which includes a redemption premium of \$0.2 million.

The estimated fair value of the Company's \$400 million 8.25 % senior subordinated notes due 2018 as of March 27, 2010 was \$407.0 million, compared to a carrying value of \$400.0 million. The estimated fair value is based on quoted market prices for these instruments.

4. Goodwill

The Company accounts for goodwill in accordance with ASC 350, Intangibles - Goodwill and Other, and tests goodwill for impairment annually, or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This assessment involves the use of significant accounting judgments and estimates as to future operating results and discount rates. Changes in estimates or use of different assumptions could produce significantly different results. An impairment loss is generally recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company uses discounted cash flow analysis to estimate the fair value of our reporting units. The Company's goodwill impairment analysis also includes a comparison of the aggregate estimated fair value of all four reporting units to the Company's total market capitalization.

5. Other Intangible Assets

The following table summarizes the components of gross and net acquired intangible assets:

	Gross	Accumulated Amortization (in millions)	Impairment	Net Carrying Value
March 27, 2010				
Marketing-related intangible assets - amortizable	\$ 12.3	\$ (4.4)	\$	\$ 7.9
Marketing-related intangible assets - nonamortizable	59.6		(4.9)	54.7
Total	71.9	(4.4)	(4.9)	62.6
Customer-related intangible assets - amortizable	41.6	(9.7)		31.9
Customer-related intangible assets - nonamortizable				
Total	41.6	(9.7)		31.9
Other acquired intangible assets - amortizable	9.2	(2.7)		6.5

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

Other acquired intangible assets	nonamortizable	1.2		(1.2)	
Total		10.4	(2.7)	(1.2)	6.5
Total other intangible assets		\$ 123.9	\$ (16.8)	\$ (6.1)	\$ 101.0

Table of Contents

March 28, 2009						
Marketing-related intangible assets	amortizable		\$ 10.5	\$ (3.2)	\$ 7.3	
Marketing-related intangible assets	nonamortizable		61.4	(4.9)	56.5	
Total			71.9	(3.2)	(4.9)	63.8
Customer-related intangible assets	amortizable		41.6	(7.5)	34.1	
Customer-related intangible assets	nonamortizable					
Total			41.6	(7.5)	34.1	
Other acquired intangible assets	amortizable		9.2	(1.6)	7.6	
Other acquired intangible assets	nonamortizable		1.2	(1.2)		
Total			10.4	(1.6)	(1.2)	7.6
Total other intangible assets			\$ 123.9	\$ (12.3)	\$ (6.1)	\$ 105.5
September 26, 2009						
Marketing-related intangible assets	amortizable		\$ 10.5	\$ (3.6)	\$ 6.9	
Marketing-related intangible assets	nonamortizable		61.4	(4.9)	56.5	
Total			71.9	(3.6)	(4.9)	63.4
Customer-related intangible assets	amortizable		41.6	(8.7)	32.9	
Customer-related intangible assets	nonamortizable					
Total			41.6	(8.7)	32.9	
Other acquired intangible assets	amortizable		9.2	(2.1)	7.1	
Other acquired intangible assets	nonamortizable		1.2	(1.2)		
Total			10.4	(2.1)	(1.2)	7.1
Total other intangible assets			\$ 123.9	\$ (14.4)	\$ (6.1)	\$ 103.4

Other intangible assets acquired include contract-based and technology-based intangible assets.

The Company evaluates long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The Company evaluates indefinite-lived intangible assets on an annual basis, and no impairment of its indefinite-lived intangible assets was indicated during its fiscal 2009 review. Other factors indicating the carrying value of the Company's amortizable intangible assets may not be recoverable were not present during fiscal 2009 or the first six months of fiscal 2010, and accordingly, no impairment charges were recognized during fiscal 2009 or fiscal 2010. In fiscal 2008, indicators of impairment were identified within the Garden Products segment related to current operating losses in certain operations. Accordingly, the Company recognized a \$6.1 million impairment charge related to certain trade names.

The Company is currently amortizing its acquired intangible assets with definite lives over periods ranging from 1 to 25 years; over weighted average lives of 12 years for marketing-related intangibles, 22 years for customer-related intangibles and nine years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately \$1.1 million and \$1.0 million, and \$2.3 million and \$2.0 million, for the three and six month periods ended March 27, 2010 and March 28, 2009, respectively, and is classified within operating expenses in the condensed consolidated statements of operations. Estimated annual amortization expense related to acquired intangible assets in each of the succeeding five years is estimated to be approximately \$4 million per year from fiscal 2010 through fiscal 2014.

Table of Contents**6. Long-Term Debt**

Long-term debt consists of the following:

	March 27, 2010	September 26, 2009
	(in thousands)	
Senior subordinated notes, interest at 8.25%, payable semi-annually, principal due March 2018	\$ 400,000	
Senior subordinated notes, interest at 9.125% payable semi-annually, principal due February 2013	14,718	137,175
Term loan, interest at LIBOR + 1.50% or the prime rate plus 0.50%, quarterly principal payments of \$750,000 remaining balance due September 2012		268,602
Revolving credit facility, interest at prime plus 0% to 0.25% or LIBOR + 0.75% to 1.375%, final maturity February 2011		
Unamortized deferred gain on pay-floating interest rate swap termination, maturing February 2013		1,901
Other notes payable	410	407
Total	415,128	408,085
Less current portion	(14,957)	(3,270)
Long-term portion	\$ 400,171	\$ 404,815

Senior Credit Facility

As of March 27, 2010, the Company has a \$350 million senior secured revolving credit facility maturing in February 2011 (the Credit Facility). There was no outstanding balance at March 27, 2010 under the Credit Facility. There were \$18.5 million of letters of credit outstanding. After giving effect to the financial covenants in the credit agreement, the remaining potential borrowing capacity was \$331.5 million.

Interest on the Credit Facility is based, at the Company's option, on a rate equal to prime plus a margin, which fluctuates from 0% to 0.375%, or LIBOR plus a margin, which fluctuates from 0.75% to 1.50%, determined quarterly based on consolidated total debt to consolidated EBITDA for the most recent trailing 12-month period. As of March 27, 2010, the applicable interest rate on the Credit Facility related to base rate borrowings was 3.38%, and the applicable interest rate related to LIBOR rate borrowings was 1.75%.

The Credit Facility is secured by substantially all of the Company's assets and contains certain financial covenants which require the Company to maintain minimum levels of interest coverage and maximum levels of total debt to EBITDA and that restrict the Company's ability to repurchase its stock, make investments in or acquisitions of other businesses and pay dividends above certain levels over the life of the Credit Facility. Under the terms of the Company's Credit Facility, it may make restricted payments, including cash dividends and stock repurchases, in an aggregate amount not to exceed \$75 million over the life of the Credit Facility; if the total leverage ratio for the fiscal quarter most recently ended is less than 3.0 to 1.0, the maximum restricted payment amount will be increased to \$100 million over the life of the Credit Facility. Apart from the covenants limiting restricted payments and capital expenditures, the Credit Facility does not restrict the use of retained earnings or net income. The Company was in compliance with all financial covenants as of March 27, 2010.

Senior Subordinated Notes and Debt Refinancing

On March 8, 2010, the Company issued \$400 million aggregate principal amount of 8.25% senior subordinated notes due March 1, 2018 (the 2018 Notes). The Company used the proceeds together with available cash to purchase its outstanding \$135.3 million aggregate principal amount of 9.125% senior subordinated notes due February 1, 2013 (the 2013 Notes), including accrued interest, to repay the \$267.1 million outstanding under its senior term loan maturing February 2012 and pay fees and expenses related to the offering. The Company received tenders and consents from the holders of \$135.3 million of its 2013 Notes, including \$12.8 million held in escrow for the benefit of the Company, which was previously recorded as a reduction of debt for accounting purposes against the Company's 2013 Notes. The remaining \$14.7 million of 2013 Notes on the condensed consolidated balance sheets as of March 27, 2010 were redeemed on April 21, 2010.

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

The Company incurred approximately \$9.5 million of debt issuance costs in conjunction with these transactions, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs will be amortized over the term of the 2018 Notes.

Table of Contents

As a result of this debt refinancing, the Company incurred a pre-tax loss of \$3.2 million, comprised of the unamortized deferred financing costs related to the 2013 Notes and the retired term loan, the tender call premium, consent fees and the unamortized gain on the swap termination related to the 2013 Notes. The amount is included in interest expense in the condensed consolidated statements of operations.

The 2018 Notes require semiannual interest payments, which commence on September 1, 2010. The 2018 Notes are unsecured senior subordinated obligations and are subordinated to all of the Company's existing and future senior debt, including the Company's Credit Facility. The obligations under the 2018 Notes are fully and unconditionally guaranteed on a senior subordinated basis by each of the Company's existing and future domestic restricted subsidiaries with certain exceptions. The guarantees are general unsecured senior subordinated obligations of the guarantors and are subordinated to all existing and future senior debt of the guarantors.

The Company may redeem some or all of the 2018 Notes at any time prior to March 1, 2014 at the principal amount plus a make whole premium. The Company may redeem some or all of the 2018 Notes at any time on or after March 1, 2014 for 104.125%, after March 1, 2015 for 102.063% and after March 1, 2016 for 100%, plus accrued and unpaid interest. Additionally, at any time prior to March 1, 2013 the Company may redeem up to 35% of the 2018 Notes with any proceeds the Company receives from certain equity offerings at a redemption price of 108.25% of the principal amount, plus accrued and unpaid interest. The holders of the 2018 Notes have the right to require the Company to repurchase all or a portion of the 2018 Notes at a purchase price equal to 101% of the principal amount of the notes repurchased, plus accrued and unpaid interest upon the occurrence of a change of control.

The 2018 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions.

7. Supplemental Equity and Comprehensive Income Information

The following table summarizes the allocation of total comprehensive income between controlling and noncontrolling interests for the six months ended March 27, 2010 and March 28, 2009:

	Six Months Ended March 27, 2010		
	Controlling Interest	Noncontrolling Interest (in thousands)	Total
Net income	\$ 28,726	\$ 790	\$ 29,516
Other comprehensive loss:			
Foreign currency translation	(659)		(659)
Total comprehensive income	\$ 28,067	\$ 790	\$ 28,857

	Six Months Ended March 28, 2009		
	Controlling Interest	Noncontrolling Interest (in thousands)	Total
Net income	\$ 26,836	\$ 413	\$ 27,249
Other comprehensive loss:			
Foreign currency translation	(3,509)		(3,509)
Total comprehensive income	\$ 23,327	\$ 413	\$ 23,740

The following table provides a summary of the changes in the carrying amounts of shareholders' equity attributable to controlling interest and noncontrolling interest for the six months ended March 27, 2010 and March 28, 2009:

Table of Contents

	Controlling Interest					Accumulated Other Comprehensive Income	Total	Noncontrolling Interest	Total
	Common Stock	Class A Common Stock	Class B Stock	Additional Paid In Capital	Retained Earnings (in thousands)				
Balance September 26, 2009	\$ 188	\$ 475	\$ 16	\$ 531,300	\$ 12,044	\$ 1,062	\$ 545,085	\$ 2,250	\$ 547,335
Comprehensive income (loss)					28,726	(659)	28,067	790	28,857
Stock based compensation				1,679			1,679		1,679
Restricted share activity				(171)			(171)		(171)
Issuance of common stock		1		1,051			1,052		1,052
Repurchase of common stock	(17)	(19)		(29,111)	(7,229)		(36,376)		(36,376)
Distributions to noncontrolling interest								(2,761)	(2,761)
Other								(5)	(5)
Tax benefit on stock option exercise				422			422		422
Balance March 27, 2010	\$ 171	\$ 457	\$ 16	\$ 505,170	\$ 33,541	\$ 403	\$ 539,758	\$ 274	\$ 540,032

	Controlling Interest					Accumulated Other Comprehensive Income	Total	Noncontrolling Interest	Total
	Common Stock	Class A Common Stock	Class B Stock	Additional Paid In Capital	Retained Earnings (Deficit) (in thousands)				
Balance September 27, 2008	\$ 210	\$ 485	\$ 16	\$ 555,310	\$ (50,463)	\$ 3,200	\$ 508,758	\$ 2,667	\$ 511,425
Comprehensive income (loss)					26,836	(3,509)	23,327	413	23,740
Stock based compensation				3,744			3,744		3,744
Restricted share activity				(163)			(163)		(163)
Issuance of common stock		7		1,058			1,065		1,065
Repurchase of common stock	(13)	(8)		(11,067)			(11,088)		(11,088)
Distributions to noncontrolling interest								(2,082)	(2,082)
Tax benefit on stock option exercise				73			73		73
Other								5	5
Balance March 28, 2009	\$ 197	\$ 484	\$ 16	\$ 548,955	\$ (23,627)	\$ (309)	\$ 525,716	\$ 1,003	\$ 526,719

8. Stock-Based Compensation

The Company recognized share-based compensation expense of \$2.6 million and \$6.4 million for the six month periods ended March 27, 2010 and March 28, 2009, respectively, as a component of selling, general and administrative expenses. The tax benefit associated with share-based compensation expense for the six month periods ended March 27, 2010 and March 28, 2009 was \$1.0 million and \$2.4 million, respectively.

9. Earnings per Share

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

Three Months Ended
March 27, 2010

Six Months Ended
March 27, 2010

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

	Income	Shares	Per Share	Income	Shares	Per Share
	(in thousands, except per share amounts)					
Basic EPS:						
Net income available to common shareholders	\$ 31,620	63,988	\$ 0.49	\$ 28,726	65,408	\$ 0.44
Effect of dilutive securities:						
Options to purchase common stock		698			736	(0.01)
Restricted shares		264			291	
Diluted EPS:						
Net income available to common shareholders	\$ 31,620	64,950	\$ 0.49	\$ 28,726	66,435	\$ 0.43

Table of Contents

	Three Months Ended March 28, 2009			Six Months Ended March 28, 2009		
	Income	Shares	Per Share	Income (Loss)	Shares	Per Share
Basic EPS:						
Net income available to common shareholders	\$ 33,020	69,122	\$ 0.48	\$ 26,836	70,122	\$ 0.38
Effect of dilutive securities:						
Options to purchase common stock		335			41	
Restricted shares		415	(0.01)		425	
Diluted EPS:						
Net income available to common shareholders	\$ 33,020	69,872	\$ 0.47	\$ 26,836	70,588	\$ 0.38

Options to purchase 10.1 million shares of common stock at prices ranging from \$4.26 to \$17.99 per share were outstanding at March 27, 2010 and options to purchase 7.4 million shares of common stock at prices ranging from \$4.26 to \$17.99 per share were outstanding at March 28, 2009.

For the three month periods ended March 27, 2010 and March 28, 2009, options to purchase 7.5 and 4.8 million shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because the option exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

For the six month period ended March 27, 2010 and March 28, 2009, options to purchase 7.6 and 4.9 million 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.

Table of Contents**10. Segment Information**

Management has determined that the Company has two operating segments which are also reportable segments based on the level at which the Chief Executive Officer reviews the results of operations to make decisions regarding performance assessment and resource allocation. These operating segments are Pet Products and Garden Products and are presented in the table below (in thousands).

	Three Months Ended		Six Months Ended	
	March 28, 2009	March 27, 2010	March 28, 2009	March 27, 2010
Net sales:				
Pet Products	\$ 228,840	\$ 222,369	\$ 414,515	\$ 403,895
Garden Products	247,585	219,567	354,452	307,277
Total net sales	\$ 476,425	\$ 441,936	\$ 768,967	\$ 711,172
Income (loss) from operations:				
Pet Products	\$ 31,897	\$ 34,763	\$ 44,772	\$ 52,391
Garden Products	36,721	36,810	28,965	30,479
Corporate	(11,462)	(11,051)	(19,247)	(21,827)
Total income from operations	57,156	60,522	54,490	61,043
Interest expense net	(5,481)	(9,813)	(12,033)	(14,747)
Other income (expense)	(131)	(206)	(1,081)	386
Income taxes	17,980	18,568	14,127	17,166
Income including noncontrolling interest	33,564	31,935	27,249	29,516
Net income attributable to noncontrolling interest	544	315	413	790
Net income attributable to Central Garden & Pet Company	\$ 33,020	\$ 31,620	\$ 26,836	\$ 28,726
Depreciation and amortization:				
Pet Products	\$ 3,943	\$ 3,850	\$ 8,030	\$ 7,844
Garden Products	1,618	1,563	3,337	2,971
Corporate	1,661	1,819	3,329	3,648
Total depreciation and amortization	\$ 7,222	\$ 7,232	\$ 14,696	\$ 14,463
Assets:				
Pet Products	\$ 462,356	\$ 417,024	\$ 394,150	
Garden Products	509,884	451,770	348,825	
Corporate	339,938	326,911	407,950	
Total assets	\$ 1,312,178	\$ 1,195,705	\$ 1,150,925	
Goodwill (included in corporate assets above):				
Pet Products	\$ 202,374	\$ 202,950	\$ 202,950	
Garden Products	4,799	5,680	4,799	
Total goodwill	\$ 207,173	\$ 208,630	\$ 207,749	

Table of Contents**11. Consolidating Condensed Financial Information of Guarantor Subsidiaries**

Certain 100% 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 on the Company's \$150 million 9.125% Senior Subordinated Notes issued on January 30, 2003, as well as the Company's \$400 million 8.25% Senior Subordinated Notes issued on March 8, 2010 (the Notes). 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. These Non-Guarantor entities are not material to the Parent. Those subsidiaries that are guarantors and co-obligors of the Notes are as follows:

Farnam Companies, Inc. (including Thompson's Veterinary Supply, Inc.)

Four Paws Products Ltd.

Grant Laboratories, Inc.

Gulfstream Home & Garden, Inc.

Interpet USA, LLC

Kaytee Products, Inc.

Matthews Redwood & Nursery Supply, Inc.

Matson, LLC

New England Pottery, LLC

Norcal Pottery Products, Inc.

Pennington Seed, Inc. (including Pennington Seed, Inc. of Nebraska, Gro Tec, Inc., Seeds West, Inc., All-Glass Aquarium Co., Inc. (including Oceanic Systems, Inc.) and, Cedar Works, LLC.)

Pets International, Ltd.

T.F.H. Publications, Inc.

Wellmark International (including B2E Corporation and B2E Biotech LLC)

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

**CONSOLIDATING CONDENSED STATEMENT OF
OPERATIONS**

Three Months Ended March 27, 2010

(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 137,696	\$ 344,527	\$ (40,287)	\$ 441,936
Cost of products sold and occupancy	98,177	222,857	(40,287)	280,747

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

Gross profit	39,519	121,670	161,189
Selling, general and administrative expenses	30,419	70,248	100,667
Income from operations	9,100	51,422	60,522
Interest net	(9,881)	68	(9,813)
Other income (loss)	(1,257)	1,051	(206)
Income (loss) before income taxes	(2,038)	52,541	50,503
Income taxes (tax benefit)	(646)	19,214	18,568
Income (loss) including noncontrolling interest	(1,392)	33,327	31,935
Income attributable to noncontrolling interest	315		315
Income (loss) attributable to Central Garden & Pet Co. before equity in undistributed income of guarantor subsidiaries	(1,707)	33,327	31,620
Equity in undistributed income of guarantor subsidiaries	33,327	(33,327)	
Net income attributable to Central Garden & Pet Co.	\$ 31,620	\$ 33,327	\$ (33,327) \$ 31,620

Table of Contents

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS				
Three Months Ended March 28, 2009				
(in thousands)				
(unaudited)				
	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 142,028	\$ 381,009	\$ (46,612)	\$ 476,425
Cost of products sold and occupancy	103,478	259,006	(46,612)	315,872
Gross profit	38,550	122,003		160,553
Selling, general and administrative expenses	30,901	72,496		103,397
Income from operations	7,649	49,507		57,156
Interest net	(5,619)	138		(5,481)
Other income (expense)	(2,177)	2,046		(131)
Income (loss) before income taxes	(147)	51,691		51,544
Income tax	233	17,747		17,980
Income (loss) including noncontrolling interest	(380)	33,944		33,564
Income attributable to noncontrolling interest	544			544
Income (loss) attributable to Central Garden & Pet Co. before equity in undistributed income of guarantor subsidiaries	(924)	33,944		33,020
Equity in undistributed income of guarantor subsidiaries	33,944		(33,944)	
Net income attributable to Central Garden & Pet Co.	\$ 33,020	\$ 33,944	\$ (33,944)	\$ 33,020

Table of Contents

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS				
Six Months Ended March 27, 2010				
(in thousands)				
(unaudited)				
	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 228,221	\$ 551,990	\$ (69,039)	\$ 711,172
Cost of products sold and occupancy	162,760	368,493	(69,039)	462,214
Gross profit	65,461	183,497		248,958
Selling, general and administrative expenses	58,067	129,848		187,915
Income from operations	7,394	53,649		61,043
Interest net	(14,900)	153		(14,747)
Other income (loss)	(3,159)	3,545		386
Income (loss) before income taxes	(10,665)	57,347		46,682
Income taxes (tax benefit)	(3,911)	21,077		17,166
Income (loss) including noncontrolling interest	(6,754)	36,270		29,516
Income attributable to noncontrolling interest	790			790
Income (loss) attributable to Central Garden & Pet Co. before equity in undistributed income of guarantor subsidiaries	(7,544)	36,270		28,726
Equity in undistributed income of guarantor subsidiaries	36,270		(36,270)	
Net income attributable to Central Garden & Pet Co.	\$ 28,726	\$ 36,270	\$ (36,270)	\$ 28,726

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS				
Six Months Ended March 28, 2009				
(in thousands)				
(unaudited)				
	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 234,740	\$ 615,238	\$ (81,011)	\$ 768,967
Cost of products sold and occupancy	172,657	431,287	(81,011)	522,933
Gross profit	62,083	183,951		246,034
Selling, general and administrative expenses	56,535	135,009		191,544
Income from operations	5,548	48,942		54,490
Interest net	(12,355)	322		(12,033)
Other income (expense)	(1,653)	572		(1,081)
Income (loss) before income taxes	(8,460)	49,836		41,376
Income tax (tax benefit)	(3,033)	17,160		14,127
Income (loss) including noncontrolling interest	(5,427)	32,676		27,249
Income attributable to noncontrolling interest	413			413

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

Income (loss) attributable to Central Garden & Pet Co. before equity in undistributed income of guarantor subsidiaries	(5,840)	32,676		26,836
Equity in undistributed income of guarantor subsidiaries	32,676		(32,676)	
Net Income attributable to Central Garden & Pet Co.	\$ 26,836	\$ 32,676	\$ (32,676)	\$ 26,836

Table of Contents

CONSOLIDATING CONDENSED BALANCE SHEET				
March 27, 2010				
(in thousands)				
(unaudited)				
	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 24,850	\$ 2,187	\$	\$ 27,037
Accounts receivable, net	80,512	214,802	(17,960)	277,354
Inventories	108,219	222,351		330,570
Prepaid expenses and other assets	9,517	20,650		30,167
Total current assets	223,098	459,990	(17,960)	665,128
Land, buildings, improvements and equipment, net	56,984	105,312		162,296
Goodwill		208,630		208,630
Investment in guarantors	727,499		(727,499)	
Deferred income taxes and other assets	54,519	105,132		159,651
Total	\$ 1,062,100	\$ 879,064	\$ (745,459)	\$ 1,195,705
LIABILITIES AND SHAREHOLDERS' EQUITY				
Accounts payable	\$ 65,992	\$ 99,666	\$ (17,960)	\$ 147,698
Accrued expenses and other current liabilities	53,793	49,737		103,530
Total current liabilities	119,785	149,403	(17,960)	251,228
Long-term debt	400,034	137		400,171
Other long-term obligations	2,249	2,025		4,274
Shareholders' equity attributable to Central Garden & Pet Co.	539,758	727,499	(727,499)	539,758
Noncontrolling interest	274			274
Total shareholders' equity	540,032	727,499	(727,499)	540,032
Total	\$ 1,062,100	\$ 879,064	\$ (745,459)	\$ 1,195,705

Table of Contents**CONSOLIDATING CONDENSED BALANCE SHEET**

September 26, 2009

(in thousands)

(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 82,958	\$ 2,710	\$	\$ 85,668
Accounts receivable, net	43,759	169,554	(6,748)	206,565
Inventories	80,512	204,322		284,834
Prepaid expenses and other assets	26,341	18,084		44,425
Total current assets	233,570	394,670	(6,748)	621,492
Land, buildings, improvements and equipment, net	55,644	109,090		164,734
Goodwill		207,749		207,749
Investment in guarantors	692,723		(692,723)	
Other assets	49,266	107,684		156,950
Total	\$ 1,031,203	\$ 819,193	\$ (699,471)	\$ 1,150,925
LIABILITIES AND SHAREHOLDERS' EQUITY				
Accounts payable	\$ 38,675	\$ 76,909	\$ (6,748)	\$ 108,836
Accrued expenses and other liabilities	38,343	47,070		85,413
Total current liabilities	77,018	123,979	(6,748)	194,249
Long-term debt	404,687	128		404,815
Other long-term obligations	2,163	2,363		4,526
Shareholders' equity attributable to Central Garden & Pet Co.	545,085	692,723	(692,723)	545,085
Noncontrolling interest	2,250			2,250
Total shareholders' equity	547,335	692,723	(692,723)	547,335
Total	\$ 1,031,203	\$ 819,193	\$ (699,471)	\$ 1,150,925

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

Six Months Ended March 27, 2010

(in thousands)

(unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	\$ 22,120	\$ 4,620	\$ (36,270)	\$ (9,530)
Additions to property and equipment	(5,522)	(3,904)		(9,426)
Investment in guarantor subsidiaries	(35,435)	(835)	36,270	
Net cash provided (used) by investing activities	(40,957)	(4,739)	36,270	(9,426)
Repayments of long-term debt	(391,038)	(168)		(391,206)
Proceeds from issuance of long-term debt	400,000			400,000
Repurchase of common stock	(37,148)			(37,148)
Proceeds from issuance of common stock	722			722
Payment of financing costs	(9,468)			(9,468)
Excess tax benefits from stock-based awards	422			422
Distribution to noncontrolling interest	(2,761)			(2,761)

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

Net cash used by financing activities	(39,271)	(168)	(39,439)
Effect of exchange rate changes on cash		(236)	(236)
Net decrease in cash and cash equivalents	(58,108)	(523)	(58,631)
Cash and cash equivalents at beginning of period	82,958	2,710	85,668
Cash and cash equivalents at end of period	\$ 24,850	\$ 2,187	\$ 27,037

Table of Contents**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****Six Months Ended March 28, 2009****(in thousands)****(unaudited)**

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	\$ 22,082	\$ (16,220)	\$ (32,676)	\$ (26,814)
Additions to property and equipment	(3,384)	(3,726)		(7,110)
Business acquired, net of cash		(4,799)		(4,799)
Investment in guarantor subsidiaries	(55,753)	23,077	32,676	
Net cash provided (used) by investing activities	(59,137)	14,552	32,676	(11,909)
Repayments on revolving line of credit	(315,000)			(315,000)
Borrowings on revolving line of credit	374,000			374,000
Repayments of long-term debt	(23,215)	(106)		(23,321)
Repurchase of common stock	(12,812)			(12,812)
Proceeds from issuance of stock	109			109
Deferred financing costs	(75)			(75)
Excess tax benefits from stock-based awards	74			74
Distribution to noncontrolling interest	(2,082)			(2,082)
Net cash provided (used) by financing activities	20,999	(106)		20,893
Effect of exchange rate changes on cash		(554)		(554)
Net decrease in cash and cash equivalents	(16,056)	(2,328)		(18,384)
Cash and cash equivalents at beginning of period	22,866	4,063		26,929
Cash and cash equivalents at end of period	\$ 6,810	\$ 1,735	\$	\$ 8,545

12. Legal Proceedings

We may from time to time become involved in certain legal proceedings in the ordinary course of business. Currently, we are not a party to any legal proceedings that management believes would have a material adverse effect on our financial position or results of operations.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Overview**

Central Garden & Pet Company is a leading innovator, marketer and producer of quality branded products. We are one of the largest suppliers in the pet and lawn and garden supplies industries in the United States. The total pet industry is estimated to be approximately \$31 billion in annual retail sales. We estimate the annual retail sales of the pet supplies and ultra-premium pet food markets in the categories in which we participate to be approximately \$15 billion. As of 2009, the total lawn and garden industry in the United States is estimated to be approximately \$24 billion in annual retail sales. We estimate the annual retail sales of the lawn and garden supplies markets in the categories in which we participate to be approximately \$6.2 billion.

Our pet supplies products include products for dogs and cats, including edible bones, premium healthy edible and non-edible chews, ultra-premium dog and cat food and treats, leashes, collars, toys, pet carriers, grooming supplies and other accessories; products for birds, small animals and specialty pets, including food, cages and habitats, toys, chews and related accessories; animal and household health and insect control products; products for fish, reptiles and other aquarium-based pets, including aquariums, furniture and lighting fixtures, pumps, filters, water conditioners, food and supplements, and information and knowledge resources; and products for horses and livestock. These products are sold under a number of brand names including AdamsTM, All-Glass Aquarium[®], Altosid, AqueonTM, Avoderm[®], BioSpot[®], Breeder's Choice[®], Coralife[®], Farnam[®], Four Paws[®], Interpet, Kaytee[®], Kent Marine[®], Nylabone[®], Pet Select[®], Pinnacle[®], Pre-Strike[®], Oceanic Systems[®], Super Pet[®], TFH[®], ZillaTM and Zodiac[®].

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

Background

We have transitioned our company to a leading marketer and producer of branded products from a traditional pet and lawn and garden supplies distributor. We 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, strong relationships with retailers and 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 product 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's Seed), and Energy Savers Unlimited in fiscal 2004; Pets International and Gulfstream Home & Garden in fiscal 2005; Farnam, Breeder's Choice, Tech Pac, Ironite and Shirlo in fiscal 2006 and B2E Corporation, B2E Biotech LLC and DLF Trifolium Oregon (dba ASP Research) in fiscal 2007.

Recent Developments*Debt Refinancing*

In March 2010, we issued \$400 million aggregate principal amount of 8.25% senior subordinated notes due March 1, 2018 (the 2018 Notes). The 2018 Notes are unconditionally guaranteed on a senior subordinated basis by each of our existing and future domestic restricted subsidiaries with certain exceptions. We used the net proceeds from the offering, together with available cash, to purchase our outstanding 9.125% senior subordinated notes due February 1, 2013 (the 2013 Notes), pay the outstanding indebtedness under our senior term loan, and pay fees and expenses related to the offering. At March 27, 2010, \$14.7 million of the 2013 Notes remained outstanding and were redeemed subsequent to quarter end. As a result of our issuance of the \$400 million 2018 Notes, we expect our interest expense to be approximately \$9.0 million per quarter for the remainder of fiscal 2010.

Table of Contents

Results of Operations

Three Months Ended March 27, 2010

Compared with Three Months Ended March 28, 2009

Net Sales

Net sales for the three months ended March 27, 2010 decreased \$34.5 million, or 7.2%, to \$441.9 million from \$476.4 million for the three months ended March 28, 2009. Our branded product sales decreased \$41.5 million and sales of other manufacturers' products increased \$7.0 million.

Pet Products' net sales declined \$6.5 million, or 2.8%, to \$222.3 million for the three months ended March 27, 2010 from \$228.8 million in the comparable fiscal 2009 period. Pet branded product sales decreased \$7.6 million, due primarily to a sales decrease of animal health products, and sales of other manufacturers' products increased \$1.1 million from the prior year quarter. The decrease in sales of animal health products was due primarily to a supply issue for a product-line, expected to continue at a reduced level through our third fiscal quarter, and sales in the prior year quarter from a marketing license no longer held by us.

Garden Products' net sales declined \$28.0 million, or 11.3%, to \$219.6 million for the three months ended March 27, 2010 from \$247.6 million in the comparable fiscal 2009 period. Garden branded product sales decreased \$33.9 million, due primarily to an approximately \$12.0 million decrease in garden chemicals and control products and approximately \$4 to \$5 million decreases in each of grass seed, bird feed and pottery, and sales of other manufacturers' products increased \$5.9 million from the prior year quarter. The sales decreases in grass seed and bird feed were due primarily to price reductions as a result of lower commodity costs, while garden chemicals and control products and pottery were impacted by both pricing and volume reductions.

Gross Profit

Gross profit for the three months ended March 27, 2010 increased \$0.6 million, or 0.4%, to \$161.2 million from \$160.6 million for the three months ended March 28, 2009. Gross profit as a percentage of net sales increased from 33.7% for the three months ended March 28, 2009 to 36.5% for the three months ended March 27, 2010. Gross profit as a percentage of net sales increased in both segments. The gross margin in Pet Products improved 240 basis points due primarily to a product mix change (e.g., only lower margin product was impacted by the animal health supply issue) and lower raw material costs. The gross margin in Garden Products improved 300 basis points due primarily to lower raw material costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased \$2.7 million, or 2.6%, to \$100.7 million for the three months ended March 27, 2010 from \$103.4 million for the three months ended March 28, 2009. As a percentage of net sales, selling, general and administrative expenses increased to 22.8% for the three months ended March 27, 2010, compared to 21.7% in the comparable prior year quarter due to the decrease in net sales. The decrease in selling, general and administrative expenses, discussed further below, was due primarily to decreased selling and delivery expenses resulting from lower sales.

Selling and delivery expense decreased \$3.2 million, or 6.1%, from \$52.1 million for the three months ended March 28, 2009 to \$48.9 million for the three months ended March 27, 2010. The decreased expense was due primarily to lower payroll costs and reduced fuel and freight costs resulting from lower sales and lower marketing and advertising costs.

Facilities expense remained relatively flat, decreasing \$0.1 million to \$2.7 million in the quarter ended March 27, 2010 from \$2.8 million for the quarter ended March 28, 2009.

Warehouse and administrative expense increased \$0.6 million to \$49.1 million for the quarter ended March 27, 2010 from \$48.5 million in the quarter ended March 28, 2009 due primarily to insurance related costs.

Net Interest Expense

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

Net interest expense for the three months ended March 27, 2010 increased \$4.3 million or 79.0%, to \$9.8 million from \$5.5 million for the three months ended March 28, 2009. In March 2010, we issued \$400 million 2018 Notes, tendered for our outstanding 2013 Notes and paid the outstanding indebtedness under our senior term loan. As a result of this refinancing, we incurred an additional \$3.2 million in interest expense comprised primarily of the remaining unamortized deferred charges related to the retired debt and the premium paid for the tender and call on the 2013 Notes.

Table of Contents

Other Income

Other income decreased slightly, decreasing \$0.1 million from a \$0.1 million expense for the quarter ended March 28, 2009, to \$0.2 million expense for the quarter ended March 27, 2010.

Income Taxes

Our effective income tax rate was 36.8% for the quarter ended March 27, 2010 and 34.9% for the quarter ended March 28, 2009. The lower effective income tax rate compared to the statutory rate in the prior year quarter was the result of credit usage and recognized valuation allowance benefits. The difference between the income tax rate for the current quarter and the statutory tax rate was the result of credit utilization.

Six Months Ended March 27, 2010

Compared with Six Months Ended March 28, 2009

Net Sales

Net sales for the six months ended March 27, 2010 decreased \$57.8 million, or 7.5%, to \$711.2 million from \$769.0 million for the six months ended March 28, 2009. Our branded product sales decreased \$63.8 million and sales of other manufacturers' products increased \$6.0 million.

Pet Products' net sales declined \$10.7 million, or 2.6%, to \$403.9 million for the six months ended March 27, 2010 from \$414.6 million in the comparable fiscal 2009 period. Pet branded product sales decreased \$9.4 million, due primarily to a decrease in sales of animal health products, and sales of other manufacturers' products decreased \$1.3 million from the prior year period. The decrease in sales of animal health products was due primarily to a supply issue for a product-line, expected to continue at a reduced level through our third fiscal quarter, and sales in the prior year period from a marketing license no longer held by us.

Garden Products' net sales declined \$47.1 million, or 13.3%, to \$307.3 million for the six months ended March 27, 2010 from \$354.4 million in the comparable fiscal 2009 period. Garden branded product sales decreased \$54.4 million, due primarily to an approximately \$12.6 million decrease in grass seed, a \$10.8 million decrease in bird feed and a \$9 million decrease in garden chemicals and control products, and sales of other manufacturers' products increased \$7.3 million from the prior year period. The sales decreases in grass seed and bird feed were due primarily to price reductions as a result of lower commodity costs while garden chemicals and control products were impacted by both pricing and volume reductions.

Gross Profit

Gross profit for the six months ended March 27, 2010 increased \$3.0 million, or 1.2%, to \$249.0 million from \$246.0 million for the six months ended March 28, 2009. Gross profit as a percentage of net sales increased from 32.0% for the six months ended March 28, 2009 to 35.0% for the six months ended March 27, 2010. Gross profit as a percentage of net sales increased in both segments. The gross margin in Pet Products improved 200 basis points due primarily to lower raw material costs and some selective price increases. The gross margin in Garden Products improved 410 basis points due primarily to lower raw material costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased \$3.6 million, or 1.9%, to \$187.9 million for the six months ended March 27, 2010 from \$191.5 million for the six months ended March 28, 2009. Selling, general and administrative expenses increased to 26.4% of net sales for the six months ended March 27, 2010, compared to 24.9% in the comparable prior year period due to the decrease in net sales. The change in selling, general and administrative expenses, discussed further below, was due primarily to decreased selling and delivery expenses resulting from lower sales.

Selling and delivery expense decreased \$6.1 million, or 6.3%, from \$96.1 million for the six months ended March 28, 2009 to \$90.0 million for the six months ended March 27, 2010. The decreased expense was due primarily to lower payroll costs and reduced fuel and freight costs resulting from lower sales and from the shutdown of several distribution centers in fiscal 2009 as part of our strategic realignment of our distribution network.

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

Facilities expense for the six months ended March 27, 2010 was \$5.3 million, as compared with \$5.6 million for the six months ended March 28, 2009.

Warehouse and administrative expense increased \$2.8 million to \$92.6 million for the six months ended March 27, 2010 from \$89.8 million for the six months ended March 28, 2009. The increase was due primarily to increased third-party professional expenses.

Table of Contents

Net Interest Expense

Net interest expense for the six months ended March 27, 2010 increased \$2.7 million or 22.6%, to \$14.7 million from \$12.0 million for the six months ended March 28, 2009. In March 2010, we issued \$400 million 2018 Notes, tendered for our outstanding 2013 Notes and paid the outstanding indebtedness under our senior term loan. As a result of this refinancing, we incurred an additional \$3.2 million in interest expense comprised primarily of the remaining unamortized deferred charges related to the retired debt and the premium paid for the tender and call on the 2013 Notes.

Other Income

Other income increased \$1.5 million from a \$1.1 million expense for the six months ended March 28, 2009 to income of \$0.4 million for the six months ended March 27, 2010. The increase was due primarily to increased earnings in the first fiscal quarter of 2010 from an investment accounted for under the equity method of accounting.

Income Taxes

Our effective income tax rate was 36.8% for the six months ended March 27, 2010 and 34.1% for the six months ended March 28, 2009. The lower effective income tax rate in the prior year period was the result of credit usage and recognized valuation allowance benefits. The difference between the income tax rate for the current fiscal year to date period and the statutory rate was the result of credit utilization.

Inflation

The results of operations and financial condition are presented based upon historical cost. While it is difficult to accurately measure the impact of inflation, we believe that the effects of inflation on our operations could be significant.

Weather and Seasonality

Historically, our sales of lawn and garden products have been influenced by weather and climate conditions in the different markets we serve. Additionally, our Garden Products business has historically been highly seasonal. In fiscal 2009, approximately 66% of Garden Products net sales and 59% of our total net sales occurred in the 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.

Liquidity and Capital Resources

We have financed our growth through a combination of internally generated funds, bank borrowings, supplier credit 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 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.

We service two broad markets: pet supplies and lawn and garden supplies. Our pet supplies businesses involve products that have a year round selling cycle with a slight degree of seasonality. As a result, it is not necessary to maintain large quantities of inventory to meet peak demands. On the other hand, our lawn and garden businesses are highly seasonal with approximately 66% of Garden Products net sales occurring during the second and third fiscal quarters. For many manufacturers of garden products, this seasonality requires them to ship large quantities of their product well ahead of the peak consumer buying periods. To encourage retailers and distributors to stock large quantities of inventory, industry practice has been for manufacturers to give extended credit terms and/or promotional discounts.

Net cash used in operating activities decreased \$17.3 million, from \$26.8 million for the six months ended March 28, 2009 to \$9.5 million for the six months ended March 27, 2010. The decrease in cash used in operating activities was due to improved earnings and working capital management, due primarily to increases in accounts payable compared to the prior year.

Table of Contents

Net cash used in investing activities decreased \$2.5 million from the six months ended March 28, 2009 to approximately \$9.4 million during the six months ended March 27, 2010. The decrease in cash used in investing activities was due to payments made with respect to acquired businesses in the prior year that were not made in the current year.

Net cash used by financing activities increased \$60.3 million, from \$20.9 million of cash provided by financing activities for the six months ended March 28, 2009, to \$39.4 million of cash used in financing activities for the six months ended March 27, 2010. The increase in cash used was due primarily to the tender and purchase of our 9.125% senior subordinated notes and repayment of our senior term loan facility, the payment of financing costs associated with our issuance of \$400 million 8.25% senior subordinated notes, as well increased repurchases of our common stock during the six months ended March 27, 2010. We repurchased and retired 1.7 million shares of our voting common stock at an aggregate cost of approximately \$17.3 million, or approximately \$10.01 per share, and 1.9 million shares of our non-voting Class A common stock at an aggregate cost of approximately \$18.7 million, or approximately \$9.61 per share.

Senior Credit Facility

As of March 27, 2010, we have a \$350 million Credit Facility maturing in February 2011. There was no outstanding balance at March 27, 2010 under the Credit Facility. There were \$18.5 million of outstanding letters of credit. After giving effect to the financial covenants in the credit agreement, the remaining potential borrowing capacity was \$331.5 million.

Interest on the Credit Facility is based, at our option, on a rate equal to prime plus a margin, which fluctuates from 0% to 0.375%, or LIBOR plus a margin, which fluctuates from 0.75% to 1.50%, determined quarterly based on consolidated total debt to consolidated EBITDA for the most recent trailing 12-month period. As of March 27, 2010, the applicable interest rate on the Credit Facility related to base rate borrowings was 3.38%, and the applicable interest rate related to LIBOR rate borrowings was 1.75%.

The Credit Facility is secured by substantially all of our assets and contain certain financial covenants which require us to maintain minimum levels of interest coverage and maximum levels of total debt to EBITDA and that restrict our ability to repurchase our stock, make investments in or acquisitions of other businesses and pay dividends above certain levels over the life of the Credit Facility. Under the terms of our Credit Facility, we may make restricted payments, including cash dividends and stock repurchases, in an aggregate amount not to exceed \$75 million over the life of the Credit Facility; if the total leverage ratio for the fiscal quarter most recently ended is less than 3.0 to 1.0, the maximum restricted payment amount will be increased to \$100 million over the life of the Credit Facility. Apart from the covenants limiting restricted payments and capital expenditures, the Credit Facility does not restrict the use of retained earnings or net income.

We were in compliance with all financial covenants as of March 27, 2010. Starting with the fourth fiscal quarter of 2009 and continuing through the third fiscal quarter of 2010, we must maintain a minimum interest coverage ratio of 3.0 to 1.0 and a maximum leverage ratio of 4.5 to 1.0. As of March 27, 2010, our interest coverage ratio was 6.8 to 1.0 and our leverage ratio was 2.3 to 1.0.

We currently intend to replace the Credit Facility in the current fiscal year.

Senior Subordinated Notes and Debt Refinancing

On March 8, 2010, we issued \$400 million aggregate principal amount of the 2018 Notes. We used the proceeds together with available cash to purchase our outstanding \$135.3 million aggregate principal amount of 2013 Notes, including accrued interest, to repay the \$267.1 million outstanding under our senior term loan maturing February 2012 and pay fees and expenses related to the offering. We received tenders and consents from the holders of \$135.3 million of our 2013 Notes, including \$12.8 million held in escrow for our benefit, which was previously recorded as a reduction of debt for accounting purposes against the 2013 Notes. The remaining \$14.7 million of 2013 Notes on the condensed consolidated balance sheets as of March 27, 2010 were redeemed on April 21, 2010.

We incurred approximately \$9.5 million of debt issuance costs in conjunction with these transactions, which included underwriter fees and legal, accounting and rating agency expenses. The debt issuance costs will be amortized over the term of the 2018 Notes.

As a result of this debt refinancing, we incurred a pre-tax loss of \$3.2 million, of which \$1.1 million was non-cash, comprised of the unamortized deferred financing costs related to the 2013 Notes and the retired term loan, the tender call premium, consent fees and the unamortized gain on the swap termination related to the 2013 Notes. The amount is included in interest expense in the condensed consolidated statements of operations.

Table of Contents

The carrying value of our remaining outstanding 2013 Notes as of March 27, 2010 was \$14.7 million. The remaining outstanding 2013 Notes were redeemed by the Company on April 21, 2010 for \$14.9 million, which includes a redemption premium of \$0.2 million.

The estimated fair value of our \$400 million 2018 Notes as of March 27, 2010 was approximately \$407.0 million. The estimated fair value is based on quoted market prices for these instruments.

The 2018 Notes require semiannual interest payments, which commence on September 1, 2010. The 2018 Notes are unsecured senior subordinated obligations and are subordinated to all of our existing and future senior debt, including our Credit Facility. The obligations under the 2018 Notes are fully and unconditionally guaranteed on a senior subordinated basis by each of our existing and future domestic restricted subsidiaries with certain exceptions. The guarantees are general unsecured senior subordinated obligations of the guarantors and are subordinated to all existing and future senior debt of the guarantors.

We may redeem some or all of the 2018 Notes at any time prior to March 1, 2014 at the principal amount plus a *make whole* premium. We may redeem some or all of the 2018 Notes at any time on or after March 1, 2014 for 104.125%, after March 1, 2015 for 102.063% and after March 1, 2016 for 100%, plus accrued and unpaid interest. Additionally, at any time prior to March 1, 2013 we may redeem up to 35% of the 2018 Notes with any proceeds we receive from certain equity offerings at a redemption price of 108.25% of the principal amount, plus accrued and unpaid interest. The holders of the 2018 Notes have the right to require us to repurchase all or a portion of the 2018 Notes at a purchase price equal to 101% of the principal amount of the notes repurchased, plus accrued and unpaid interest upon the occurrence of a change of control.

The 2018 Notes contain customary high yield covenants, including covenants limiting debt incurrence and restricted payments, subject to certain baskets and exceptions.

At March 27, 2010, our total debt outstanding was \$415.1 million versus \$546.9 million at March 28, 2009.

During the six months ended March 27, 2010, we repurchased and retired 1.7 million shares of our voting common stock at an aggregate cost of approximately \$17.3 million, or approximately \$10.01 per share, and 1.9 million shares of our non-voting Class A common stock at an aggregate cost of approximately \$18.7 million, or approximately \$9.61 per share. Our Board of Directors has authorized the repurchase of up to a total of \$100 million of our common stock, of which approximately \$89.0 million has been repurchased to date. We expect to continue our repurchases from time to time depending on market conditions and subject to the ability to effect repurchases under our credit facility.

We believe that cash flows from operating activities, funds available under our revolving 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 \$30 million for fiscal 2010, which are related primarily to replacements and upgrades to plant and equipment and investment in our implementation of a scalable enterprise-wide information technology platform. We are investing in this information technology platform to improve existing operations, to support future growth, and enable us to take advantage of new applications and technologies. We have invested approximately \$42 million from fiscal 2005 through fiscal 2009 in this initiative and plan to invest up to an additional \$5 million in fiscal 2010 for planned implementations. Capital expenditures for 2011 and beyond will depend upon the pace of conversion of those remaining legacy systems. This initiative, when complete, will combine our numerous information systems into one enterprise system and create a common business model and common data, which should create greater efficiency and effectiveness.

As part of our growth strategy, we have acquired a number of companies in the past, and we anticipate that we will continue to evaluate potential acquisition candidates in the future. 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 26, 2009 regarding off-balance sheet arrangements.

Table of Contents

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 26, 2009.

New Accounting Pronouncements

Refer to Footnote 1 in the notes to the condensed consolidated financial statements for new accounting pronouncements.

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 26, 2009.

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 2009 Annual Report filed on Form 10-K except for our issuance of \$400 million 2018 Notes, our tender of our outstanding fixed rate 2013 Notes and the retirement of our variable rate senior term loan.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* 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 and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based upon this review, such officers concluded that our disclosure controls and procedures were effective as of March 27, 2010.

(b) *Changes in Internal Control Over Financial Reporting.* Central's management, with the participation of Central's Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in Central's internal control over financial reporting occurred during the second quarter of fiscal 2010. Based on that evaluation, management concluded that there has been no change in Central's internal control over financial reporting during the second quarter of fiscal 2010 that has materially affected, or is reasonably likely to materially affect, Central's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in certain legal proceedings in the ordinary course of business. Currently, we are not a party to any legal proceedings that management believes would have a material adverse effect on our financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Item 1A. to Part I of our Form 10-K for the fiscal year ended September 26, 2009.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table sets forth the repurchases of any equity securities during the fiscal quarter ended March 27, 2010 and the dollar amount of authorized share repurchases remaining under our stock repurchase program.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
December 27, 2009 – January 31, 2010	133,771 ⁽²⁾	\$ 10.80	129,480	\$ 10,962,000
February 1, 2010 – February 28, 2010	6,932 ⁽³⁾	\$ 9.20		\$ 10,962,000
March 1, 2010 – March 27, 2010	23,094 ⁽³⁾	\$ 10.10		\$ 10,962,000
Total	163,797	\$ 10.63	129,480	\$ 10,962,000

- (1) In December 2005, the Board of Directors authorized the repurchase of up to \$100 million of the Company's common stock. The program has no expiration date and expires when the amount authorized has been used or the Board withdraws its authorization.
- (2) Includes 4,291 shares purchased during the period indicated that represent withholding of a portion of shares to cover taxes in connection with the vesting of restricted stock and the exercise of stock options.
- (3) The shares purchased during the period indicated represent withholding of a portion of shares to cover taxes in connection with the vesting of restricted stock and the exercise of stock options.

Item 3. Defaults Upon Senior Securities

Not applicable

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

- (a) The annual meeting of shareholders was held on February 8, 2010.

- (b) The following directors were elected at the meeting:

William E. Brown

Brooks M. Pennington III

John B. Balousek

David N. Chichester

Alfred A. Piergallini

Set forth below is the tabulation of votes with respect to the election of directors at the meeting:

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

	For	Against/ Withheld
William E. Brown		
Common	3,722,300	9,042,328
Class B	1,646,007	0
Brooks M. Pennington III		
Common	4,180,728	8,583,900
Class B	1,646,007	0

Table of Contents

John B. Balousek		
Common	9,995,960	2,768,668
Class B	1,646,007	0
David N. Chichester		
Common	10,858,001	1,906,627
Class B	1,646,007	0
Alfred A. Piergallini		
Common	9,995,860	2,768,768
Class B	1,646,007	0

- (c) At the meeting, the shareholders of the Company approved the proposal to ratify the appointment of Deloitte & Touche LLP as Central Garden & Pet Company's independent registered public accounting firm.

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

	Common	Class B
For	15,481,536	16,460,070
Against	194,318	
Abstain	11,312	

Item 5. Other Information

Not applicable

Item 6. Exhibits

- 4.1 Sixth Supplemental Indenture, dated as of March 8, 2010, to the Indenture dated as of January 30, 2003 by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Form 8-K filed March 8, 2010).
- 4.2 Indenture, dated as of March 8, 2010, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Form 8-K filed March 8, 2010).
- 4.3 First Supplemental Indenture, dated as of March 8, 2010, by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, relating to the issuance of \$400,000,000 aggregate principal amount of the Company's 8.25% Senior Subordinated Notes due 2018 (incorporated by reference from Exhibit 4.3 to the Company's Form 8-K filed March 8, 2010).
- 10.1 Separation Agreement Amendment between Stuart W. Booth and Central Garden & Pet Company, dated January 14, 2010 (incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed January 21, 2010).
- 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.

Table of Contents

SIGNATURES

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

CENTRAL GARDEN & PET COMPANY

Registrant

Dated: May 6, 2010

/s/ WILLIAM E. BROWN

William E. Brown

Chairman and Chief Executive Officer

(Principal Executive Officer)

/s/ STUART W. BOOTH

Stuart W. Booth

Chief Financial Officer

(Principal Financial Officer)