CENTRAL GARDEN & PET CO
Form 424B5
September 10, 2007
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Information contained herein is subject to completion and may be changed. This preliminary prospectus supplement and the accompanying prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Subject to completion, dated September 10, 2007

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-145517

Preliminary prospectus supplement

(To prospectus dated August 16, 2007)

10,000,000 shares

Class A common stock

We are offering to sell 10,000,000 shares of our Class A common stock.

Concurrent with this offering, our Chairman and founder, William Brown, intends to purchase 500,000 shares of our Class A common stock from us in a private placement at the public offering price.

Holders of our Class A common stock have no voting rights, except as required by Delaware law. Only the holders of our common stock and Class B common stock vote for the election of directors and on most other matters.

Our Class A common stock is traded on the NASDAQ Global Select Market under the symbol CENTA. On September 7, 2007, the last reported sale price of our Class A common stock on the NASDAQ Global Select Market was $12.01 per share.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Central	$	$

We have granted the underwriters an option for 30 days to purchase up to 1,500,000 additional shares of our Class A common stock to cover overallotments.

Investing in our Class A common stock involves a high degree of risk. See Risk Factors beginning on page S-9 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or the accuracy of this prospectus supplement. Any representation to the

contrary is a criminal offense.

JPMorgan

Morgan Stanley

SunTrust Robinson Humphrey

, 2007

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In this prospectus supplement, we use the terms Central, we, us, our, and our company and similar phrases to refer to Central Garden & Pet Company, a Delaware corporation, and its consolidated subsidiaries.

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About this prospectus supplement

This prospectus supplement is a supplement to the accompanying prospectus that is also a part of this document. The accompanying prospectus is part of a registration statement that we filed with the SEC using a shelf registration process. Under the shelf registration process, from time to time we may offer debt securities, subsidiary guarantees of debt securities, preferred stock, debt warrants, equity warrants, common stock and Class A common stock. In the accompanying prospectus, we provide you with a general description of the securities we may offer from time to time under our shelf registration statement. In this prospectus supplement, we provide you with a general description of the shares of our Class A common stock that we will offer under this prospectus supplement and specific information about the terms of this offering. Both this prospectus supplement and the accompanying prospectus include, or incorporate by reference, important information about us, our Class A common stock and other information you should know before investing. This prospectus supplement also adds to, updates and changes information contained in the accompanying prospectus. If any specific statement that we make in this prospectus supplement is inconsistent with the statements made in the accompanying prospectus, the statements made in the accompanying prospectus are deemed modified or superceded by the statements made in this prospectus supplement. You should read both this prospectus supplement and the accompanying prospectus, as well as the additional information described under Where You Can Find More Information in the accompanying prospectus, before investing in our Class A common stock.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus or in any free writing prospectus which we or the underwriters have provided or will provide to you in connection with the offer and sale of the shares. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. If anyone else provides you with additional, different or inconsistent information, you should not rely on it. We and the underwriters are offering to sell the shares, and seeking offers to buy the shares, only in jurisdictions where offers and sales are permitted. You should not assume that the information we have included in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the dates shown in these documents or that any information we have incorporated by reference in this prospectus supplement or the accompanying prospectus or any other information which we or the underwriters have provided in connection with this offer is accurate as of any date other than the date of the document incorporated by reference or such other information. Our business, financial condition, results of operations and prospects may have changed since that date.

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Prospectus summary

The company

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus supplement. Prospective investors should carefully consider the matters set forth under the caption Risk factors.

Central Garden & Pet Company is a leading innovator, marketer and producer of quality branded products. We are one of the largest suppliers in the pet and lawn and garden supplies industries in the United States. The total pet industry is estimated to be approximately $36 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 $13 billion. The total lawn and garden industry in the United States is estimated to be approximately $95 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 $27 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, 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 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, All-Glass Aquarium, Altosid, Aqueon, BioSpot, Breeder s Choice, Coral Life, Farnam, Four Paws, Interpet, Kaytee, Kent Marine, Nylabone, Oceanic, Pet Select, Pre Strike, RZilla, Super Pet, TFH and Zodiac.

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

We have had a long history of revenue growth and profitability. From fiscal 2001 to fiscal 2006, our consolidated net sales increased from $1.1 billion to $1.6 billion and our income from operations increased from $14.1 million to $136.8 million. During this same period, sales of our pet segment, or Pet Products, increased from $476.0 million to $819.2 million and sales of our lawn and garden segment, or Garden Products, increased from $647.0 million to $802.4 million.

Competitive strengths

We believe we have the following competitive strengths which serve as the foundation of our business strategy:

Market Leadership Positions Built on a Strong Brand Portfolio. We are one of the leaders in the premium branded U.S. pet supplies market and in the U.S. consumer lawn and garden supplies market. We have a diversified portfolio of brands, most of which we believe are among the leading brands in their respective U.S. market categories. The majority of our brands have been marketed and sold for more than 20 years.

Innovative New Products. We have developed a reputation for introducing innovative and high quality products. We continuously seek to introduce new products at a reasonable cost, both as complementary extensions of existing product lines and as new product categories. We have received over 37 awards for our new pet products in the last three years.

Strong Relationships with Retailers. We have developed strong relationships with major and independent retailers through product innovation, premium brand names, broad product offerings, captive sales and logistics capabilities and a high level of customer service. Major retailers value the efficiency of dealing with suppliers with national scope and strong brands. These strengths have made us one of the largest pet supplies vendors to Wal*Mart, PETsMART and PETCO and among the largest lawn and garden supplies vendors to Wal*Mart, Home Depot and Lowe s. In addition, we are the largest supplier to independent pet supplies retailers in the United States.

Favorable Industry Characteristics. The pet and lawn and garden supplies markets in the U.S. have grown, even during recent periods of economic uncertainty, and are expected to continue to grow due to favorable demographic and leisure trends. The key demographics bolstering our markets are the growth rates in the number of children under 18 and the number of adults over age 55. Households with children tend to own more pets, and adults over 55 are more likely to be empty nesters who keep pets as companions and have more disposable income and leisure time available for both pets and garden activities.

Sales and Logistics Networks. We are a leading supplier to independent specialty retailers for the pet and lawn and garden supplies markets through our sales and logistics networks. We believe our sales and logistics networks give us a significant competitive advantage over other suppliers. These networks provide us with key access to independent pet specialty retail stores and retail lawn and garden customers that require two-step distribution for our branded products.

Experienced and Incentivized Management Team. Our senior management team has significant experience in the pet and lawn and garden supplies industries. William E. Brown, our Chairman, has over 25 years of industry experience, and Glenn W. Novotny has been our Chief Executive Officer since June 2003 and our President since 1990. Our Chairman also owns approximately 7% of our outstanding stock and, concurrent with this offering, intends to purchase an additional 500,000 shares of Class A common stock in a private placement directly from us.

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Business strategy

Our objective is to increase market share, revenue, cash flow and profitability by enhancing our position as one of the leading companies in the U.S. pet supplies industry and the lawn and garden industry. To achieve our objective, we plan to capitalize on our strengths and favorable industry trends by implementing the following key elements of our business strategy:

Promote Existing Brands. With our broad product assortment, strong brand names, strong sell-through and innovative products and packaging, we believe we can further strengthen our relationships with existing retailers to increase shelf space and sales. We believe that the expansion plans of our major customers provide us with a solid foundation for continued growth. We intend to gain market share in the mass market, grocery and specialty pet store channels and add new retailers through our recent addition of marketing and sales personnel dedicated to these channels, as well as our innovative product introductions and packaging. We will continue to focus on using our sales and logistics network to emphasize sales of our higher margin, proprietary brands and to use efficient supply chain capabilities that enable us to provide retailers with high service levels and consistent in-stock positions. In addition, we intend to leverage our existing brands to expand opportunistically into international markets with existing retailers.

Continue New Product and Packaging Innovation. We will continue to leverage the strength of our leading brand names by introducing innovative new products and packaging, extending existing product lines and entering new product categories. Our new product strategy seeks to capitalize on consumer needs and on our strong brand names, established customer relationships and history of product innovation. We have also made investments in our corporate sales and marketing infrastructure in the areas of product development, category management and key account sales support.

Continue to Improve Margins. We believe there is an opportunity to continue to improve our gross and operating margins through increased sales of our higher margin, consumer preferred, innovative branded products and through cost reductions and leveraging of our existing infrastructure. Since fiscal 2004, we consolidated our sales and logistics centers, made capital improvements and consolidated some of our manufacturing facilities to reduce costs and improve manufacturing efficiencies. As a result of our initiatives, gross margins increased from 30.3% in fiscal 2004 to 32.1% in fiscal 2005 and 33.0% in fiscal 2006. However, our gross margin decreased to 32.8% for the nine month period ended June 30, 2007 due primarily to significant grain cost increases and adverse weather conditions.

Pursue Strategic Acquisitions of Branded Companies. We plan to continue to make selected strategic acquisitions of branded product companies that complement our existing brands and product offerings. Management has substantial experience in acquiring branded products companies. By leveraging our marketing, manufacturing and sales and logistics capabilities, we believe we can increase the sales and improve the operating efficiencies of acquired companies. We look for companies with the potential to have the top one or two brands in their respective categories. The characteristics we seek when evaluating target companies are strong brand names, high quality and innovative product offerings, an experienced management team and a history of organic earnings growth.

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Recent developments and financial results

During the first nine months of fiscal 2007, our sales and operating results were adversely impacted primarily by unfavorable weather conditions in many parts of the United States and continued adverse grain cost pressures in our wild bird feed operations. We believe the garden segment sales shortfall in the third quarter of fiscal 2007 of approximately $50 million as compared to the same period last year was due primarily to weather conditions that impacted sales of our grass seed products and sales of our herbicide, pesticide and insecticide products. We believe that our cost of goods for grain will increase by approximately $25-$30 million in fiscal 2007 over fiscal 2006, based on our grain costs year-to-date and our forecast for the balance of the fiscal year.

On September 10, 2007, we announced that we currently expect operating earnings for the fiscal fourth quarter ended September 29, 2007 to be in the range of $0.07 to $0.09 per fully diluted share and for fiscal 2007 to be in the range of $0.54 to $0.56 per fully diluted share, excluding any unforeseen year-end adjustments or non-cash charges. We further announced that we expect fiscal 2008 results to be a substantial improvement over fiscal 2007 results but not to the level of fiscal 2006 results, assuming that the adverse weather conditions and volatile grain prices, which adversely affected fiscal 2007 results, do not recur. The preliminary forecasts for the fourth quarter and for fiscal 2007 and our outlook for fiscal 2008 do not include the effects of any future acquisitions or the impact of this offering and the concurrent offering.

On August 27, 2007, we amended our credit facility to provide us with additional financial flexibility. The amendment increased the maximum capital expenditures amount for fiscal 2007 to $70 million, reduced the minimum interest coverage ratio through the third quarter of fiscal 2008 to 2.50x, increased the maximum leverage ratio through the third quarter of fiscal 2008 to 5.0x, and provided that the interest rate on both term loans and revolving loans increases when the leverage ratio exceeds 4.5 to 1.0.

On February 5, 2007, we issued a stock dividend on our common stock and Class B common stock to stockholders of record as of January 14, 2007. The stock dividend was in the form of two shares of our Class A common stock for each outstanding share of our common stock and Class B common stock. We distributed the Class A common stock to create an active trading market in the stock. We plan to use our Class A common stock to strategically raise additional equity capital, to pursue acquisitions and to contribute to employee benefit plans.

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The offering

Issuer	Central Garden & Pet Company
Class A common stock offered	10,000,000 shares
Concurrent offering to Chairman	Concurrent with this offering, our Chairman and founder, William Brown, intends to purchase 500,000 shares of our Class A common stock from us in a private placement at the public offering price.
Common stock outstanding after this offering:	
Class A common stock	58,344,603 shares
Common stock	22,289,985 shares
Class B common stock	1,652,262 shares
Use of proceeds	We expect to use the net proceeds from this offering and the concurrent offering to pay down debt under our revolving credit facility.
Risk factors	An investment in our Class A common stock involves risks. Please read the section titled Risk factors beginning on page S-9 of this prospectus supplement.
NASDAQ Global Select Market symbols:	
Class A common stock	CENTA
Common stock	CENT

The number of shares estimated to be outstanding after this offering is based on 22,289,985 shares of common stock, 47,844,603 shares of Class A common stock and 1,652,262 shares of Class B common stock outstanding on September 1, 2007, and excludes (i) 3,510,244 shares of Class A common stock and 1,244,399 shares of common stock issuable upon exercise of stock options outstanding under our stock option plan on September 1, 2007, of which options for 659,166 shares of Class A common stock and 322,683 shares of common stock were exercisable on that date, and (ii) 43,202 shares of Class A common stock and 21,601 shares of common stock issuable upon conversion of our Series B preferred stock.

Holders of our Class A common stock and Series B preferred stock have no voting rights, except as required by Delaware law. Only the holders of our common stock and Class B common stock, neither of which we are offering by this prospectus supplement, vote for the election of directors and on most other matters. The holders of common stock are entitled to one vote per share, and

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the holders of Class B common stock are entitled to the lesser of ten votes per share or 49% of the total votes cast. See Description of Capital Stock in the accompanying prospectus.

Except as otherwise indicated, all information in this prospectus supplement assumes no exercise of the underwriters over-allotment option to purchase up to an additional 1,500,000 shares from us.

Our fiscal year ends on the last Saturday of September, and our fiscal quarters end on the last Saturday of December, March and June. Fiscal year 2006 included 53 weeks; fiscal years 2002-2005 included 52 weeks.

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Summary consolidated financial information

The following table shows summary consolidated financial and operating information for us. You should read the information set forth below in conjunction with our consolidated audited financial statements for the year ended September 30, 2006, and related notes thereto, our consolidated unaudited interim financial statements for the three months and nine months ended June 30, 2007, and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006, which is incorporated by reference herein.

(in thousands, except per share amounts)	September 25, 2004	September 24, 2005	Fiscal Year Ended September 30, 2006	Nine Months Ended June 24, 2006	June 30, 2007
Statement of Operations Data:					
Net sales	$1,266,526	$1,380,644	$1,621,531	$1,200,757	$1,269,836
Cost of goods sold and occupancy	882,227	937,989	1,086,219	800,296	852,980
Gross profit	384,299	442,655	535,312	400,461	416,856
Selling, general and administrative expenses	302,227	342,526	398,510	285,083	327,509
Income from operations	82,072	100,129	136,802	115,378	89,347
Interest expense, net	(17,753)	(20,660)	(37,670)	(25,915)	(36,039)
Other income	2,023	4,576	3,083	3,223	2,879
Income before income taxes and minority interest	66,342	84,045	102,215	92,686	56,187
Income taxes	24,992	30,258	35,791	32,362	20,904
Minority interest			890	809	1,284
Net income	$ 41,350	$ 53,787	$ 65,534	$ 59,515	$ 33,999
Net income per share (1):					
Basic	$ 0.69	$ 0.86	$ 0.97	$ 0.90	$ 0.48
Diluted	$ 0.66	$ 0.83	$ 0.95	$ 0.87	$ 0.47
Weighted average shares used in the computation of net income per share (1):					
Basic	60,108	62,439	67,833	66,180	70,730
Diluted	62,403	64,578	69,054	68,190	72,066
Other Data:					
Depreciation and amortization	$ 18,516	$ 19,600	$ 23,957	$ 18,628	$ 21,875
Capital expenditures	$ 18,264	$ 18,676	$ 47,589	$ 30,716	$ 47,462
Cash from (used in) operating activities	$ 64,414	$ 57,659	$ 95,166	$ 1,885	$ (2,899)
Cash used in investing activities	$ (192,147)	$ (65,808)	$ (427,721)	$ (384,781)	$ (63,442)
Cash from financing activities	$ 62,214	$ 25,085	$ 332,239	$ 362,159	$ 53,660
Ratio of earnings to fixed charges(2)	4.36	4.23	3.31	3.94	2.35

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(in thousands)	June 30, 2007	As Adjusted(3)
Balance Sheet Data:		
Cash	$ 15,815	$ 15,815
Working capital	$ 476,728	$ 476,728
Total assets	$1,660,451	$1,660,451
Total debt	$ 616,335	$ 496,985
Stockholders equity	$ 776,222	$ 895,572

(1) All share and per share amounts have been restated to reflect the Class A common stock dividend on February 5, 2007.

(2) For the purposes of determining the ratio of earnings to fixed charges, earnings consist of income (loss) before income taxes and cumulative effect of accounting change, excluding income and losses associated with equity method investees, and before fixed charges. Fixed charges consist of interest expense, the portion of rental expense under operating leases deemed by management to be representative of the interest factor and amortization of deferred financing costs.

(3) Adjusted to reflect the sale of (i) 10,000,000 shares of Class A common stock offered by us hereby and (ii) 500,000 shares of Class A common stock in the concurrent offering, at an assumed offering price of $12.01 per share, the last reported sale price of our Class A common stock on the NASDAQ Global Select Market on September 7, 2007, and the application of the estimated net proceeds therefrom as described in Use of proceeds.

A $1.00 increase or decrease in the assumed offering price of $12.01 per share of Class A common stock would increase or decrease each of as adjusted total debt and stockholders equity by $10.0 million, assuming the number of shares of Class A common stock offered by us and sold in the concurrent offering, as set forth on the cover page of this preliminary prospectus supplement, remains the same and after deducting the estimated underwriting discount and estimated offering expenses we expect to pay.

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Risk factors

You should carefully consider the risks described below. In addition, the risks described below are not the only ones facing us. We have only described the risks we consider to be the most material. However, there may be additional risks that are viewed by us as not material at the present time or are not presently known to us. Conditions could change in the future, or new information may come to our attention that could impact our assessment of these risks.

If any of the events described below were to occur, our business, prospects, financial condition and/or results of operations could be materially adversely affected. In any such case, the price of our Class A common stock could decline, and you could lose all or part of your investment in our company.

Our operating results and cash flow are susceptible to fluctuations.

We expect to continue to experience variability in our net sales, net income and cash flow on a quarterly basis. Factors that may contribute to this variability include:

- fluctuations in prices of commodity grains;
- weather conditions during peak gardening seasons and seasonality;
- shifts in demand for lawn and garden products;
- shifts in demand for pet products;
- changes in product mix, service levels and pricing by us and our competitors;
- changes in the regulation of the use of our products;
- the effect of acquisitions, including the costs of acquisitions that are not completed; and
- economic stability of retailers.

These fluctuations could negatively impact our business and the market price of our Class A common stock.

Seeds and grains we use to produce bird feed and grass seed are commodity products subject to price volatility that has had, and could have, a negative impact on us.

Our financial results depend to some extent on the cost of raw materials and our ability to pass along increases in these costs to our customers. In particular, our Pennington and Kaytee subsidiaries are exposed to fluctuations in market prices for commodity seeds and grains used to produce bird feed. Historically, market prices for commodity seeds and grains have fluctuated in response to a number of factors, including changes in United States government farm support programs, changes in international agricultural and trading policies and weather conditions during the growing and harvesting seasons. In the event of any increases in raw materials costs, we are required to increase sales prices to avoid margin deterioration.

To mitigate our exposure to changes in market prices, we enter into purchase contracts for grains, bird feed and grass seed to cover up to approximately one-third of the purchase requirements for a selling season. Since these contracts cover only a portion of our purchase requirements, as market prices for grains increase, our cost of production increases as well. In contrast, if market prices for grains decrease because of a lack of demand, we may end up purchasing grains and seeds pursuant to the purchase contracts at prices above market. In 2006, crop yields for grass seed and for the primary components of wild bird feed, notably sunflower, milo and millet, were adversely impacted by drought conditions in key growing regions of the United States. Supply has been further limited as more farmers shift to corn-based crops for the production of ethanol to meet increased demand. During the fourth quarter of fiscal 2006 and the first three quarters of fiscal 2007, prices for some of our key crops increased substantially. Although we have been able to negotiate price increases with some of our retailers, these price increases have not fully offset the rising costs. We cannot assure you as to the timing or extent of our ability to implement price increases in the current context of rising costs or in the event of increased costs in the future. Based on our grain costs year-to-date and our forecast for the balance of the fiscal year, we believe that our cost of goods for grain will increase $25-$30 million in fiscal 2007 over fiscal 2006. The impact of these grain cost increases will be partially offset by price increases that we are able to obtain from our retailers. We also cannot predict to what extent price increases may negatively affect our sales volume. As retailers pass along price increases, consumers may shift to our lower margin pet bird feed, switch to competing products or reduce purchases of wild bird feed products, all of which would be expected to have a negative impact on our results of operations.

Supply shortages in pet birds and small animals may negatively impact our sales.

Recently, the federal government and many state governments have increased restrictions on the importation of pet birds and the production of small animals. These restrictions have resulted in reduced demand for our pet bird and small animal food and supplies. If these restrictions continue or worsen, our future sales of these products will likely suffer, which would negatively impact our profitability. In addition, some countries have experienced outbreaks of bird flu. If the United States were to experience a significant outbreak of bird flu, the government could restrict the importation or interstate shipment of pet birds, and consumers could delay purchasing pet birds or shy away from feeding wild birds. Such restrictions would reduce the demand for our pet and wild bird feed, which would negatively impact our financial results.

Our lawn and garden sales are highly seasonal and subject to adverse weather, either of which could impact our cash flow and operating results.

Because our lawn and garden products are used primarily in the spring and summer, Garden Products   business is seasonal. In fiscal 2006, approximately 61% of Garden Products   net sales and 56% of our total net sales occurred during our second and third fiscal quarters. Substantially all of Garden Products   operating income is generated in this period. Our working capital needs and our borrowings generally peak in our second fiscal quarter because we are generating lower revenues while incurring expenses in preparation for the spring selling season. If cash on hand and borrowings under our credit facilities are insufficient to meet our seasonal needs or if cash flow generated during the spring and summer is insufficient to repay our borrowings on a timely basis, our business could be adversely affected.

Because demand for lawn and garden products is significantly influenced by weather, particularly weekend weather during the peak gardening season, our results of operations and cash flow could also be adversely affected by certain weather patterns such as unseasonably cool or warm temperatures, water shortages or floods. During fiscal 2003, 2004 and 2007, our results of operations and cash flow were negatively affected by severe weather conditions in some parts of the United States. Most recently, our garden segment sales shortfall of approximately $50 million in the third quarter of fiscal 2007 as compared to the same period last year was due primarily to weather conditions that impacted sales of our grass seed products and sales of our herbicide, pesticide and insecticide products.

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We depend on a few customers for a significant portion of our business.

Wal*Mart, our largest customer, accounted for approximately 17% of our net sales in fiscal 2006, 19% in fiscal 2005 and 20% in fiscal 2004. In addition, Home Depot, Lowe s, PETsMART and PETCO are also significant customers although each accounted for less than 10% of our net sales and, together with Wal*Mart, accounted for approximately 40% of our net sales in fiscal 2006, 42% in fiscal 2005 and 43% in fiscal 2004. The market share of these key retailers has increased during recent years and may continue to increase in future years.

The loss of, or significant adverse change in, our relationship with any of these key retailers could cause our net sales, income from operations and cash flow to decline. The loss of, or reduction in, orders from any significant customer, losses arising from customer disputes regarding shipments, fees, merchandise condition or related matters, or our inability to collect accounts receivable from any major customer could reduce our income from operations and cash flow.

We may be adversely affected by trends in the retail industry.

With the growing trend towards retail trade consolidation, we are increasingly dependent upon key retailers whose bargaining strength is growing. Our business may be negatively affected by changes in the policies of our retailers, such as inventory destocking, limitations on access to shelf space, price demands and other conditions. In addition, as a result of the desire of retailers to more closely manage inventory levels, there is a growing trend among retailers to make purchases on a just-in-time basis. This requires us to shorten our lead time for production in certain cases and to more closely anticipate demand, which could in the future require the carrying of additional inventories and an increase in our working capital and related financing requirements. This shift to just-in-time can also cause retailers to delay purchase orders, which can cause sales to shift from quarter to quarter causing us to miss our quarterly sales projections. Moreover, if retailers wait too long to place orders, we may be unable to ship products quickly enough to replenish inventory, which could cause retail customers to defer purchases of our products or purchase competing products.

A significant deterioration in the financial condition of one of our major customers could have a material adverse effect on our sales, profitability and cash flow. We continually monitor and evaluate the credit status of our customers and attempt to adjust sales terms as appropriate. Despite these efforts, a bankruptcy filing by a key customer could have a material adverse effect on our business, results of operations and financial condition in the future.

We cannot be certain that our product innovations and marketing successes will continue.

We believe that our past performance has been based on, and our future success will depend upon, in part, our ability to continue to improve our existing products through product innovation and to develop, market and produce new products. We cannot assure you that we will be successful in the introduction, marketing and production of any new products or product innovations, or that we will develop and introduce in a timely manner innovations to our existing products which satisfy customer needs or achieve market acceptance. Our failure to develop new products and introduce them successfully and in a timely manner could harm our ability to grow our business and could have a material adverse effect on our business, results of operations and financial condition.

Competition in our industries may hinder our ability to execute our business strategy, increase our profitability or maintain relationships with existing customers.

We operate in highly competitive industries, which have experienced increased consolidation in recent years. We compete against numerous other companies, some of which are more established in their industries and have substantially greater revenue or resources than we do. Our products compete against national and regional products and private label products produced by various suppliers. Our largest competitors in pet supplies products are Spectrum Brands and Hartz Mountain, and our largest competitors in lawn and garden products are The Scotts Company and Spectrum Brands.

To compete effectively, among other things, we must:

- develop and grow brands with leading market positions;
- maintain our relationships with key retailers;
- continually develop innovative new products that appeal to consumers;
- maintain strict quality standards;
- deliver products on a reliable basis at competitive prices; and
- effectively integrate acquired companies.

Competition could cause lower sales volumes, price reductions, reduced profits or losses, or loss of market share. Our inability to compete effectively could have a material adverse effect on our business, results of operations and financial condition.

Our acquisition strategy involves a number of risks.

We have completed numerous acquisitions since 1997 and intend to grow through the acquisition of additional companies. In fiscal 2007 to date, we have completed two small acquisitions. In fiscal 2006, we completed five acquisitions, including the acquisition of Farnam Companies, Inc. for an initial purchase price of approximately $291 million. Farnam constituted a significant acquisition for us.

We are regularly engaged in acquisition discussions with a number of companies and anticipate that one or more potential acquisition opportunities, including those that would be material, may become available in the near future. If and when appropriate acquisition opportunities become available, we intend to pursue them actively. Acquisitions involve a number of special risks, including:

- failure of the acquired business to achieve expected results;
- diversion of management s attention;
- failure to retain key personnel of the acquired business;
- additional financing, if necessary and available, which could increase leverage, dilute equity, or both;
- the potential negative effect on our financial statements from the increase in goodwill and other intangibles;
- the high cost and expense of completing acquisitions; and

risks associated with unanticipated events or liabilities.

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These risks could have a material adverse effect on our business, results of operations and financial condition.

We have faced, and expect to continue to face, increased competition for acquisition candidates, which may limit the number of opportunities available to us and has led to higher acquisition prices. We cannot assure you that we will be able to identify, acquire or manage profitably additional businesses or to integrate successfully any acquired businesses into our existing business without substantial costs, delays or other operational or financial difficulties. In future acquisitions, we also could incur additional indebtedness or pay consideration in excess of fair value, which could have a material adverse effect on our business, results of operations and financial condition.

Our success depends upon our retaining key personnel.

Our future performance is substantially dependent upon the continued services of William E. Brown, our Chairman, Glenn W. Novotny, our President and Chief Executive Officer, and our other senior officers. The loss of the services of any of these persons could have a material adverse effect upon us. In addition, our future performance depends on our ability to attract and retain skilled employees. We cannot assure you that we will be able to retain our existing personnel or attract additional qualified employees in the future.

Rising energy prices could adversely affect our operating results.

In the last few years, energy prices have risen dramatically, which has resulted in increased fuel and raw materials costs. Rising energy prices could adversely affect consumer spending and demand for our products and increase our operating costs, both of which would reduce our sales and operating income.

We are implementing a new enterprise resource planning information technology system that will result in an increase in IT spending over the next several years.

In fiscal 2005, we began incurring costs associated with designing and implementing a new company-wide enterprise resource planning software system with the objective of gradually migrating to the new system over the following four fiscal years. Upon completion, this new system is expected to replace our numerous existing accounting and financial reporting systems, most of which we obtained through our various business acquisitions. From fiscal 2005 through June 30, 2007, we have invested approximately $27 million in this initiative and anticipate investing an additional $18 million as we continue to implement the system over the next three years. If we do not complete the implementation of the project timely and successfully, we may experience, among other things, additional costs associated with completing this project and a delay in realizing the projected reduction in operating costs. All of this may also result in a distraction of management s time, dive