



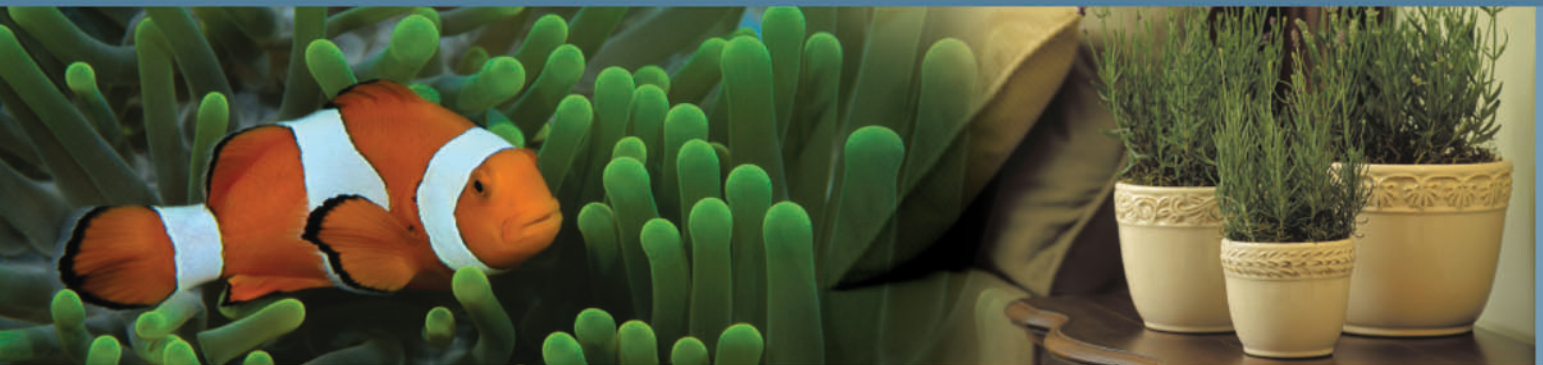
# Central Garden & Pet Company

2007 ANNUAL REPORT



Central Garden & Pet Company is a leading innovator, marketer and producer of quality branded products for consumer and professional use in the lawn and garden and pet supplies markets. For years, we have successfully helped consumers beautify their outdoor living spaces

FARNAM • TFH/NYLABONE • FOUR PAWS • OCEANIC • KAYTEE



AMDRO • BREEDER'S CHOICE • PENNINGTON • LILLY MILLER

and promote healthy interaction with their pets. The foundation of our success is our dedication to Innovation, Quality and Service. Our strategy is to continue to Strengthen and Build our branded products portfolio for consumers; to be both Effective and Efficient for our retail partners; and to deliver Superior Returns for our shareholders.

## To Our Fellow Shareholders



**William E. Brown**  
CHAIRMAN OF THE BOARD AND  
CHIEF EXECUTIVE OFFICER



At Central Garden & Pet, we know that the home is the heart of activity. For family and friends, humans and pets, our focus is to provide consumers with high-quality, innovative products that improve the quality and beautify outdoor living, and create fun and healthy interaction between pets and their owners.

Fiscal 2007 ended up being one of the most difficult years in our history and one of profound change. While we believe we executed well in some parts of the business by launching new products, leveraging our competitive strengths and gaining market share at retail, we faced significant challenges in other parts of the business, including adverse weather and unprecedented increases in grain costs, among other things. Operating and financial results were substantially below our plans and expectations.

### **Preparing for Fiscal 2008 and Beyond**

With 2007 behind us, we are looking to 2008 to reset and create a stronger and more agile company.

As many of you know, I was recently reappointed Chief Executive Officer by Central's Board of Directors. As Central's founder, Chairman, CEO and largest individual shareholder, my interests have never been more aligned with yours. My goal is to refocus and reenergize the Company by examining every part of our business from the ground up. Performance excellence is the standard which I expect from our organization.

While the challenges we faced last year were indeed significant and unexpected, they cannot be used as the only reasons for the poor performance.

I have issued a challenge to our organization as a whole, to identify and implement measures that will drive improved growth and profits. We are going to sharpen our effectiveness, focusing on detail-oriented analysis, operating performance and accountability.

While the leadership has changed, Central has a talented and experienced team that is ready to improve the way we do business. The quality efforts of this team are the fundamental key to the success of the Company. We expect fiscal 2008 to be a transition year. The management team's contributions will help to ensure a promising future for Central, our customers and shareholders.

### **A Great Platform for Growth**

At Central, we have a great portfolio of brands and a strong platform for growth supported by our ongoing commitment to innovation.

Across both Garden and Pet, our leading brands generally occupy either the premium or opening price point position – the number one or number two position – at retail. We continue to expand our shelf position through our award winning service, strong relationships at retail, and

Innovating great products that are effective and easy to use.



The Garden Group at Central is focused on developing innovative, easy to use, highly efficacious products. We are a leading provider of grass seed, wild bird feed, insect, weed and other garden control products and decorative outdoor pottery.



the breadth and depth of our offerings. Both our Garden and Pet retail partners continued to recognize our efforts, awarding us “Vendor of the Year” and related awards in 2007.

Vital to Central’s success is our commitment to innovation. Our new products beautify, simplify and provide superior efficacy to lawns and gardens, and improve the health and well-being of pets while being fun for their owners.

To this end, we launched over 500 new products in fiscal 2007 in our Garden and Pet portfolios. In addition, we were recognized as the industry leader in new product innovation, winning nine new product awards, including five “Best in Show” awards at the 2007 Global Pet Expo.

Looking ahead, we will continue to leverage our strength in science and technology to develop innovative new products. Our new product pipeline includes the latest generation of highly effective insect control products, innovative grass seed varieties that require up to 30% less water, and other environmentally-friendly products for both lawn and garden and pet applications.

### Strengthening Our Operating Platform

This past year, we completed the integration of Farnam Companies, acquired in fiscal 2006, into our Central Life Sciences strategic business unit. Central Life Sciences is poised for growth, having reduced operating overhead and developed a coherent, integrated branding strategy aimed at our professional and consumer customer bases.

We also consolidated our garden distribution operations under one national management team to reduce costs throughout our organization and create greater operating efficiencies.

The majority of our operations are performing at an acceptable operational and financial standard. We are working hard to elevate the performance of our Aquatics, Bird & Small Animal and Garden Décor operations. We are confident that a return to a more normalized operating environment in fiscal 2008, in addition to the steps we will take to improve the way we do business, will improve our results.



Innovating products that are safe, healthy and fun.



The Pet Group is a leading provider of aquariums and related supplies, products for birds and small animals, dog & cat food, supplies and treats, insect control and other animal health products for companion animals and the equine industry.

## Financial & Operating Summary

In fiscal 2007, net sales increased 3% to \$1.67 billion; operating income decreased 27% to \$99.4 million; and net income decreased 51% to \$32.3 million translating into earnings per fully diluted share of \$0.45, a decrease of 53% over fiscal 2006. Sales from existing operations decreased approximately 1% while acquisitions contributed \$73 million to sales. Clearly, returning these results to historical levels is a top priority.

### *Garden Products*

Extreme weather and unprecedented increases in grain costs related to our wild bird feed operations were the principal factors in the garden segment shortfall in fiscal 2007.

The severe drought in the Southeast, the heavy flooding in Texas and an unseasonably cool April throughout the East adversely impacted sales and profits. Further compounding these results were extraordinary increases of the cost of key ingredients in our wild bird feed products, namely the grains milo, millet and sunflower.

As a result, net sales decreased 3% to \$778 million. Garden branded products sales were \$657 million, relatively unchanged compared to last year. Acquisitions added \$13 million in net sales. Operating income decreased 21% to \$46 million.

### *Pet Products*

In fiscal 2007, Pet segment results were mixed. We experienced solid demand for our branded products, particularly in the companion animal categories of Dog and Cat. However, sales and profits of Aquatics and Bird & Small Animal products were unsatisfactory.

Operating profits in Pet declined due to the impact of higher grain prices on our wild bird feed operations and weakness in both Aquatics and Bird & Small Animal product categories.

Deepening community involvement with affiliations and sponsorships.



We have long-standing relationships with organizations such as Tony La Russa's Animal Rescue Foundation, the Delta Society, Dogs for Diabetes, and Caring for Both Ends of the Leash fight against breast cancer.



Net sales increased 9% to \$893 million. Pet branded products sales increased 12% to \$744 million. Acquisitions added \$61 million in net sales. Operating income decreased 10% to \$94 million.

#### Concluding Observations

Glenn Novotny decided to step down as President and Chief Executive Officer at the end of October. The entire Board of Directors and I truly appreciate and value the role Glenn played making Central the industry leader it is today. All of us at Central want to thank him for his many contributions and friendship, and we wish him the best.

Our performance in fiscal 2007 clearly left a lot to be desired, and we have work to do. We are focused on the right things, and I am confident that we can succeed in 2008 and beyond.

Thank you for your continued support.

Sincerely,

William E. Brown

CHAIRMAN OF THE BOARD & CHIEF EXECUTIVE OFFICER

## CORPORATE INFORMATION

Central Garden & Pet Company

### BOARD OF DIRECTORS

**William E. Brown**  
Chairman and  
Chief Executive Officer

**Brooks M. Pennington, III**  
Former President,  
Pennington Seed, Inc.

**John B. Balousek**  
Self-employed Consultant;  
Former CEO/President of True  
North Technologies, Digital and  
Interactive Services Company;  
Former President/  
Chief Operating Officer,  
Foote, Cone & Belding  
Communications, Global  
Communications Company

**David N. Chichester**  
Partner, Tatum CFO Partners, LLP;  
Former CFO, Starbucks Coffee  
Japan, Ltd.; Former Senior Vice  
President of Finance, Starbucks  
Corporation

**Alfred A. Piergallini**  
Consultant, Desert Trail Consulting;  
Former Chairman, President and  
CEO, Gerber Products Company;  
Former Chairman, President and  
CEO, Novartis Consumer  
Health Worldwide

**Bruce A. Westphal**  
Chairman, Bay Alarm Company;  
President, Balco Properties

### EXECUTIVE OFFICERS

**William E. Brown**  
Chairman and  
Chief Executive Officer

**Stuart W. Booth**  
Executive Vice President,  
Chief Financial Officer  
and Secretary

**James V. Heim**  
President  
Pet Products

**Michael A. Reed**  
Executive Vice President

### CORPORATE EXECUTIVES

**John Casella**  
Vice President  
Chief Information Officer

**Wes Davidson**  
Vice President  
Corporate Development

**Timothy J. Kane**  
Director of Tax and  
Assistant Secretary

**Howard Machek**  
Corporate Controller and  
Assistant Secretary

**Andy Rich**  
Vice President  
Human Resources

**Paul J. Warburg**  
Vice President  
Investor Relations and  
Assistant Secretary

### OPERATIONAL EXECUTIVES

**Glen S. Axelrod**  
President  
T.F.H. Publications, Inc.

**Mark Baaba**  
Vice President - Controller  
Garden Group

**Eric N. Blomquist**  
President  
Farnam Companies, Inc.

**Mark S. Cavanaugh**  
President  
Aquatics

**Bruce Cazenave**  
President  
Garden Décor

**Paul Duval**  
Senior Vice President - Sales  
Garden Group

**Chris Mings**  
President  
Avian and Small Animal

**Dean Morrison**  
Executive Vice President - Distribution  
Pennington Seed, Inc.

**John A. Negovetich**  
Chief Financial Officer  
Pet Products

**Dan Pennington**  
Executive Vice President  
Pennington Seed, Inc.

**Ted Raiman**  
Vice President  
Distribution and Supply Chain  
Garden Group

**Kay M. Schwichtenberg**  
President – Central Life Sciences

**Allen J. Simon**  
President  
Four Paws Products Ltd.

**Ronnie Stapp**  
Executive Vice President  
Seed Division  
Pennington Seed, Inc.

**Jeff Sutherland**  
President - Distribution  
Pet Products

**Rick S. Taylor**  
President  
Breeder's Choice

**Fredric W. Vogelgesang**  
President – Excel Marketing  
Garden Group

**Tim Vokes**  
Senior Vice President  
Sales and Trade Relations  
Pet Products

### CORPORATE OFFICE

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Walnut Creek, California 94597  
(925) 948-4000  
[www.central.com](http://www.central.com)

### INDEPENDENT AUDITORS

Deloitte & Touche LLP  
San Francisco, California

### TRANSFER AGENT

Mellon Investor Services  
525 Market Street, Suite 3500  
San Francisco, CA 94105  
(800) 356-2017  
[www.melloninvestor.com](http://www.melloninvestor.com)

### STOCK LISTING

Over-the-Counter  
NASDAQ/NMS Symbol CENT/CENTA

### ANNUAL MEETING

The annual meeting of shareholders  
will be held at 10:30 a.m.  
Monday, February 11, 2008 at:  
The Lafayette Park Hotel  
3287 Mt. Diablo Boulevard  
Lafayette, California

For additional information,  
please visit the Company's website:  
[www.central.com](http://www.central.com)  
or contact Investor Relations:  
(925) 948-4000

