

CENTRAL GARDEN & PET CO
Form 10-Q
May 05, 2011
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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 26, 2011

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

Delaware
(State or other jurisdiction)

68-0275553
(I.R.S. Employer

of incorporation or organization) Identification No.)
1340 Treat Blvd., Suite 600, Walnut Creek, California 94597

(Address of principle executive offices)

(925) 948-4000

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(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, 2011 | 14,167,393 |
| Class A Common Stock Outstanding as of April 30, 2011 | 39,001,198 |
| Class B Stock Outstanding as of April 30, 2011 | 1,652,262 |

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

This Form 10-Q includes forward-looking statements. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy, our ability to pass through grain and other raw material price increases 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 25, 2010 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 and other raw materials;

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;

access to and cost of additional capital

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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 27, 2010 | March 26, 2011 | (See Note 1) September 25, 2010 |
|--|-------------------|-------------------|---------------------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 27,037 | \$ 11,186 | \$ 91,460 |
| Short term investments | | 15,320 | 15,320 |
| Accounts receivable (less allowance for doubtful accounts of \$16,809, \$17,211 and \$21,564) | 277,354 | 327,090 | 192,422 |
| Inventories | 330,570 | 381,815 | 285,964 |
| Prepaid expenses and other | 30,167 | 43,655 | 42,733 |
| Total current assets | 665,128 | 779,066 | 627,899 |
| Land, buildings, improvements and equipment net | 162,296 | 169,731 | 165,281 |
| Goodwill | 208,630 | 209,548 | 207,319 |
| Other intangible assets net | 101,007 | 87,073 | 86,798 |
| Deferred income taxes and other assets | 58,644 | 27,139 | 43,587 |
| Total | \$ 1,195,705 | \$ 1,272,557 | \$ 1,130,884 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 147,698 | \$ 163,622 | \$ 112,611 |
| Accrued expenses | 88,573 | 84,415 | 81,418 |
| Current portion of long-term debt | 14,957 | 120 | 165 |
| Total current liabilities | 251,228 | 248,157 | 194,194 |
| Long-term debt | 400,171 | 517,134 | 400,106 |
| Other long-term obligations | 4,274 | 3,890 | 4,441 |
| Equity: | | | |
| Common stock, \$.01 par value: 17,050,384, 14,856,703 and 16,258,704 shares outstanding at March 27, 2010, March 26, 2011 and September 25, 2010 | 171 | 149 | 163 |
| Class A common stock, \$.01 par value: 45,719,395, 39,955,882 and 43,696,426 shares outstanding at March 27, 2010, March 26, 2011 and September 25, 2010 | 457 | 399 | 437 |
| Class B stock, \$.01 par value: 1,652,262 shares outstanding | 16 | 16 | 16 |
| Additional paid-in capital | 505,170 | 443,169 | 483,817 |
| Accumulated earnings | 33,541 | 57,952 | 45,319 |
| Accumulated other comprehensive income | 403 | 1,235 | 944 |

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| | | | |
|--|----------------|----------------|----------------|
| Total Central Garden & Pet Company shareholders equity | 539,758 | 502,920 | 530,696 |
| Noncontrolling interest | 274 | 456 | 1,447 |
| Total equity | 540,032 | 503,376 | 532,143 |
| Total | \$ 1,195,705 | \$ 1,272,557 | \$ 1,130,884 |

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 27, 2010 | March 26, 2011 | March 27, 2010 | March 26, 2011 |
| Net sales | \$ 441,936 | \$ 485,724 | \$ 711,172 | \$ 767,443 |
| Cost of goods sold and occupancy | 280,747 | 322,455 | 462,214 | 521,117 |
| Gross profit | 161,189 | 163,269 | 248,958 | 246,326 |
| Selling, general and administrative expenses | 100,667 | 103,639 | 187,915 | 193,179 |
| Income from operations | 60,522 | 59,630 | 61,043 | 53,147 |
| Interest expense | (9,814) | (9,343) | (14,758) | (18,382) |
| Interest income | 1 | 60 | 11 | 193 |
| Other income (expense) | (206) | 204 | 386 | (202) |
| Income before income taxes and noncontrolling interest | 50,503 | 50,551 | 46,682 | 34,756 |
| Income taxes | 18,568 | 18,190 | 17,166 | 12,073 |
| Income including noncontrolling interest | 31,935 | 32,361 | 29,516 | 22,683 |
| Net income attributable to noncontrolling interest | 315 | 595 | 790 | 509 |
| Net income attributable to Central Garden & Pet Company | \$ 31,620 | \$ 31,766 | \$ 28,726 | \$ 22,174 |
| Net income per share attributable to Central Garden & Pet Company: | | | | |
| Basic | \$ 0.49 | \$ 0.55 | \$ 0.44 | \$ 0.37 |
| Diluted | \$ 0.49 | \$ 0.54 | \$ 0.43 | \$ 0.37 |
| Weighted average shares used in the computation of net income per share: | | | | |
| Basic | 63,988 | 57,955 | 65,408 | 59,447 |
| Diluted | 64,950 | 58,433 | 66,435 | 59,961 |

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 27, 2010 | March 26, 2011 |
| Cash flows from operating activities: | | |
| Net income | \$ 29,516 | \$ 22,683 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,463 | 14,210 |
| Stock-based compensation | 2,610 | 3,468 |
| Excess tax benefits from stock-based awards | (422) | (412) |
| Deferred income taxes | (640) | 8,557 |
| Loss on extinguishment of debt, net of premium paid | 1,122 | |
| Loss (gain) on sale of property and equipment | 161 | (28) |
| Change in assets and liabilities: | | |
| Accounts receivable | (71,206) | (131,043) |
| Inventories | (46,141) | (83,748) |
| Prepaid expenses and other assets | 16,150 | 6,946 |
| Accounts payable | 38,254 | 54,397 |
| Accrued expenses | 6,854 | (700) |
| Other long-term obligations | (251) | (551) |
| Net cash used by operating activities | (9,530) | (106,221) |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (9,426) | (13,813) |
| Payments to acquire companies, net of cash acquired | | (24,202) |
| Net cash used in investing activities | (9,426) | (38,015) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 400,000 | |
| Repayments of long-term debt | (391,206) | (132) |
| Borrowings under revolving line of credit | | 238,000 |
| Repayments under revolving line of credit | | (121,000) |
| Proceeds from issuance of common stock | 722 | 641 |
| Repurchase of common stock | (37,148) | (52,509) |
| Distribution to noncontrolling interest | (2,761) | (1,500) |
| Excess tax benefits from stock-based awards | 422 | 412 |
| Payment of financing costs | (9,468) | |
| Net cash provided by (used in) financing activities | (39,439) | 63,912 |
| Effect of exchange rate changes on cash and cash equivalents | (236) | 50 |
| Net decrease in cash and cash equivalents | (58,631) | (80,274) |
| Cash and equivalents at beginning of period | 85,668 | 91,460 |
| Cash and equivalents at end of period | \$ 27,037 | \$ 11,186 |

Supplemental information:

| | | |
|------------------------|-----------|-----------|
| Cash paid for interest | \$ 13,330 | \$ 18,165 |
|------------------------|-----------|-----------|

See notes to condensed consolidated financial statements.

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CENTRAL GARDEN & PET COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended March 26, 2011

(unaudited)

1. Basis of Presentation

The condensed consolidated balance sheets of Central Garden & Pet Company and subsidiaries (the Company or Central) as of March 27, 2010 and March 26, 2011, the condensed consolidated statements of operations for the three and six months ended March 27, 2010 and March 26, 2011, and the condensed consolidated statements of cash flows for the six months ended March 27, 2010 and March 26, 2011 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 26, 2011 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 2010 Annual Report on Form 10-K, which has previously been filed with the Securities and Exchange Commission, as well as other subsequent Securities and Exchange Commission filings. The September 25, 2010 balance sheet presented herein was derived from the audited 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. See Note 7, Supplemental Equity and Comprehensive Income Information, for additional information.

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.

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 26, 2011, the notional amount of these contracts was not significant.

Recent Accounting Pronouncements

On September 26, 2010, the Company adopted provisions of ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (VIEs). This ASU amends the guidance for consolidation of VIEs primarily related to the determination of the

primary beneficiary of the VIE. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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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 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. The Company does not anticipate the adoption of this ASU to have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, *Intangibles—Goodwill and Other (Topic 350) When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (ASU 2010-28). The amendments in this update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years and interim periods within those years, beginning after December 15, 2010 and will be effective for the Company on September 25, 2011. The Company does not anticipate the adoption of this ASU to have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29). The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for material (either on an individual or aggregate basis) business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. ASU 2010-29 is effective for the Company for acquisitions made during the quarter beginning December 26, 2010. The adoption of ASU 2010-29 during the quarter ended March 26, 2011 did not have an impact on the Company's consolidated financial statements; however, the Company may have additional disclosure requirements if a material acquisition occurs.

2. Fair Value Measurements

ASC 820 established 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 short term investments, consisting of a bank certificate of deposit, measured at fair value under Level 2 inputs in the fair value hierarchy, as of March 26, 2011. The Company had no other significant financial assets or liabilities on the balance sheet that were measured at fair value as of March 26, 2011.

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 26, 2011, the Company was not required to measure any significant non-financial assets and liabilities at fair value.

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3. Financial Instruments

The Company's financial instruments include cash and equivalents, short term investments consisting of a bank certificate of deposit, 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 estimated fair value of the Company's \$400 million 8.25 % senior subordinated notes due 2018 as of March 26, 2011 was \$421.0 million, compared to a carrying value of \$400.0 million. The estimated fair value is based on quoted market prices for these notes.

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.

Contingent performance payments of \$1.0 million were paid through the period ended March 26, 2011 for previous acquisitions and were recorded as goodwill.

On February 28, 2011, the Company acquired certain assets of a privately-held maker of premium fertilizer for the professional and retail markets for approximately \$23 million in cash. The acquired assets were integrated into the business of Pennington Seed, Inc., a wholly owned subsidiary of the Company. The purchase price exceeded the estimated fair value of the tangible and intangible assets acquired by approximately \$1 million, which was recorded as goodwill during the period ended March 26, 2011.

Table of Contents**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 26, 2011 | | | | | |
| Marketing-related intangible assets | amortizable | \$ 12.3 | \$ (5.6) | \$ | \$ 6.7 |
| Marketing-related intangible assets | nonamortizable | 59.6 | | (16.9) | 42.7 |
| Total | | 71.9 | (5.6) | (16.9) | 49.4 |
| Customer-related intangible assets | amortizable | 41.6 | (11.9) | | 29.7 |
| Other acquired intangible assets | amortizable | 11.9 | (3.9) | | 8.0 |
| Other acquired intangible assets | nonamortizable | 1.2 | | (1.2) | |
| Total | | 13.1 | (3.9) | (1.2) | 8.0 |
| Total other intangible assets | | \$ 126.6 | \$ (21.4) | \$ (18.1) | 87.1 |
| 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 |
| Other acquired intangible assets | amortizable | 9.2 | (2.7) | | 6.5 |
| 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 |
| September 25, 2010 | | | | | |
| Marketing-related intangible assets | amortizable | \$ 12.3 | \$ (5.0) | \$ | \$ 7.3 |
| Marketing-related intangible assets | nonamortizable | 59.6 | | (16.9) | 42.7 |
| Total | | 71.9 | (5.0) | (16.9) | 50.0 |
| Customer-related intangible assets | amortizable | 41.6 | (10.8) | | 30.8 |
| Other acquired intangible assets | amortizable | 9.2 | (3.2) | | 6.0 |
| Other acquired intangible assets | nonamortizable | 1.2 | | (1.2) | |
| Total | | 10.4 | (3.2) | (1.2) | 6.0 |
| Total other intangible assets | | \$ 123.9 | \$ (19.0) | \$ (18.1) | \$ 86.8 |

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

On February 28, 2011, the Company acquired approximately \$2.6 million (net of \$0.1 million of amortization) of identified intangible assets as part of its acquisition of certain assets of a privately-held maker of premium fertilizer. These assets are included under the caption, Other acquired intangible assets - amortizable in the table above, pending final valuation.

The Company evaluates long-lived assets, including amortizable and indefinite-lived 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. In fiscal 2010, the Company recognized a non-cash \$12.0 million impairment charge to one of its indefinite-lived intangible assets as a result of the continuing challenging economic environment. The fair value of the remaining \$27.8 million of indefinite-lived intangible assets exceeded their carrying value at September 25, 2010. In fiscal 2009, the Company tested its indefinite-lived intangible assets and no impairment was indicated.

The Company is currently amortizing its acquired intangible assets with definite lives; over weighted average remaining lives of eight years for marketing-related intangibles, 18 years for customer-related intangibles and six years for other acquired intangibles. Amortization expense for intangibles subject to amortization was approximately \$1.4 million and \$1.1 million, for the three month periods ended March 26, 2011 and March 27, 2010, respectively, and \$2.4 million for each of the six months periods ended March 26, 2011 and March 27, 2010, 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 2012 through fiscal 2016.

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Long-term debt consists of the following:

| | March 26, 2011 | September 25, 2010 |
|--|-------------------|-----------------------|
| | (in thousands) | |
| Senior subordinated notes, interest at 8.25%, payable semi-annually, principal due March 2018 | \$ 400,000 | \$ 400,000 |
| Revolving credit facility, interest at Alternate Base Rate plus a margin of 1.5% to 2.5%, or LIBOR plus a margin of 2.5% to 3.5%, final maturity June 2015 | 117,000 | |
| Other notes payable | 254 | 271 |
| Total | 517,254 | 400,271 |
| Less current portion | (120) | (165) |
| Long-term portion | \$ 517,134 | \$ 400,106 |

Senior Credit Facility

On June 25, 2010, the Company entered into an Amended and Restated Credit Agreement (the *Credit Agreement*) with respect to a five-year senior secured revolving credit facility (the *Credit Facility*) in an aggregate principal amount of \$275 million. The Company has the option to increase the size of the Facility by an additional \$200 million of incremental term loans and/or revolving loans should it exercise its option and one or more lenders are willing to make such increased amounts available to it. There was an outstanding balance of \$117.0 million as of March 26, 2011 under the Credit Facility. There were also \$3.7 million of letters of credit outstanding. After giving effect to the financial covenants in the Credit Agreement, the remaining potential borrowing capacity was \$154.3 million.

Interest on the Credit Facility is based, at the Company's option, on a rate equal to the Alternate Base Rate (ABR), which is the greatest of the prime rate, the Federal Funds rate plus $\frac{1}{2}$ of 1% or one month LIBOR plus 1%, plus a margin, which fluctuates from 1.5% to 2.5%, or LIBOR plus a margin, which fluctuates from 2.5% to 3.5% and commitment fees that range from 0.35% to 0.75%, determined quarterly based on consolidated total debt to consolidated EBITDA for the most recent trailing 12-month period. As of March 26, 2011, the applicable interest rate on the Credit Facility related to alternate base rate borrowings was 5.25%, and the applicable interest rate related to LIBOR rate borrowings was 3.26%.

The Credit Facility is guaranteed by the Company's material subsidiaries and is secured by the Company's assets, excluding real property but including substantially all of the capital stock of the Company's subsidiaries. The Credit Agreement contains certain financial and other covenants which require the Company to maintain minimum levels of interest coverage and maximum levels of senior 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 initially not to exceed \$200 million over the life of the Credit Facility, subject to qualifications and baskets as defined in the Credit Agreement. As of March 26, 2011, the Company's Total Leverage Ratio, as defined in the Credit Agreement, was 3.5 to 1.0, and the Company's Senior Secured Leverage Ratio, as defined in the Credit Agreement with a maximum of 2.25 to 1.0, was 0.8 to 1.0. 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 26, 2011.

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 \$150 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 \$150 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.

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The 2018 Notes require semiannual interest payments, which commenced 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

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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 through the repurchase date 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 26, 2011 and March 27, 2010:

| (in thousands) | Six Months Ended March 26, 2011 | | |
|------------------------------|---------------------------------|-------------------------|-----------|
| | Controlling Interest | Noncontrolling Interest | Total |
| Net income | \$ 22,174 | \$ 509 | \$ 22,683 |
| Other comprehensive income: | | | |
| Foreign currency translation | 291 | | 291 |
| Total comprehensive income | \$ 22,465 | \$ 509 | \$ 22,974 |

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

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The following table provides a summary of the changes in the carrying amounts of equity attributable to controlling interest and noncontrolling interest for the six months ended March 26, 2011 and March 27, 2010:

| (in thousands) | Controlling Interest | | | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total | Noncontrolling Interest | Total |
|--|----------------------|-------------------------------|---------------------|----------------------------------|----------------------|---|------------|----------------------------|------------|
| | Common Stock | Class A Common Stock | Class B Stock | | | | | | |
| Balance September 25, 2010 | \$ 163 | \$ 437 | \$ 16 | \$ 483,817 | \$ 45,319 | \$ 944 | \$ 530,696 | \$ 1,447 | \$ 532,143 |
| Comprehensive income | | | | | 22,174 | 291 | 22,465 | 509 | 22,974 |
| Stock based compensation | | | | 2,561 | | | 2,561 | | 2,561 |
| Restricted share activity | | | | (156) | | | (156) | | (156) |
| Issuance of common stock | | 4 | | 848 | | | 852 | | 852 |
| Repurchase of common stock | (14) | (42) | | (44,313) | (9,541) | | (53,910) | | (53,910) |
| Distributions to noncontrolling interest | | | | | | | | (1,500) | (1,500) |
| Tax benefit on stock option exercise | | | | 412 | | | 412 | | 412 |
| Balance March 26, 2011 | \$ 149 | \$ 399 | \$ 16 | \$ 443,169 | \$ 57,952 | \$ 1,235 | \$ 502,920 | \$ 456 | \$ 503,376 |

| (in thousands) | Controlling Interest | | | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total | Noncontrolling Interest | Total |
|--|----------------------|-------------------------------|---------------------|----------------------------------|----------------------|---|------------|----------------------------|------------|
| | Common Stock | Class A Common Stock | Class B Stock | | | | | | |
| 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) |
| Tax benefit on stock option exercise | | | | 422 | | | 422 | | 422 |
| Other | | | | | | | | (5) | (5) |
| Balance March 27, 2010 | \$ 171 | \$ 457 | \$ 16 | \$ 505,170 | \$ 33,541 | \$ 403 | \$ 539,758 | \$ 274 | \$ 540,032 |

8. Stock-Based Compensation

The Company recognized share-based compensation expense of \$3.5 million and \$2.6 million for the six month periods ended March 26, 2011 and March 27, 2010, 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 26, 2011 and March 27, 2010 was \$1.3 million and \$1.0 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 26, 2011

Six Months Ended
March 26, 2011

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| | Income | Shares | Per Share | Income | Shares | Per Share |
|---|--|--------|-----------|-----------|--------|-----------|
| | (in thousands, except per share amounts) | | | | | |
| Basic EPS: | | | | | | |
| Net income available to common shareholders | \$ 31,766 | 57,955 | \$ 0.55 | \$ 22,174 | 59,447 | \$ 0.37 |
| Effect of dilutive securities: | | | | | | |
| Options to purchase common stock | | 346 | (0.01) | | 378 | |
| Restricted shares | | 132 | | | 136 | |
| Diluted EPS: | | | | | | |
| Net income available to common shareholders | \$ 31,766 | 58,433 | \$ 0.54 | \$ 22,174 | 59,961 | \$ 0.37 |

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| | Three Months Ended March 27,2010 | | | Six Months Ended March 27,2010 | | Per Share |
|---|-------------------------------------|--------|-----------|-----------------------------------|--------|--------------|
| | Income | Shares | Per Share | Income (Loss) | Shares | |
| 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 |

Options to purchase 10.4 million shares of common stock at prices ranging from \$4.60 to \$17.99 per share were outstanding at March 26, 2011 and 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.

For the three month periods ended March 26, 2011 and March 27, 2010, options to purchase 7.3 and 7.5 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 26, 2011 and March 27, 2010, options to purchase 7.3 and 7.6 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 27, 2010 | March 26, 2011 | March 27, 2010 | March 26, 2011 |
| Net sales: | | | | |
| Pet Products | \$ 222,369 | \$ 225,408 | \$ 403,895 | \$ 412,208 |
| Garden Products | 219,567 | 260,316 | 307,277 | 355,235 |
| Total net sales | \$ 441,936 | \$ 485,724 | \$ 711,172 | \$ 767,443 |
| Income from operations: | | | | |
| Pet Products | \$ 34,763 | \$ 23,355 | \$ 52,391 | \$ 34,764 |
| Garden Products | 36,810 | 46,921 | 30,479 | 38,938 |
| Corporate | (11,051) | (10,646) | (21,827) | (20,555) |
| Total income from operations | 60,522 | 59,630 | 61,043 | 53,147 |
| Interest expense net | (9,813) | (9,283) | (14,747) | (18,189) |
| Other income (expense) | (206) | 204 | 386 | (202) |
| Income taxes | 18,568 | 18,190 | 17,166 | 12,073 |
| Income including noncontrolling interest | 31,935 | 32,361 | 29,516 | 22,683 |
| Net income attributable to noncontrolling interest | 315 | 595 | 790 | 509 |
| Net income attributable to Central Garden & Pet Company | \$ 31,620 | \$ 31,766 | \$ 28,726 | \$ 22,174 |
| Depreciation and amortization: | | | | |
| Pet Products | \$ 3,850 | \$ 3,673 | \$ 7,844 | \$ 7,341 |
| Garden Products | 1,563 | 1,493 | 2,971 | 2,923 |
| Corporate | 1,819 | 1,999 | 3,648 | 3,946 |
| Total depreciation and amortization | \$ 7,232 | \$ 7,165 | \$ 14,463 | \$ 14,210 |
| Assets: | | | | |
| | March 27, 2010 | March 26, 2011 | September 25, 2010 | |
| Pet Products | \$ 417,024 | \$ 427,530 | \$ 385,894 | |
| Garden Products | 451,770 | 526,094 | 323,387 | |
| Corporate | 326,911 | 318,933 | 421,603 | |
| Total assets | \$ 1,195,705 | \$ 1,272,557 | \$ 1,130,884 | |
| Goodwill (included in corporate assets above): | | | | |
| Pet Products | \$ 202,950 | \$ 201,639 | \$ 201,639 | |
| Garden Products | 5,680 | 7,909 | 5,680 | |
| Total goodwill | \$ 208,630 | \$ 209,548 | \$ 207,319 | |

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 \$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.

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

Pennington Seed, Inc. (including Pennington Seed, Inc. of Nebraska, Gro Tec, Inc., Seeds West, Inc., All-Glass Aquarium Co., 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 26, 2011

(in thousands)

(unaudited)

| | Parent | Guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------|--------------|--------------|
| Net sales | \$ 141,665 | \$ 392,255 | \$ (48,196) | \$ 485,724 |
| Cost of products sold and occupancy | 100,009 | 270,642 | (48,196) | 322,455 |
| Gross profit | 41,656 | 121,613 | | 163,269 |
| Selling, general and administrative expenses | 32,310 | 71,329 | | 103,639 |

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| | | | | |
|--|-----------|-----------|-------------|-----------|
| Income from operations | 9,346 | 50,284 | | 59,630 |
| Interest net | (9,384) | 101 | | (9,283) |
| Other income (loss) | (2,381) | 2,585 | | 204 |
| Income (loss) before income taxes | (2,419) | 52,970 | | 50,551 |
| Income taxes (tax benefit) | (248) | 18,438 | | 18,190 |
| Income (loss) including noncontrolling interest | (2,171) | 34,532 | | 32,361 |
| Income attributable to noncontrolling interest | 595 | | | 595 |
| Income (loss) attributable to Central Garden & Pet Co. before equity in undistributed income of guarantor subsidiaries | (2,766) | 34,532 | | 31,766 |
| Equity in undistributed income of guarantor subsidiaries | 34,532 | | (34,532) | |
| Net income attributable to Central Garden & Pet Co. | \$ 31,766 | \$ 34,532 | \$ (34,532) | \$ 31,766 |

Table of Contents**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 |
| 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 |

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**Six Months Ended March 26, 2011****(in thousands)
(unaudited)**

| | Parent | Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|-----------------------------------|---------------------|---------------------|
| Net sales | \$ 235,168 | \$ 607,911 | \$ (75,636) | \$ 767,443 |
| Cost of products sold and occupancy | 171,462 | 425,291 | (75,636) | 521,117 |
| Gross profit | 63,706 | 182,620 | | 246,326 |
| Selling, general and administrative expenses | 59,409 | 133,770 | | 193,179 |
| Income from operations | 4,297 | 48,850 | | 53,147 |
| Interest net | (18,356) | 167 | | (18,189) |
| Other income (expense) | (2,035) | 1,833 | | (202) |
| Income (loss) before income taxes | (16,094) | 50,850 | | 34,756 |
| Income tax (tax benefit) | (5,537) | 17,610 | | 12,073 |
| Income (loss) including noncontrolling interest | (10,557) | 33,240 | | 22,683 |
| Income attributable to noncontrolling interest | 509 | | | 509 |
| Income (loss) attributable to Central Garden & Pet Co. before equity in undistributed income of guarantor subsidiaries | (11,066) | 33,240 | | 22,174 |
| Equity in undistributed income of guarantor subsidiaries | 33,240 | | (33,240) | |

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| | | | | |
|---|-----------|-----------|-------------|-----------|
| Net income attributable to Central Garden & Pet Co. | \$ 22,174 | \$ 33,240 | \$ (33,240) | \$ 22,174 |
|---|-----------|-----------|-------------|-----------|

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| 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 BALANCE SHEET | | | | |
|--|---------------|-----------------------------------|---------------------|---------------------|
| March 26, 2011 | | | | |
| (in thousands) | | | | |
| (unaudited) | | | | |
| | Parent | Guarantor Subsidiaries | Eliminations | Consolidated |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 9,929 | \$ 1,257 | \$ | \$ 11,186 |
| Short term investments | 15,320 | | | 15,320 |
| Accounts receivable, net | 114,214 | 233,996 | (21,120) | 327,090 |
| Inventories | 132,312 | 249,503 | | 381,815 |
| Prepaid expenses and other assets | 21,086 | 22,569 | | 43,655 |
| Total current assets | 292,861 | 507,325 | (21,120) | 779,066 |
| Land, buildings, improvements and equipment, net | 67,711 | 102,020 | | 169,731 |
| Goodwill | | 209,548 | | 209,548 |
| Investment in guarantors | 733,320 | | (733,320) | |
| Deferred income taxes and other assets | 31,442 | 82,770 | | 114,212 |
| Total | \$ 1,125,334 | \$ 901,663 | \$ (754,440) | \$ 1,272,557 |
| LIABILITIES AND EQUITY | | | | |
| Accounts payable | \$ 62,849 | \$ 121,893 | \$ (21,120) | \$ 163,622 |
| Accrued expenses and other current liabilities | 39,765 | 44,770 | | 84,535 |

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| | | | | |
|---|---------------------|-------------------|---------------------|---------------------|
| Total current liabilities | 102,614 | 166,663 | (21,120) | 248,157 |
| Long-term debt | 517,073 | 61 | | 517,134 |
| Other long-term obligations | 2,271 | 1,619 | | 3,890 |
| Shareholders' equity attributable to Central Garden & Pet Co. | 502,920 | 733,320 | (733,320) | 502,920 |
| Noncontrolling interest | 456 | | | 456 |
| Total equity | 503,376 | 733,320 | (733,320) | 503,376 |
| Total | \$ 1,125,334 | \$ 901,663 | \$ (754,440) | \$ 1,272,557 |

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| CONSOLIDATING CONDENSED BALANCE SHEET | | | | |
|---|---------------------|---------------------------|---------------------|---------------------|
| September 25, 2010 | | | | |
| (in thousands) | | | | |
| (unaudited) | | | | |
| | Parent | Guarantor Subsidiaries | Eliminations | Consolidated |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 90,265 | \$ 1,195 | \$ | \$ 91,460 |
| Short term investments | 15,320 | | | 15,320 |
| Accounts receivable, net | 47,001 | 150,838 | (5,417) | 192,422 |
| Inventories | 84,129 | 201,835 | | 285,964 |
| Prepaid expenses and other assets | 23,447 | 19,286 | | 42,733 |
| Total current assets | 260,162 | 373,154 | (5,417) | 627,899 |
| Land, buildings, improvements and equipment, net | 63,303 | 101,978 | | 165,281 |
| Goodwill | | 207,319 | | 207,319 |
| Investment in guarantors | 633,908 | | (633,908) | |
| Other assets | 47,327 | 83,058 | | 130,385 |
| Total | \$ 1,004,700 | \$ 765,509 | \$ (639,325) | \$ 1,130,884 |
| LIABILITIES AND EQUITY | | | | |
| Accounts payable | \$ 35,218 | \$ 82,810 | \$ (5,417) | \$ 112,611 |
| Accrued expenses and other liabilities | 34,692 | 46,891 | | 81,583 |
| Total current liabilities | 69,910 | 129,701 | (5,417) | 194,194 |
| Long-term debt | 400,026 | 80 | | 400,106 |
| Other long-term obligations | 2,621 | 1,820 | | 4,441 |
| Shareholders' equity attributable to Central Garden & Pet Co. | 530,696 | 633,908 | (633,908) | 530,696 |
| Noncontrolling interest | 1,447 | | | 1,447 |
| Total equity | 532,143 | 633,908 | (633,908) | 532,143 |
| Total | \$ 1,004,700 | \$ 765,509 | \$ (639,325) | \$ 1,130,884 |

CONSOLIDATING CONDENSED STATEMENT OF**CASH FLOWS**

Six Months Ended March 26, 2011

(in thousands)

(unaudited)

| | Parent | Guarantor Subsidiaries | Eliminations | Consolidated |
|---|------------------|---------------------------|---------------|-----------------|
| Net cash used by operating activities | \$ (13,693) | \$ (58,654) | \$ (33,874) | \$ (106,221) |
| Additions to property and equipment | (7,266) | (6,547) | | (13,813) |
| Businesses acquired, net of cash acquired | (24,202) | | | (24,202) |
| Investment in guarantor subsidiaries | (99,412) | 65,538 | 33,874 | |
| Net cash provided (used) by investing activities | (130,880) | 58,991 | 33,874 | (38,015) |

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| | | | |
|--|-----------|----------|-----------|
| Repayments of long-term debt | (43) | (89) | (132) |
| Borrowings under revolving line of credit | 238,000 | | 238,000 |
| Repayments under revolving line of credit | (121,000) | | (121,000) |
| Repurchase of common stock | (52,509) | | (52,509) |
| Proceeds from issuance of common stock | 641 | | 641 |
| Excess tax benefits from stock-based awards | 412 | | 412 |
| Distribution to noncontrolling interest | (1,500) | | (1,500) |
| Net cash provided (used by) financing activities | 64,001 | (89) | 63,912 |
| Effect of exchange rate changes on cash | 236 | (186) | 50 |
| Net increase (decrease) in cash and cash equivalents | (80,336) | 62 | (80,274) |
| Cash and cash equivalents at beginning of period | 90,265 | 1,195 | 91,460 |
| Cash and cash equivalents at end of period | \$ 9,929 | \$ 1,257 | \$ 11,186 |

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| 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) |
| 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 |

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.

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

Central Garden & Pet Company (Central) 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 \$28 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 \$17 billion. As of 2010, 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 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 Adams™, Altosid, Aqueon®, Avoderm®, BioSpot®, Coralife®, Farnam®, Four Paws®, Interpet, Kaytee®, Kent Marine®, Nylabone®, Oceanic Systems®, Pet Select®, Pre-Strike®, Pinnacle®, Super Pet®, TFH®, Zilla® and Zodiac®.

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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®, GKI/Bethlehem Lighting®, Grant ™, Ironite®, Lilly Miller®, Matthews Four Seasons™, New England Pottery®, Norcal Pottery®, Pennington®, Over n Out®, Sevin®, Smart Seed® and The Rebels®.

Recent Developments

Fiscal 2011 Second Quarter Financial Performance In our second quarter of fiscal 2011, our net income increased slightly to \$31.8 million compared to the second quarter of fiscal 2010. Earnings per share on a fully diluted basis increased from \$0.49 in the prior year quarter to \$0.54 in the current year quarter due to lower outstanding shares. Our revenues increased approximately \$43.8 million, with sales growth in both our operating segments, but income from operations decreased \$0.9 million from the prior year quarter. The decrease in operating income was due primarily to increased grain and other raw material prices and increased marketing and brand building expenditures, partially offset by the increased revenues.

An increase in working capital was required to support the increase in our sales and the seasonal build associated with our Garden Products segment. This was funded, along with the repurchase of our common stock and a small acquisition, by borrowing under our revolving line of credit.

Repurchase of Company Stock During the six months ended March 26, 2011, we repurchased \$53.9 million of our common stock, which consisted of 1.4 million shares of our voting common stock (CENT) at an aggregate cost of approximately \$13.4 million, or approximately \$9.53 per share and 4.2 million shares of our non-voting Class A common stock (CENTA) at an aggregate cost of approximately \$40.5 million, or approximately \$9.56 per share. As of March 26, 2011, under our current share repurchase program authorization, approximately \$27 million remains available for repurchases in 2011 and thereafter.

Results of Operations

Three Months Ended March 26, 2011

Compared with Three Months Ended March 27, 2010

Net Sales

Net sales for the three months ended March 26, 2011 increased \$43.8 million, or 9.9%, to \$485.7 million from \$441.9 million for the three months ended March 27, 2010. Our branded product sales increased \$49.4 million and sales of other manufacturers' products decreased \$5.6 million.

Pet Products' net sales increased \$3.1 million, or 1.4%, to \$225.4 million for the three months ended March 26, 2011 from \$222.3 million in the comparable fiscal 2010 period. Pet branded product sales increased \$3.2 million, due primarily to a sales increase of animal health products. Sales of other manufacturers' products were relatively flat compared to the prior year quarter.

Garden Products' net sales increased \$40.7 million, or 18.5%, to \$260.3 million for the three months ended March 26, 2011 from \$219.6 million in the comparable fiscal 2010 period. Garden branded product sales increased \$46.2 million, partially offset by a decrease of \$5.5 million in sales of other manufacturers' products. Sales increased due primarily to a \$16.3 million increase in grass seed, a \$14.2 million increase in garden chemicals and control products and an \$8.6 million increase in other garden supplies.

Gross Profit

Gross profit for the three months ended March 26, 2011 increased \$2.1 million, or 1.3%, to \$163.3 million from \$161.2 million for the three months ended March 27, 2010. Gross profit as a percentage of net sales declined from 36.5% for the three months ended March 27, 2010 to 33.6% for the three months ended March 26, 2011. Gross profit as a percentage of net sales decreased in both segments. Both gross profit and gross margin decreased in Pet Products due primarily to higher input costs, the largest impact from increased grain prices (for example, milo, sunflower and corn). Gross profit increased in Garden Products but gross margin decreased

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due primarily to higher input costs. Although we were able to implement price increases throughout the second fiscal quarter, margins continue to be impacted as input costs have continued to increase.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$2.9 million, or 2.9%, to \$103.6 million for the three months ended March 26, 2011 from \$100.7 million for the three months ended March 27, 2010. As a percentage of net sales, selling, general and administrative expenses decreased to 21.3% for the three months ended March 26, 2011, compared to 22.8% in the comparable prior year quarter due to the increase in net sales. The increase in selling, general and administrative expenses, discussed further below, was due to increased selling expenses.

Selling and delivery expense increased \$6.3 million, or 12.9%, from \$48.9 million for the three months ended March 27, 2010 to \$55.2 million for the three months ended March 26, 2011. The increased expense was due primarily to increased marketing investment, including brand building activities and increased variable expenses related to the increase in sales.

Facilities expense declined \$0.3 million to \$2.4 million in the quarter ended March 26, 2011 from \$2.7 million for the quarter ended March 27, 2010. The decrease was due primarily to cost savings from warehouse consolidations in our garden segment.

Warehouse and administrative expense decreased \$3.1 million to \$46.0 million for the quarter ended March 26, 2011 from \$49.1 million in the quarter ended March 27, 2010 due primarily to reduced legal and litigation costs and compensation expense.

Net Interest Expense

Net interest expense for the three months ended March 26, 2011 decreased \$0.5 million or 5.4%, to \$9.3 million from \$9.8 million for the three months ended March 27, 2010. In March 2010, we issued \$400 million of 8.25% 2018 Notes, tendered for our outstanding 9.125% 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. The higher interest expense in the prior year quarter was partially offset by our increased average borrowing rate and higher debt balance in the current year quarter. Our average borrowing rate for the current quarter increased to 8.1% compared to 5.8% for the prior year quarter. Debt outstanding on March 26, 2011 was \$517.2 million compared to \$415.1 million as of March 27, 2010.

Other Income

Other income increased \$0.4 million, from an expense of \$0.2 million for the quarter ended March 27, 2010, to earnings of \$0.2 million for the quarter ended March 26, 2011. The increase was due to both foreign currency exchange gains and income from investments accounted for under the equity method of accounting, both of which generated losses in the prior year quarter.

Income Taxes

Our effective income tax benefit rate was 36.0% for the quarter ended March 26, 2011 and 36.8% for the quarter ended March 27, 2010. Our 2011 tax rate benefited primarily from additional tax credits in fiscal 2011.

Six Months Ended March 26, 2011

Compared with Six Months Ended March 27, 2010

Net Sales

Net sales for the six months ended March 26, 2011 increased \$56.2 million, or 7.9%, to \$767.4 million from \$711.2 million for the six months ended March 27, 2010. Our branded product sales increased \$59.7 million and sales of other manufacturers' products decreased \$3.5 million.

Pet Products' net sales increased \$8.3 million, or 2.1%, to \$412.2 million for the six months ended March 26, 2011 from \$403.9 million in the comparable fiscal 2010 period. Pet branded product sales increased \$7.8 million from the prior year period, due primarily to a sales increase of \$5.4 million of bird feed products and \$3.8 million of animal health products. The increased sales were due primarily to increased brand building and marketing investment and expanded product distribution. These sales increases were partially offset by decreased sales of dog and cat products.

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Garden Products net sales increased \$47.9 million, or 15.6%, to \$355.2 million for the six months ended March 26, 2011 from \$307.3 million in the comparable fiscal 2010 period. Garden branded product sales increased \$51.9 million due primarily to a \$25.9 million increase in grass seed, which was supported by increased marketing investment, and an \$11.8 million increase in garden chemicals and control products, primarily increased sales of fertilizer products.

Table of Contents***Gross Profit***

Gross profit for the six months ended March 26, 2011 decreased \$2.6 million, or 1.1%, to \$246.3 million from \$248.9 million for the six months ended March 27, 2010. Gross profit as a percentage of net sales declined from 35.0% for the six months ended March 27, 2010 to 32.1% for the six months ended March 26, 2011. Gross profit as a percentage of net sales decreased in both segments. Gross profit decreased in Pet Products despite increased sales due to a lower gross margin due primarily to higher input prices (for example, milo, sunflower and corn). Gross profit increased in Garden Products, primarily due to increased sales, but its gross margin was impacted by higher input prices, primarily in bird feed and secondarily in garden chemicals and control products. Although we were able to implement price increases throughout the second fiscal quarter, margins continue to be impacted as input costs have continued to increase.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$5.3 million, or 2.8%, to \$193.2 million for the six months ended March 26, 2011 from \$187.9 million for the six months ended March 27, 2010. As a percentage of net sales, selling, general and administrative expenses decreased to 25.2% for the six months ended March 26, 2011, compared to 26.4% in the comparable prior year quarter due to the increase in net sales. The increase in selling, general and administrative expenses, discussed further below, was due to increased selling expenses.

Selling and delivery expense increased \$11.6 million, or 12.9%, from \$90.0 million for the six months ended March 27, 2010 to \$101.6 million for the six months ended March 26, 2011. The increased expense was due primarily to increased marketing investment, including brand building activities and increased variable expenses related to the increase in sales.

Facilities expense declined \$0.5 million to \$4.8 million in the six months ended March 26, 2011 from \$5.3 million for the six months ended March 27, 2010. The decrease was due primarily to cost savings from warehouse consolidations in our garden segment.

Warehouse and administrative expense decreased \$5.8 million to \$86.8 million for the six months ended March 26, 2011 from \$92.6 million in the six months ended March 27, 2010 due primarily to reduced legal and litigation costs and compensation expense.

Net Interest Expense

Net interest expense for the six months ended March 26, 2011 increased \$3.5 million or 23.3%, to \$18.2 million from \$14.7 million for the six months ended March 27, 2010. The increase in interest expense resulted from both higher interest rates and increased borrowings in the current fiscal year, partially offset by increased interest charges in the second fiscal quarter of the prior year due to the expensing of the remaining unamortized deferred charges related to retired debt and the premium paid for the a tender call on our 2013 Notes. In March 2010, we issued \$400 million of 8.25% 2018 Notes, tendered for our outstanding 9.125% 2013 Notes and paid the outstanding indebtedness under our senior term loan. As a result of this refinancing, our average borrowing rate for the current quarter increased to 8.4% compared to 5.2% for the prior year quarter. Debt outstanding on March 26, 2011 was \$517.2 million compared to \$415.1 million as of March 27, 2010.

Other Income

Other income decreased \$0.6 million from earnings of \$0.4 million for the six months ended March 27, 2010, to a \$0.2 million expense for the six months ended March 26, 2011. The decrease was due primarily to investments accounted for under the equity method of accounting that generated income in the prior year first quarter but losses in the current year first quarter.

Income Taxes

Our effective income tax benefit rate was 34.7% for the six months ended March 26, 2011 and 36.8% for the six months ended March 27, 2010. Our 2011 tax rate benefited primarily from additional tax credits in fiscal 2011. We expect our effective income tax rate for fiscal year 2011 to be similar to the 37% reported for fiscal year 2010.

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Inflation

Our revenues and margins are dependent on various economic factors, including rates of inflation or deflation, energy costs, consumer attitudes toward discretionary spending, currency fluctuations, and other macro-economic factors which may impact levels of consumer spending. Historically, in certain fiscal periods, we have been adversely impacted by rising input costs related to domestic inflation, particularly relating to grain and seed prices, fuel prices and the ingredients used in our garden fertilizer and chemicals, and many of our other inputs. Rising costs have made it difficult for us to increase prices to our retail customers at a pace to enable us to maintain margins.

In fiscal 2009 and fiscal 2010, our business was negatively impacted by declining consumer confidence, as well as other macro-economic factors. In the first and second quarter of our fiscal year 2011, we were once again impacted by rising raw materials costs. We are continuing to seek selective price increases during our third fiscal quarter to mitigate the impact of the increasing grain prices.

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 2010, approximately 68% of Garden Products net sales and 60% 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 68% 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 by operating activities increased \$96.7 million, from \$9.5 million for the six months ended March 27, 2010, to \$106.2 million for the six months ended March 26, 2011. The increase in cash used by operating activities was due primarily to an increase in working capital, principally accounts receivable and inventory, as we have entered our lawn and garden selling season and from the increased sales in the current year period. Our working capital accounts increased approximately \$177 million from fiscal year end 2010 and increased by \$60 million as compared to the first six months of fiscal year 2010, due primarily to increased inventory purchases and increased sales.

Net cash used in investing activities increased \$28.6 million, from \$9.4 million for the six months ended March 27, 2010 to \$38.0 million during the six months ended March 26, 2011. The increase in cash used in investing activities was due to our acquisition of certain assets of a privately-held maker of premium fertilizer for the professional and retail markets for approximately \$23 million in cash in our Garden Products business, as well as increases in capital expenditures in the current year as a result of the conversion of our legacy systems to an enterprise-wide information technology platform.

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Net cash provided by financing activities increased \$103.3 million, from \$39.4 million of cash used in financing activities for the six months ended March 27, 2010, to \$63.9 million of cash provided by financing activities for the six months ended March 26, 2011. The increase in cash provided was due primarily to an increase in borrowings under our revolving line of credit of \$117 million, partially offset by higher repurchases of our common stock during the six months ended March 26, 2011. For the six month period ending March 26, 2011, we repurchased and retired 1.4 million shares of our voting common stock at an aggregate cost of approximately \$13.4 million, or approximately \$9.53 per share, and 4.2 million shares of our non-voting Class A common stock at an aggregate cost of approximately \$40.5 million, or approximately \$9.56 per share.

Senior Credit Facility

On June 25, 2010, we entered into an Amended and Restated Credit Agreement (the *Credit Agreement*) with respect to a five-year senior secured revolving credit facility (the *Credit Facility*) in an aggregate principal amount of \$275 million. We have the option to increase the size of the Facility by an additional \$200 million of incremental term loans and/or revolving loans should we exercise our option and one or more lenders are willing to make such increased amounts available to us. There was an outstanding balance of \$117.0 million as of March 26, 2011 under the Credit Facility. There were also \$3.7 million of letters of credit outstanding. After giving effect to the financial covenants in the Credit Agreement, the remaining potential borrowing capacity was \$154.3 million.

Interest on the Credit Facility is based, at our option, on a rate equal to the Alternate Base Rate (*ABR*), the greatest of the prime rate, the Federal Funds rate plus $\frac{1}{2}$ of 1% or one month LIBOR plus 1%, plus a margin, which fluctuates from 1.5% to 2.5%, or LIBOR plus a margin, which fluctuates from 2.5% to 3.5% and commitment fees that range from 0.35% to 0.75%, determined quarterly based on consolidated total debt to consolidated EBITDA for the most recent trailing 12-month period. As of March 26, 2011, the applicable interest rate on the Credit Facility related to alternate base rate borrowings was 5.25%, and the applicable interest rate related to LIBOR rate borrowings was 3.26%.

The Credit Facility is guaranteed by our material subsidiaries and is secured by our assets, excluding real property but including substantially all of the capital stock of our subsidiaries. The Credit Agreement contains certain financial and other covenants which require us to maintain minimum levels of interest coverage and maximum levels of senior 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 initially not to exceed \$200 million over the life of the Credit Facility, subject to qualifications and baskets as defined in the Credit Agreement. As of March 26, 2011, our Total Leverage Ratio, as defined in the Credit Agreement, was 3.5 to 1.0, and our Senior Secured Leverage Ratio, as defined in the Credit Agreement with a maximum of 2.25 to 1.0, was 0.8 to 1.0. 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 26, 2011.

Senior Subordinated Notes and Debt Refinancing

On March 8, 2010, we issued \$400 million aggregate principal amount of 8.25% senior subordinated notes due March 1, 2018 (the *2018 Notes*). We used the proceeds together with available cash to purchase our outstanding \$150 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 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 \$150 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 estimated fair value of our \$400 million 2018 Notes as of March 26, 2011 was approximately \$421.0 million. The estimated fair value is based on quoted market prices for these notes.

The 2018 Notes require semiannual interest payments, which commenced 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%

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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 through the repurchase date 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 26, 2011, our total debt outstanding was \$517.2 million versus \$415.1 million at March 27, 2010 and cash and short term investment balances for the same periods were \$26.5 million and \$27.0 million, respectively.

In 2010, our Board of Directors authorized the repurchase of up to a total of \$100 million of our common stock, of which approximately \$72.8 million has been repurchased to date. We expect to continue our repurchases from time to time depending on market conditions.

We believe that cash flows from operating activities, funds available under our Credit Facility and arrangements with suppliers will be adequate to fund our presently anticipated working capital requirements for the foreseeable future. We anticipate that our capital expenditures will not exceed \$30 million for fiscal 2011, 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 \$51 million from fiscal 2005 through fiscal 2010 in this initiative and plan to invest approximately \$10 million in fiscal 2011 for planned implementations. Capital expenditures for 2012 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 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 25, 2010 regarding off-balance sheet arrangements.

Contractual Obligations

There have been no material changes outside the ordinary course of business in our contractual obligations set forth in the Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources in our Annual Report on Form 10-K for the fiscal year ended September 25, 2010. Subsequent to September 25, 2010, under the terms of our senior secured revolving credit facility, the Company had borrowings in the ordinary course of business, resulting in a balance of \$117 million at March 26, 2011.

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 25, 2010.

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 2010 Annual Report filed on Form 10-K except as follows:

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Commodity Prices. We are exposed to fluctuations in market prices for grains, grass seed and pet food ingredients. To mitigate risk associated with increases in market prices and commodity availability, we enter into contracts for purchases, primarily to ensure commodity availability to us in the future. As of September 25, 2010, we had entered into fixed purchase commitments for

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commodities totaling approximately \$157.6 million. A 10% change in the market price for these commodities would have resulted in an additional pretax gain or loss of \$15.8 million related to the contracts outstanding as of September 25, 2010. During the first six months of fiscal 2011, prices for some of our key crops have increased substantially. During the first six months of fiscal 2011, our weighted average cost per pound increased approximately 38% from the fourth quarter of fiscal 2010. While we were able to implement price increases throughout the second fiscal quarter, we can provide no assurance as to the timing or extent of our ability to implement additional price adjustments in the context of rising costs or in the event of increased costs in the future.

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 26, 2011.

(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 2011. 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 2011 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 25, 2010.

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The following table sets forth the repurchases of any equity securities during the fiscal quarter ended March 26, 2011 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 26, 2010 – January 31, 2011 | 1,268,558 ⁽²⁾ | \$ 10.02 | 1,262,900 | \$ 53,577,000 |
| February 1, 2011 – February 28, 2011 | 1,289,675 ⁽³⁾ | \$ 9.42 | 1,275,900 | \$ 41,557,000 |
| March 1, 2011 – March 26, 2011 | 1,556,116 ⁽⁴⁾ | \$ 9.26 | 1,545,627 | \$ 27,241,000 |
| Total | 4,114,349 | \$ 9.54 | 4,084,427 | \$ 27,241,000 |

- (1) On July 15, 2010, the Board of Directors authorized a new \$100 million share repurchase program. The program has no expiration date and expires when the amount authorized has been used or the Board withdraws its authorization.
- (2) Includes 5,658 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) Includes 13,775 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.
- (4) Includes 10,489 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.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

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

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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 5, 2011

/s/ WILLIAM E. BROWN

William E. Brown

Chairman and Chief Executive Officer

(Principal Executive Officer)

/s/ LORI A. VARLAS

Lori A. Varlas

Chief Financial Officer

(Principal Financial Officer)