

CENTRAL GARDEN & PET CO  
Form DEF 14A  
January 07, 2011

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

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**CENTRAL GARDEN & PET COMPANY**

(Name of Registrant as Specified In Its Charter)

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Edgar Filing: CENTRAL GARDEN & PET CO - Form DEF 14A

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

**CENTRAL GARDEN & PET COMPANY**

**1340 Treat Blvd., Suite 600**

**Walnut Creek, California 94597**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**Monday, February 14, 2011, 10:30 A.M.**

TO THE STOCKHOLDERS:

The Annual Meeting of Stockholders of Central Garden & Pet Company will be held at the LAFAYETTE PARK HOTEL, 3287 Mt. Diablo Boulevard, Lafayette, California, on Monday, February 14, 2011, at 10:30 A.M. for the following purposes:

- (1) To elect six directors;
- (2) To hold an advisory vote on the compensation of the Company's named executive officers as described in the accompanying proxy statement;
- (3) To hold an advisory vote on how frequently (every one, two or three years) stockholders prefer that the Company conducts an advisory vote of stockholders on the executive compensation of the Company's named executive officers;
- (4) To ratify the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending on September 24, 2011; and
- (5) To transact such other business as may properly come before the meeting.

Only holders of record of Common Stock and Class B Stock on the books of the Company as of 5:00 P.M., December 20, 2010, will be entitled to vote at the meeting and any adjournment thereof. Holders of Class A Common Stock are welcome to attend and participate in this meeting. A complete list of the Company's stockholders entitled to vote at the meeting will be available for examination by any stockholder for ten days prior to the meeting during normal business hours at the Company's principal executive offices at 1340 Treat Blvd., Suite 600, Walnut Creek, California.

Pursuant to rules promulgated by the Securities and Exchange Commission (SEC), we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This proxy statement and our 2010 Annual Report to Stockholders are available at <http://www.central.com/annualreports>.

Dated: January 7, 2011

By Order of the Board of Directors

Lori A. Varlas, *Secretary*

**HOLDERS OF COMMON STOCK AND CLASS B STOCK ARE REQUESTED TO MARK, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE.**

## **CENTRAL GARDEN & PET COMPANY**

**1340 Treat Blvd., Suite 600**

**Walnut Creek, California 94597**

### **PROXY STATEMENT**

The enclosed proxy is solicited by the Board of Directors of Central Garden & Pet Company (the Company) to be used at the Annual Meeting of Stockholders on February 14, 2011 (the Annual Meeting), for the purposes set forth in the foregoing notice. This proxy statement and, in the case of holders of Common Stock and Class B Stock, the enclosed form of proxy were first sent to stockholders on or about January 7, 2011. Holders of Class A Common Stock will receive this proxy statement but will not be entitled to vote at the Annual Meeting of Stockholders or any adjournment thereof.

If the enclosed form of proxy is properly signed and returned by holders of Common Stock and Class B Stock, the shares represented thereby will be voted at the Annual Meeting in accordance with the instructions specified thereon. If the proxy does not specify how the shares represented thereby are to be voted, the proxy will be voted as recommended by the Board of Directors. Any stockholder signing a proxy in the form accompanying this proxy statement has the power to revoke it prior to or at the Annual Meeting. A proxy may be revoked by a writing delivered to the Secretary of the Company stating that the proxy is revoked, by a subsequent proxy signed by the person who signed the earlier proxy, or by attendance at the Annual Meeting and voting in person.

### **VOTING SECURITIES**

Only stockholders of record of Common Stock and Class B Stock on the books of the Company as of 5:00 P.M., December 20, 2010, will be entitled to vote at the Annual Meeting.

As of the close of business on December 20, 2010, there were outstanding 15,775,755 shares of Common Stock of the Company, entitled to one vote per share, and 1,652,262 shares of Class B Stock of the Company, entitled to the lesser of ten votes per share or 49% of the total votes cast. There were also outstanding 43,050,766 shares of Class A Common Stock, which generally have no voting rights unless otherwise required by Delaware law. Holders of Common Stock and Class B Stock will vote together on all matters presented to the stockholders for their vote or approval at the meeting.

The holders of a majority of the shares of Common Stock and Class B Stock of the Company entitled to vote, present in person or by proxy, will constitute a quorum for the transaction of business at the Annual Meeting or any adjournment thereof. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the election inspector appointed for the meeting and will determine whether or not a quorum is present. The election inspector will treat abstentions and broker non-votes as shares that are present and entitled to vote for purposes of determining the presence of a quorum but as unvoted for purposes of determining the approval of any matter submitted to the stockholders for a vote.

With regard to the election of directors, votes may be cast For or Withhold for each nominee; votes that are withheld will be excluded entirely from the vote and will have no effect. The directors will be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. As a result, if you withhold your authority to vote for any nominee, your vote will not count for or against the nominee, nor will a broker non-vote affect the outcome of the election.

Proposals Two and Three are non-binding votes. However, the Board of Directors of the Company will consider whether or not stockholders approve the compensation of executives as described in this Proxy Statement when making future determinations on executive compensation. The Board will also consider the number of years for the frequency of the advisory vote on executive compensation that receives the most votes when determining the frequency of future stockholder advisory votes on executive compensation.

The other matters submitted for stockholder approval at the Annual Meeting will be decided by the affirmative vote of a majority of the shares present, in person or by proxy, at the Annual Meeting and entitled to vote on the subject matter. Abstentions are included in the determination of shares present for quorum purposes.

If a stockholder's shares are held in street name and the stockholder does not instruct his or her broker on how to vote the shares, the brokerage firm, in its discretion, may either leave the shares unvoted or vote the shares on routine matters. The proposal to ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the current fiscal year should be treated as a routine matter. To the extent a stockholder's brokerage firm votes shares on the stockholder's behalf on that proposal, the shares also will be counted as present for the purpose of determining a quorum.

---

**PROPOSAL ONE ELECTION OF DIRECTORS**

The persons named below are nominees for director to serve until the next annual meeting of stockholders and until their successors shall have been elected. The nominees are all members of the present Board of Directors. In the absence of instructions to the contrary, shares represented by proxy will be voted for the election of all such nominees to the Board of Directors. If any nominee is unable or unwilling to be a candidate for the office of director at the date of the Annual Meeting, or any adjournment thereof, the proxies will vote for such substitute nominee as shall be designated by the proxies. Management has no reason to believe that any of the nominees will be unable or unwilling to serve if elected. Set forth below is certain information concerning the nominees which is based on data furnished by them.

| Nominees for Director    | Age | Business Experience During Past Five Years and Other Information   | Served as Director Since |
|--------------------------|-----|--|--------------------------|
| William E. Brown         | 69  | Chairman of the Board since 1980. From 1980 to June 2003, Mr. Brown served as Chief Executive Officer of the Company. In October 2007, the Board reappointed Mr. Brown to the additional post of Chief Executive Officer.  | 1980                     |
| Brooks M. Pennington III | 56  | Mr. Brown has extensive management and leadership experience with the Company and a deep knowledge of the lawn and garden and pet supplies industries and the financial and operational issues faced by the Company.<br>Director of Special Projects for the Company since October 2006. From 1994 through September 2006, Mr. Pennington was the President and Chief Executive Officer of Pennington Seed, Inc., a business which was acquired by the Company in 1998. He also serves on the board of several private companies.  | 1998                     |
| John B. Balousek (1)(2)  | 65  | Mr. Pennington has over 35 years of work experience in the lawn and garden industry, including 12 years as the former chief executive officer of Pennington Seed, Inc.<br>Mr. Balousek served as President and Chief Operating Officer of Foote, Cone & Belding Communications, one of the largest global advertising and communications networks, from 1991 until 1996 and as Chairman and CEO of True North Technologies, a digital and interactive services company affiliated with True North Communications in 1996. Mr. Balousek co-founded and, from 1998 to 1999, served as an Executive Vice President of PhotoAlley.com, a San Francisco company marketing photographic equipment, supplies and services online. Prior to 1991, he held various senior executive management positions with Foote, Cone & Belding Communications and positions in brand management with the Procter & Gamble Company. | 2001                     |

| Nominees for Director   | Age | Business Experience During Past Five Years and Other Information  | Served as Director Since |
|-------------------------|-----|---|--------------------------|
| David N. Chichester (1) | 65  | <p>Mr. Balousek has also served as a director of Inuvo, Inc., an online analytics, data and media company, since June 2008 and several private companies. He also served as a director of Aptimus, Inc. (formerly FreeShop.com), an interactive online lead generation network from February 1999 until October 2007 and as a director of Web.com Inc. (formerly Micron Electronics), a web hosting company, from August 1999 until September 2007.</p> <p>As the former president of a global advertising company, positions in brand management at one of the leading consumer products companies, and a director on the board of several public companies, Mr. Balousek has extensive insight into the global consumer goods market.</p> <p>Partner of Tatum LLC, a financial and technology leadership services firm, since 2004, and has served as Interim Chief Financial Officer for three organizations over the past six years. Mr. Chichester served as the Chief Financial Officer of Starbucks Coffee Japan, Ltd. from 2003 to 2004 and Senior Vice President Finance of Starbucks Corporation from 2001 to 2003. Mr. Chichester served as Executive Vice President and Chief Financial Officer at Red Roof Inns, Inc. from 1996 to 1999. Prior to these positions, he held senior management positions in finance at Integrated Health Services, Inc., Marriott Corporation and General Electric Credit Corporation, and served as an investment banker at Warburg Paribas Becker Incorporated and in several roles at The First National Bank of Chicago. He has also served on the boards of other public and private companies, including Pets.com and Red Roof Inns, Inc.</p> <p>Mr. Chichester has an extensive background in corporate and real estate finance, including international business. As a former financial officer at public and private companies and an investment banker, Mr. Chichester brings significant public company accounting, disclosure, financial system management, and risk assessment experience to the Company's Board.</p> | 2002                     |



| Nominees for Director        | Age | Business Experience During Past Five Years and Other Information   | Served as Director Since |
|------------------------------|-----|--|--------------------------|
| Alfred A. Piergallini (1)(2) | 64  | <p>Consultant with Desert Trail Consulting, a marketing consulting organization, since January 2001 and Chairman of Wisconsin Cheese Group, Inc., a specialty cheese company, from January 2006 to December 2010. From December 1999 to December 2001, Mr. Piergallini served as the Chairman, President and Chief Executive Officer of Novartis Consumer Health Worldwide, a manufacturer, developer and marketer of health-related products, and from February 1999 to December 1999, Mr. Piergallini served as the President and Chief Executive Officer of Novartis Consumer Health North America. From 1989 to 1999, Mr. Piergallini held several senior management positions with Gerber Products Company, including, at various times, the offices of Chairman of the Board, President and Chief Executive Officer. He also currently serves as a director of Comerica Incorporated, a financial services company.</p>  | 2004                     |
| John R. Ranelli (1)          | 64  | <p>As a former senior executive of several consumer products companies and a director of other public companies, Mr. Piergallini brings significant experience in general management, marketing, sales and branding and many aspects of the operations of public companies.</p> <p>Since 2008, Mr. Ranelli has been engaged in pursuing corporate acquisition opportunities while advising companies and private equity firms. From 2007 to 2008, Mr. Ranelli was Chief Executive Officer and President of Mikasa, Inc., a global dinnerware, crystal and home accessories company. From 1999 to 2006, he served as Chairman, Chief Executive Officer and President of FGX International, a global optical and jewelry company. Previously, he served in senior executive capacities with Stride Rite Corporation, Deckers Outdoor Corporation, TLC Beatrice and The Timberland Company. He served on the boards of Amscan Holdings, Inc. from 2005 to 2008, GNC Corporation from 2006 to 2007 and Deckers Outdoor Corporation from 1994 to 1996.</p> <p>As an experienced chief executive officer of several consumer products companies and a Chairman and director of other public and private equity owned companies, Mr. Ranelli has extensive experience leading and managing all aspects of mid to large consumer products companies.</p> | 2010                     |

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

**Recommendation of the Board**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR EACH OF THE DIRECTOR NOMINEES LISTED ABOVE.**

**FURTHER INFORMATION CONCERNING**

**THE BOARD OF DIRECTORS**

**Board Independence**

Upon consideration of the criteria and requirements regarding director independence set forth in NASDAQ Rule 5605, the Board of Directors has determined that each of Messrs. Balousek, Chichester, Piergallini and Ranelli meet the standards of independence established by the NASDAQ.

**Board Leadership Structure**

The Company is led by William Brown, who founded the Company in 1980 and has served as our Chairman since then and as Chief Executive Officer from 1980 to 2003 and since 2007. The Board believes that having Mr. Brown act in both these roles provides the Company with consistent leadership, both with respect to the Company's operations and the leadership of the Board. In particular, having Mr. Brown act in both these roles increases the timeliness and effectiveness of the Board's deliberations, increases the Board's visibility into the day-to-day operations of the Company, and ensures the consistent implementation of the Company's strategies.

The Board also believes in the importance of independent oversight, which it seeks to ensure through a variety of means, including:

All of the Company's directors other than Mr. Brown and Mr. Pennington are independent.

Jack Balousek acts as the Company's lead independent director. The lead independent director leads each independent director session of the Board. He also serves as a liaison between the Chairman and the independent directors.

During each regularly scheduled Board meeting, all independent directors meet in executive session without the presence of any management directors.

The charters for each of the Board's committees require that all of the members of those committees be independent. The Board believes that the combined role of Chairman and Chief Executive Officer, together with the significant responsibilities of the Company's lead independent director and other independent directors described above, provide an appropriate balance between leadership and independent oversight.

**Committees of the Board**

The Company has an Audit Committee and a Compensation Committee but does not have a nominating committee or a committee performing the functions of a nominating committee.

*Audit Committee*

During fiscal 2010, the members of the Audit Committee were Alfred A. Piergallini (Chairman), John B. Balousek, David N. Chichester and John R. Ranelli. The Company's Board of Directors has determined that David N. Chichester qualifies as an audit committee financial expert as set forth in Section 407(d)(5) of Regulation S-K promulgated by the SEC and he is independent as such term is defined in the NASDAQ Rules. The functions performed by the Audit Committee include:

recommending to the Board of Directors the engagement or discharge of the Company's independent registered public accounting firm;

Edgar Filing: CENTRAL GARDEN & PET CO - Form DEF 14A

reviewing with the independent registered public accounting firm the plan and results of the auditing engagement;

reviewing the Company's system of internal financial and accounting controls;

reviewing the financial statements of the Company;

discussing with management and the independent auditors the Company's accounting policies;

approving the Company's filing of reports with the SEC; and

inquiring into matters within the scope of its functions.

The Board of Directors has adopted a written Audit Committee charter. The Audit Committee held eight meetings during fiscal 2010.

*Compensation Committee*

During fiscal 2010, the members of the Compensation Committee were John B. Balousek (Chairman) and Alfred A. Piergallini. The functions performed by the Compensation Committee include:

reviewing and making recommendations to the Board of Directors concerning the compensation of officers, directors and key management employees of the Company;

administering the Company's equity incentive plans;

evaluating the performance of management and related matters;

evaluating the mixture of base salary, cash bonus and equity compensation to each executive's total compensation package;

awarding restricted stock and stock options as a means of linking executives' long-term benefits to the rate of return received by stockholders;

reviewing survey data, coupled with performance-based peer group evaluations, to help determine competitive short and long-term awards for executives;

considering the possible tax consequences to the Company and to the executives in determining executive compensation;

reviewing and discussing with management the annual Compensation Discussion and Analysis disclosure regarding named executive officer compensation and, based on this review and discussions, recommending whether the Company include the Compensation Discussion and Analysis in its annual proxy statement and incorporate by reference in its annual report on Form 10-K; and

## Edgar Filing: CENTRAL GARDEN & PET CO - Form DEF 14A

creating and approving an annual Compensation Committee Report to be included in its annual proxy statement and incorporate by reference in its annual report on Form 10-K.

The Board of Directors has adopted a written Compensation Committee charter. The charter is not available on the Company's website, but a copy is attached as Appendix A to this proxy statement. The Compensation Committee held 13 meetings during fiscal 2010.

The Compensation Discussion and Analysis included in this proxy statement includes additional information regarding the Compensation Committee's processes and procedures for considering and determining executive officer compensation.

### **Compensation Committee Interlocks and Insider Participation**

Messrs. Balousek and Piergallini served as members of the Compensation Committee during fiscal 2010. They have no relationship with the Company other than as directors and stockholders. During fiscal 2010, no

executive officer of the Company served as a director, or as a member of any compensation committee, of any other for-profit entity that had an executive officer that served on the Board of Directors or Compensation Committee of the Company.

#### **Attendance at Meetings**

During fiscal 2010, there were 17 meetings of the Board of Directors. No members of the Board of Directors attended fewer than seventy-five percent of the meetings of the Board of Directors and all committees of the Board on which they served. The Company encourages, but does not require, the members of its Board of Directors to attend its annual meeting of stockholders. All members of the Board attended the 2010 Annual Meeting of Stockholders, except for Mr. Ranelli who had not yet joined the Board.

#### **Stockholder Communications with Directors**

The Board welcomes communications from the Company's stockholders. Stockholders may send communications to the Board, or to any director in particular, c/o Central Garden & Pet Company, 1340 Treat Blvd., Suite 600, Walnut Creek, California 94597. Any correspondence addressed to the Board or to any director in care of the Company's offices is forwarded by the Company to the addressee without review by management.

#### **The Board's Role in Risk Oversight**

The Company faces a number of risks, including operational, economic, financial, legal, regulatory and competitive. The Company's management is responsible for the day-to-day management of the risks faced by the Company. While the Board, as a whole, has ultimate responsibility for the oversight of risk management, it administers its risk oversight role in part through the Board committee structure, with the Audit Committee and Compensation Committee responsible for monitoring and reporting on the material risks associated with their subject matter areas.

The Board's role in the Company's risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including operational, economic, financial, legal, regulatory and competitive risks. The full Board (or the appropriate committee in the case of risks that are reviewed by a particular committee) receives these reports from those responsible for the relevant risk to enable it to understand the Company's risk exposures and the steps that management has taken to monitor and control these exposures. When a committee receives the report, the Chairman of the relevant committee typically provides a summary to the full Board at the next Board meeting. This process helps the Board and its committees to coordinate the risk oversight role. The Audit Committee assists the Board in oversight and monitoring of principal risk exposures related to financial statements, legal, regulatory and other matters, as well as related mitigation efforts. The Compensation Committee assesses, at least annually, the risks associated with the Company's compensation policies.

#### **Compensation of Directors**

Members of the Board of Directors who are not employees of the Company receive directors' fees consisting of \$35,000 per year and \$1,500 for each Board meeting attended in person. The chairs of the Audit Committee and Compensation Committee each receive additional annual retainer fees of \$15,000, and the lead director received an additional retainer fee of \$25,000. Directors who attended meetings of the Audit Committee or Compensation Committee receive an additional \$1,500 for each meeting not held on the same day as a Board meeting.

Each non-employee director also receives \$500 for participation in each telephonic meeting of the Board of Directors or any committee of less than three hours and \$1,000 for participation in meetings of three hours or more. The Company pays non-employee directors \$1,500 for each day spent traveling to board and committee

meetings, attending subsidiary and division management meetings and conducting plant and facility visits. Mr. Pennington receives similar annual, per meeting and travel fees for his Board service.

Under the Nonemployee Director Equity Incentive Plan, on the date of each Annual Meeting of Stockholders, each non-employee director will be granted (i) options to purchase shares of Class A Common Stock determined by dividing \$200,000 by the closing price of a share of Class A Common Stock on the date of such meeting and (ii) shares of restricted stock determined by dividing \$20,000 by the closing price of a share of Class A Common Stock on the date of such meeting.

Set forth below is a summary of the compensation paid to the Company's directors during fiscal 2010, except Mr. Brown, whose compensation is reported below under Executive Compensation - Executive Compensation of Executive Officers.

#### DIRECTOR COMPENSATION TABLE

| Name(1)                 | Fees<br>Earned or<br>Paid in<br>Cash | Stock<br>Awards<br>(2)(3) | Option<br>Awards<br>(2)(3) | Non-Equity<br>Incentive<br>Plan<br>Compen-<br>sation | Change<br>in<br>Pension<br>Value<br>and<br>Nonqualified<br>Deferred<br>Compen-<br>sation<br>Earnings | All Other<br>Compen-<br>sation | Total      |
|-------------------------|--------------------------------------|---------------------------|----------------------------|--|--|--------------------------------|------------|
| John B. Balousek        | \$ 113,000                           | \$ 20,004                 | \$ 49,009                  |  |  |                                | \$ 182,013 |
| David N. Chichester     | \$ 74,500                            | \$ 20,004                 | \$ 49,009                  |  |  |                                | \$ 143,513 |
| Brooks M. Pennington(4) | \$ 64,500                            | \$ 20,004                 | \$ 49,009                  |  |  | \$ 201,480                     | \$ 334,993 |
| Alfred A. Piergallini   | \$ 96,000                            | \$ 20,004                 | \$ 49,009                  |  |  |                                | \$ 165,013 |
| John R. Ranelli         | \$ 93,000                            | \$ 20,001                 | \$ 49,097                  |  |  |                                | \$ 162,098 |

- (1) As of the end of fiscal 2010, Messrs. Balousek, Chichester, Pennington, Piergallini and Ranelli held the following options to purchase shares of Common Stock and Class A Common Stock:

|                       | Common Stock<br>Options |          | Class A Common<br>Stock Options |          |
|-----------------------|-------------------------|----------|---------------------------------|----------|
|                       | Vested                  | Unvested | Vested                          | Unvested |
| John B. Balousek      |                         |          | 56,087                          | 24,912   |
| David N. Chichester   |                         |          | 37,193                          | 24,912   |
| Brooks M. Pennington  | 6,600                   | 12,600   | 44,546                          | 50,112   |
| Alfred A. Piergallini |                         |          | 56,087                          | 24,912   |
| John R. Ranelli       |                         |          |                                 | 19,030   |

- (2) This column reflects the aggregate grant date fair value computed in accordance with the FASB Accounting Standards Codification 718 Compensation - Stock Compensation (ASC 718). Please refer to Note 12, "Stock-Based Compensation", in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K filed on November 19, 2010 for the relevant assumptions used to determine the valuation of our stock and option awards.
- (3) In fiscal 2010, the grant date fair values were determined using the closing stock price on the date of grant.

Edgar Filing: CENTRAL GARDEN & PET CO - Form DEF 14A

- (4) Director Brooks M. Pennington III is the Company's Director of Special Projects and receives compensation as an employee in addition to compensation for his Board service. All other compensation for Mr. Pennington includes salary of \$190,000, the Company's matching contributions under the Company's 401(k) Plan of \$1,425 and medical and life insurance premium payments of \$10,055.



### **Director Nominations**

Due to the limited size of the Board, the Board has determined that it is not appropriate at this time to establish a separate nominating committee. As such, the entire Board fulfills the function of nominating additional directors. A majority of the members of the Board have been determined by the Board to be independent under the standards established by NASDAQ. At a minimum, the Chairman of the Board, as well as at least two independent directors, must interview any qualified candidates prior to nomination. Other directors and members of management will also interview each candidate as requested by the Chairman. Once potential candidates have successfully progressed through the interview stage, the independent directors will meet in executive session to consider the screened candidates. All director nominees must be selected, or recommended for the Board's selection, by a majority of the independent directors.

A majority of the members of the Board must be independent directors as defined in NASDAQ Rule 5605(a)(2). When considering potential director candidates, the Board also considers the candidate's knowledge, experience, integrity, leadership, reputation and ability to understand the Company's business. In addition, all director nominees must possess certain core competencies, some of which may include experience in consumer products, logistics, product design, merchandising, marketing, general operations, strategy, human resources, technology, media or public relations, finance or accounting, or experience as a Chief Executive Officer or Chief Financial Officer.

The Board will consider any director candidate recommended by stockholders, provided that the candidate satisfies the minimum qualifications for directors as established from time to time by the Board. Stockholders must submit recommendations to the Company's secretary for consideration by the Board no later than 120 days before the annual meeting of stockholders. To date, the Board has not received any recommended nominees for consideration at the Annual Meeting from any non-management stockholder or group of stockholders that beneficially owns five percent or more of the Company's voting stock.

When the need arises, the Company engages independent search firms and consultants to identify potential director nominees and assist the Board in identifying a diverse pool of qualified candidates and in evaluating and pursuing individual candidates at the direction of the Chairman of the Board.

All of the nominees included on this year's proxy card are directors standing for re-election.

## PROPOSAL TWO

### ADVISORY VOTE ON THE COMPENSATION OF NAMED EXECUTIVE OFFICERS

Under an amendment to the Securities Exchange Act of 1934 ( Exchange Act ) recently adopted by Congress, public companies are generally required to include in their proxy solicitations, no less frequently than once every three years, a non-binding resolution subject to stockholder vote to approve the compensation of named executive officers (an Advisory Vote on Compensation ). As described more fully in the Executive Compensation section of this Proxy Statement, including the Compensation Discussion and Analysis and the related tables and narrative, the Compensation Committee designs the Company s executive compensation program to reward, retain and, in the case of new hires, attract executives to support the Company s business strategy, achieve its short and long-term goals, and provide continued success for the Company s stockholders and employees. At the core of the Company s executive compensation program is the Company s pay-for-performance philosophy that links competitive levels of compensation to achievements of the Company s overall strategy and business goals, as well as predetermined objectives for equity awards. The Company believes its compensation program is strongly aligned with the interests of the Company s stockholders.

The Company urges stockholders to read the Compensation Discussion and Analysis section of this Proxy Statement and the tables and narrative for the details on the Company s executive compensation, including the fiscal 2010 compensation of the named executive officers. Highlights of the Company s executive compensation programs include the following:

A significant portion (ranging from approximately 50% to 68% in fiscal 2010) of the Company s executives total potential compensation is considered to be at risk.

The executive officers receive long-term equity awards subject to performance-based vesting and long-term, time-based vesting requirements. These performance-based, long-term incentive awards constituted between approximately 26% and 45% of the named executives total potential compensation in fiscal 2010. The Compensation Committee believes these awards ensure that a significant portion of the executives compensation is tied to both short-term financial performance and long-term stock price performance.

The Compensation Committee believes the compensation program for the named executive officers has been instrumental in helping the Company achieve improved financial performance in the challenging macroeconomic environment.

The Compensation Committee discharges many of the Board s responsibilities related to executive compensation and continuously strives to align the Company s compensation policies with the Company s performance. The Compensation Committee has, over the last three years, among other things, taken the following actions:

- 1) Incorporated performance-based metrics as part of its long-term equity incentive awards;
- 2) In fiscal 2010, held the salaries of executive officers at their fiscal 2009 levels, except for the returning interim Chief Financial Officer; and
- 3) Granted premium priced, performance based options to Mr. Brown in fiscal 2008 and 2009 with exercise prices 121% to 188% higher than the grant date closing prices to further align his interest with the Company s stockholders and reward him only if the Company s stock price increases significantly.

The Compensation Committee will continue to analyze the Company s executive compensation policies and practices and adjust them as appropriate to reflect the Company s performance and competitive needs.

Based on the above, the Board of Directors requests that stockholders indicate their support for the Company s executive compensation philosophy and practices, by voting in favor of the following resolution:

**RESOLVED, that the compensation of the Company's executive officers as described in this Proxy Statement, including the Compensation Discussion and Analysis, the compensation tables and the other narrative compensation disclosures is hereby approved.**

The opportunity to vote on Proposal Two is required pursuant to Section 14A of the Exchange Act. However, as an advisory vote, the vote on Proposal Two is not binding upon the Company. However, the Compensation Committee, which is responsible for designing and administering the Company's executive compensation program, and the Board value the opinions expressed by stockholders, and will consider the outcome of the vote when making future compensation decisions for the Company's named executive officers.

**Recommendation of the Board**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THIS PROPOSAL.**

**PROPOSAL THREE**

**ADVISORY VOTE ON FREQUENCY OF ADVISORY VOTE**

**ON EXECUTIVE COMPENSATION**

Under an additional amendment to the Exchange Act recently adopted by Congress, public companies are generally required to include in their proxy solicitations at least once every six years an advisory vote on whether an Advisory Vote on Executive Compensation, such as the Company has included in Proposal Two, should occur every one, two or three years. It is the Company's belief, and the Board's recommendation, that this vote should occur every three years.

The Company has effective executive compensation practices, as described in more detail elsewhere in this Proxy Statement. The Board believes that providing the Company's stockholders with an Advisory Vote on Executive Compensation every three years (a triennial vote) will encourage a long-term approach to evaluating the Company's executive compensation policies and practices, consistent with the Compensation Committee's long-term philosophy on executive compensation. In contrast, focusing on executive compensation over an annual or biennial period would focus on short-term results rather than long-term value creation, which is inconsistent with the Company's compensation philosophy, and could be detrimental to the Company, its employees and its financial results.

Moreover, a short review cycle will not allow for a meaningful evaluation of the Company's performance against its compensation practices, as any adjustment in pay practices would take time to implement and be reflected in the Company's financial performance and in the price of its common stock. As a result, an Advisory Vote on Executive Compensation more frequently than every three years would not, in the Company's judgment, allow stockholders to compare executive compensation to the Company's performance.

Lastly, a triennial vote would allow the Company adequate time to compile meaningful input from stockholders on its pay practices and respond appropriately. This would be more difficult to do on an annual or biennial basis, and both the Company and its stockholders would benefit from having more time for a thoughtful and constructive analysis and review of the compensation policy of the Company.

For the above reasons, the Board recommends that stockholders vote to hold an Advisory Vote on Executive Compensation every three years. Each stockholder's vote, however, is not to approve or disapprove the Board's recommendation. When voting on this Proposal Three, each stockholder has four choices: vote to hold an Advisory Vote on Executive Compensation every year, every two years or every three years, or abstain from voting. As an advisory vote, the vote on Proposal Three is not binding upon the Company. However, the Compensation Committee and the Board will consider the outcome of the vote when determining the frequency of future stockholder advisory votes on executive compensation.

**Recommendation of the Board**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE TO HOLD AN ADVISORY VOTE ON EXECUTIVE COMPENSATION EVERY THREE YEARS.**

---

**PROPOSAL FOUR**

**RATIFY THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTANT**

The Audit Committee of the Board of Directors has selected Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending September 24, 2011. If stockholders fail to ratify the selection of Deloitte & Touche LLP, the Audit Committee will reconsider the selection. If the selection of Deloitte & Touche LLP is approved, the Audit Committee, in its discretion, may still direct the appointment of a different independent auditing firm at any time and without stockholder approval if the Audit Committee believes that such a change would be in the best interest of the Company and its stockholders.

**Recommendation of the Board**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE SELECTION OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.**

Representatives of Deloitte & Touche LLP will be present at the Annual Meeting with the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

The following table lists the aggregate fees billed for professional services rendered by Deloitte & Touche LLP for all Audit Fees, Audit-Related Fees, Tax Fees, and All Other Fees for the last two fiscal years.

|                    | Fiscal Year Ended  |                    |
|--------------------|--------------------|--------------------|
|                    | September 26, 2009 | September 25, 2010 |
| Audit fees         | \$ 2,809,475       | \$ 2,842,380       |
| Audit-related fees | 28,590             | 198,544            |
| Tax fees           |                    | 28,382             |
| All other fees     |                    |                    |
| <b>Audit Fees</b>  |                    |                    |

The Audit fees for the fiscal years ended on September 26, 2009 and September 25, 2010 were for professional services rendered for the audits of the Company's consolidated financial statements, statutory audits, issuance of consents and other assistance in connection with regulatory filings with the SEC.

**Audit-Related Fees**

The audit-related fees for the fiscal years ended on September 26, 2009 and September 25, 2010 were primarily related to registration statements and, in fiscal 2010, the Company's debt offering.

**Audit Committee Authorization of Audit and Non-Audit Services**

The Audit Committee has the sole authority to authorize all audit and non-audit services to be provided by the independent registered public accounting firm engaged to conduct the annual audit of the Company's consolidated financial statements. In addition, the Audit Committee has adopted pre-approval policies and procedures which are detailed as to each particular service, the Audit Committee is informed of each service, and such policies and procedures do not include delegation of the Audit Committee's responsibilities under the Exchange Act to management. The Audit Committee pre-approved fees for all audit and non-audit related services provided by the independent registered public accounting firm in fiscal years 2009 and 2010.

**AUDIT COMMITTEE REPORT**

**ON AUDITED FINANCIAL STATEMENTS**

*Notwithstanding anything to the contrary in any of the Company's previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate this Proxy Statement or future filings with the Securities and Exchange Commission, in whole or in part, the following report shall not be deemed to be incorporated by reference into any such filing.*

The Audit Committee of the Board consists of the directors whose signatures appear below. Each member of the Audit Committee is independent as defined in the NASDAQ Rules and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

The Audit Committee's general function is to oversee the Company's accounting and financial reporting and internal control processes and the audits of the Company's financial statements, including monitoring the integrity of the Company's financial statements, the independent registered public accounting firm's qualifications and independence, and the performance of the Company's independent registered public accounting firm. Its specific responsibilities are set forth in its charter. The charter is not available on the Company's website, but a copy was attached as Appendix A to the Company's proxy statement for its 2010 Annual Meeting of Stockholders.

As required by the charter, the Audit Committee reviewed the Company's audited financial statements for fiscal year ended September 25, 2010 and met with management, as well as with representatives of Deloitte & Touche LLP, the Company's independent registered public accounting firm, to discuss the financial statements. The Audit Committee also discussed with representatives of Deloitte & Touche LLP the matters required to be discussed by Statement on Auditing Standards No. 61, *Communications With Audit Committees*, as amended (AICPA Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

In addition, the Audit Committee discussed with representatives of Deloitte & Touche LLP their independence from management and the Company and received the written disclosures and letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence.

Based on these discussions, the financial statement review and other matters it deemed relevant, the Audit Committee recommended to the Board of Directors (and the Board approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended on September 25, 2010.

Audit Committee

ALFRED A. PIERGALLINI, *Chairman*

JOHN B. BALOUSEK

DAVID N. CHICHESTER

JOHN R. RANELLI

---

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### *Overview*

In fiscal 2010, the Company continued its successful motivation and retention programs for executive officers while aggressively managing compensation-related costs. These actions included:

For the CEO, no increase in base salary and a significant reduction in the amount of long-term incentive grants in fiscal 2010;

No salary increases for other executive officers, except for the returning interim Chief Financial Officer; and

Performance targets as a prerequisite for equity awards. The performance targets were based on earnings before interest and taxes and net controllable assets and were established at a level that provided an appropriate incentive in light of the challenging business environment.

Highlights of the Company's executive compensation programs include the following:

A significant portion (ranging from approximately 50% to 68% in fiscal 2010) of the Company's executive officers' total potential compensation is considered to be at risk.

The executive officers receive long-term equity awards subject to performance-based vesting and long-term, time-based vesting requirements. These performance-based, long-term incentive awards constituted between approximately 26% and 45% of the executives' total potential compensation in fiscal 2010. The Committee believes these awards ensure that a significant portion of the executives' compensation is tied to both short-term financial performance and long-term stock price performance.

The Committee believes the compensation program for the executive officers has been instrumental in helping the Company achieve improved financial performance in the challenging macroeconomic environment.

The Committee discharges many of the Board's responsibilities related to executive compensation and continuously strives to align the Company's compensation policies with the Company's performance. The Committee has, over the last three years, among other things, taken the following actions:

Incorporated performance-based metrics as part of its long-term incentive awards;

In fiscal 2010, held salaries of the executive officers at their fiscal 2009 levels, except for the returning interim Chief Financial Officer; and

Granted premium priced, performance based options to Mr. Brown in fiscal 2008 and 2009 with exercise prices 121% to 188% higher than the grant date closing prices to align his interest with the Company's stockholders and reward him only if the Company's stock price increases significantly.

The Committee will continue to analyze the Company's executive compensation policies and practices and adjust them as appropriate to reflect the Company's performance and competitive needs.

#### *Compensation Objectives*

## Edgar Filing: CENTRAL GARDEN & PET CO - Form DEF 14A

The Company uses three primary tools to compensate executive officers: base salary, annual bonus and long-term equity compensation. Together they combine to provide an executive's total compensation package. The Company does not provide benefits or perquisites of extraordinary value to its executives from the Company's perspective. The Company views base salary as a primary indicator of the market value needed to attract and retain executives with the skills and expertise to perform the duties and discharge the responsibilities



of their positions. Annual bonus is principally seen as a means of rewarding superior job performance and enhancing base salary to meet current market value, and the Company utilizes restricted stock and stock options as a means of linking executives' long-term benefits to the rate of return received by stockholders and as retention devices. The objectives of the Company's compensation program are to recruit and retain high-caliber executives, and to incentivize those executives to achieve the best possible financial results for the Company and its stockholders.

The Company's compensation program rewards executive officers for achievement of corporate and segment operating goals and for their individual contributions. The majority of each executive's total compensation opportunity is weighted toward incentive compensation tied to the financial performance of the Company and its business segments. When the Company does not achieve satisfactory financial results and/or its stock price does not appreciate, the compensation that can be realized by the Company's executives may be substantially reduced. When the Company exceeds financial expectations and/or its stock price appreciates, the compensation that can be realized by the Company's executives may be substantially increased. The Committee believes that this is the most effective means of aligning executive incentives with stockholders' interests.

#### *Process*

As described below, the Committee uses surveys and reports prepared internally and by compensation consulting firms to understand the compensation levels and pay structure at peer group companies. The Company's structural compensation is generally evaluated against the broad range of compensation paid by the peer group; however, the Committee also uses its judgment to determine specific pay levels necessary to attract and retain executive talent. In exercising this judgment, the Committee looks beyond the market data and places significant weight on individual job performance and compensation history, future potential, internal comparisons, retention risk for individual executives, and, in the case of new hires, compensation at former employers.

With respect to the compensation of William E. Brown, the Company's Chairman and Chief Executive Officer, the Committee did not retain an external compensation consultant as part of its process of determining his salary, bonus potential, actual bonus and equity compensation in fiscal 2010, because the Company did not make any changes to his base salary or bonus structure from fiscal 2009. With respect to the Company's other executive officers, the Committee receives, evaluates and considers the recommendations of the Chief Executive Officer and may consult with the Company's Vice President of Human Resources as part of its process of determining compensation. The Chief Executive Officer is invited to attend portions of meetings of the Committee, although he does not vote with the Committee. Other executive officers have no role in making decisions regarding compensation of the Company's executive officers.

The Committee determines base salary and potential bonus as of each officer's hire date, and it generally reconsiders both elements on or about each anniversary of that hire date. The Committee generally determines officers' annual bonuses and whether performance targets have been met for equity performance-based awards in the succeeding fiscal year after the Company's financial results for the prior fiscal year are announced. The Committee generally grants each officer a certain number of stock options and/or shares of restricted stock upon his or her hire date and considers granting additional awards on an annual basis. The Committee generally grants bonuses or equity compensation to existing officers on a standard schedule.

#### *Compensation Consultants and Benchmarking*

From time to time, the Committee has retained the services of a compensation consulting firm to assist the Committee in formulating its recommendations regarding executive compensation. However, the Committee did not retain a compensation consulting firm in fiscal 2010. In fiscal 2009, the Company prepared its own analysis based on a methodology and peer group similar to that of the previous reports prepared by outside consultants.

The peer group included the following lawn and garden and pet supplies companies and other consumer products companies: Acuity Brands, Church & Dwight Co., Inc., Del Monte Foods Company, FMC Corporation, Hasbro, Inc., Lesco, Inc., The Mosaic Company, PetsMart, Inc., Petco Animal Supplies, Ralcorp Holdings, Inc., Spectrum Brands, Inc., The Scotts Miracle-Gro Company, Terra Industries Inc., The Toro Company, Tractor Supply Company, Tupperware Brands Corporation and Wolverine Worldwide, Inc. The Company did not update this market analysis in fiscal 2010.

Based in part on the survey of peer companies and the recommendations from its compensation consultant in fiscal 2009, the Committee targeted a total annual compensation in fiscal 2010 for the Company's Chief Executive Officer of approximately \$2.0-2.5 million, with a significant majority of such compensation to be at risk depending on the Company's financial performance. After consideration of various compensation strategies, the Committee approved the compensation arrangements described below.

#### *Allocation and Amount*

The Company compensates its executives through a combination of annual cash compensation (comprised of base salary and annual bonus) and long-term incentive compensation (comprised of stock options and, in some cases, restricted stock grants). The Committee views base salary and the annual bonus targets as an essential part of attracting, retaining and motivating executive officers. The Committee also believes, based on market data and actual experience, that equity incentive compensation is an essential factor in recruiting and retaining top executives and in driving superior performance.

The use and relative weights of base salary, annual bonus and long-term equity compensation are based on a subjective determination by the Committee of the effectiveness of each executive in all areas of management, including in achieving the Company's strategic objectives, leadership, operating skills and management attributes. Generally, the Committee views the various elements of compensation as part of one overall package but believes that a majority of the total compensation package should be weighted toward the performance of the Company to align the interest of management and stockholders. In fiscal 2010, base salary, benefits and perquisites ranged from only approximately 32% to 50% of each executive's potential compensation, reflecting the importance of performance-based compensation at the Company.

When evaluating corporate performance, the Committee generally considers financial metrics such as revenue, EBIT, earnings per share and working capital levels. When evaluating individual performance, the Committee considers the individual's overall leadership and management skills, success in attracting, retaining and developing qualified subordinates, success in achieving corporate and strategic objectives, ability to work with peers and supervisors in an effective and collegial manner, and other criteria.

From time to time, the Committee develops tally sheets setting forth all components of compensation, including dollar amounts for salary, annual bonus and perquisites and the value of unexercised stock options and restricted stock awards, to assist it in balancing the elements.

When making compensation decisions, the Committee also considers the issue of internal pay equity between the compensation of other Company executive officers and the compensation of the Chief Executive Officer. The Committee also considers issues relating to the corporate tax and accounting treatment of various forms of compensation and the impact of compensation decisions on stockholder dilution, and it makes its decisions with that and other goals in mind.

The Committee continues to subscribe to the philosophy that the Company's overall performance and its return to stockholders will be the primary areas of consideration when rewarding the Company's top executives. However, the Committee also seeks to ensure that the Company's executive officers are paid competitively with the market.

*Salary*

The Committee generally reviews the base salary of the executive officers each year. Historically, the executive officers have sometimes received annual increases consistent with the movement of wages in the marketplace and, on occasions, to reflect individual performance, promotions or increased responsibilities. In some instances, the Committee has adjusted base salaries of individual named executive officers for retention reasons or to maintain internal pay equity among the senior executives.

In December 2008, the Committee increased Mr. Brown's base annual salary, effective as of October 1, 2008, to \$650,000. This decision was based on several factors, including an analysis of salaries of peer companies done by Towers Perrin, the fact that Mr. Brown's \$410,000 salary had not changed in the nine years since 1999, and the fact that even his new salary of \$650,000 was substantially below the \$735,000 salary paid to the Company's prior Chief Executive Officer who left the Company in 2007.

In light of the salary increases in fiscal 2009, the Committee determined that no salary increases for the executive officers were necessary in fiscal 2010, except for Mr. Booth, who agreed to return as interim Chief Financial Officer in January 2010 until the new Chief Financial Officer was appointed in December 2010. In consideration of his return as interim Chief Financial Officer, the Committee approved an annual salary of \$400,000 for Mr. Booth, which represented a \$20,000 increase over his prior salary.

*Annual Bonus*

The Committee determines the actual amount of bonus awarded to each named executive officer after the end of each fiscal year primarily by considering the financial results of the Company for the given year and the officer's individual performance and contribution to the Company. The bonus may be paid in cash or equity. The Committee generally sets potential target bonuses for each named executive officer at the beginning of each fiscal year as a percentage of his or her base salary. The target bonus percentages are generally set at a level which the Committee believes will assure that the executive's total compensation opportunity is attractive enough to motivate superior performance, and that the executive is focused on key objectives and is also competitive with amounts paid for similar performance in comparable executive positions by the Company's peer companies.

When determining the amount of cash bonuses, the Committee generally considers the Company's revenue, EBIT, earnings per share and working capital levels but may consider additional factors in any given year. The Committee also considers individual performance, including an executive's overall leadership and his contribution to the achievement of financial and strategic goals, such as customer relationships, talent development, teamwork among business units, identification and pursuit of strategic initiatives, cost control efforts and innovation and new product development, among others. Although the Company's financial performance in the prior fiscal year strongly influences the amount of bonus, the Committee does not use a pre-determined formula to calculate any officer's bonus compensation or assign weights to particular financial metrics or individual performance factors and has full discretion to determine annual bonuses up to and beyond the amount of such officer's bonus potential for the year. As a result, the financial metrics considered and the bonuses paid in one year may not be representative of what may have been paid in prior years or may be paid in future years.

## Edgar Filing: CENTRAL GARDEN & PET CO - Form DEF 14A

*Fiscal 2009 Bonuses.* Beginning in early 2010, the Committee met to determine bonuses based on the Company's performance in fiscal 2009. The following table sets forth the target bonus and actual bonus paid to each of the executive officers for fiscal 2009:

| Executive Officer  | % of Fiscal 2009<br>Base Salary |        | Bonus For<br>Fiscal<br>2009 |
|--------------------|---------------------------------|--------|-----------------------------|
|                    | Target                          | Actual |                             |
| William E. Brown   | 75%                             | 75%    | \$ 487,500                  |
| Jeffrey A. Blade   | 50%                             |        |                             |
| Stuart W. Booth    | 50%                             | 50%    | \$ 190,000                  |
| Glen R. Fleischer* | 50%                             | 50%    | \$ 153,231                  |
| Michael A. Reed    | 50%                             | 59%    | \$ 250,000                  |

\* Prorated.

In determining whether to award bonuses to the named executive officers for fiscal 2009, the Committee considered specific elements of the Company's financial performance in fiscal 2009, including revenue, adjusted EBIT, earnings per share, net working capital and debt reduction. The Committee also considered individual performance. Since the Committee did not preset any financial or individual metrics (objective or otherwise), it exercised complete discretion when assessing the financial results and individual performance for fiscal 2009. When determining adjusted EBIT for bonus purposes, the Committee adjusted earnings to exclude certain positive and negative items netting approximately \$9.9 million, including adjustments for customer purchase cycles, the reversal of the gain on the sale of a facility in fiscal 2008 and facility exit costs. The Committee also considered net working capital reductions, based on total current assets (excluding cash and marketable securities) plus net fixed assets less total current liabilities (excluding notes payable and current portion of long-term debt), and the total debt reduction year over year. The Committee considered each of these measures against the comparable prior year performance and the Company's internal budget for fiscal 2009, as opposed to particular pre-determined targets or similar metrics within the Company's industries.

*Fiscal 2010 Bonuses.* The Committee has not yet determined the amount of bonuses, if any, to be paid to the named executive officers with respect to fiscal 2010. The following table sets forth the target bonus percentages for each of the named executive officers with respect to fiscal 2010:

| Executive Officer | % of Fiscal<br>2010<br>Base Salary<br>Target |
|-------------------|--|
| William E. Brown  | 75%  |
| Jeffrey A. Blade  |  |
| Stuart W. Booth   |  |
| Glen R. Fleischer | 50%  |
| Michael A. Reed   | 50%  |

In connection with his return as interim Chief Financial Officer, Mr. Booth received a transition bonus of \$16,667 for each month worked. For the other named executive officers, the Committee chose the same target percentage for fiscal 2010 as fiscal 2009, because the Committee believes that the target percentages remain correct and that the bonus and potential equity appreciation should represent a significant portion of officer compensation. The Company will report fiscal 2010 bonus determinations, if any, in a Form 8-K once decisions are made in early 2011.

The Company does not have a policy regarding the recovery or adjustment of awards based on Company performance if a material financial measure considered by the Committee in any particular year is subsequently restated. The Committee expects to adopt a formal policy once the SEC issues final regulations in this area as required by the Dodd-Frank Act of 2010.

*Stock Options*

The Committee determines the size of executive officers' initial hire option grants with primary consideration towards making the offer of employment market competitive while consistent with awards granted to other executives. The size of annual option grants to officers is determined after giving consideration to the officer's performance over the fiscal year, awards previously granted to the officer, such officer's accumulated vested and unvested awards, the current value and potential value over time using stock appreciation assumptions for vested and unvested awards, the vesting schedule of the officer's outstanding awards, comparison of individual awards between executives and in relation to other compensation elements, stockholder dilution and total compensation expense.

Stock options granted to the executive officers during fiscal 2010 were performance-based and time-based and had an exercise price equal to the closing share price on the date of the grant. The performance-based stock options granted in fiscal 2010 vest in five equal annual installments commencing one year from the date of grant subject to the satisfaction of certain annual or cumulative performance targets for each of the fiscal years ending September 2010, 2011, 2012, 2013 and 2014. The performance targets are (i) earnings before interest and taxes adjusted for acquisitions and divestitures, non-recurring income or expense and other adjustments determined by the Committee (the Adjusted EBIT) and (ii) net controllable assets, which is intended to award employees for reductions in average working capital (the Net Controllable Assets). For the executive officers, there are separate targets for each of the Company, the Pet segment and the Garden segment.

The Company, Pet and Garden targets account for 20%, 40% and 40%, respectively, of the total eligible performance-based vesting. If at the end of a fiscal year, any of the following is achieved, 20% of the shares subject to the options shall vest and become exercisable on the anniversary of the grant date following such fiscal year: (i) Adjusted EBIT is greater than the target floor and Net Controllable Assets is less than the target ceiling; or (ii) Adjusted EBIT is greater than the target floor by an amount which exceeds twenty percent (20%) of the amount by which Net Controllable Assets are above the target ceiling; or (iii) Adjusted EBIT is below the target floor by an amount that is less than twenty percent (20%) of the amount by which Net Controllable Assets are below the target ceiling. If the targets in a particular year are not met, the employee can still vest in the options if the Company's or applicable segments' cumulative performance exceeds the cumulative targets in subsequent years. The Committee has the sole and absolute discretion to determine whether and the extent to which performance goals have been achieved.

In January 2010, the Committee determined that for options granted to the named executive officers in fiscal 2008 and 2009, 100% of the fiscal 2009 performance targets were satisfied. In addition, because the cumulative performance in fiscal 2008 and 2009 exceeded the cumulative target for fiscal 2009, the remaining performance-based portion of the fiscal 2008 option grants has now been satisfied in full with respect to fiscal 2008. When determining whether the Adjusted EBIT performance targets for fiscal 2009 were satisfied, the Committee used its discretion to exclude certain positive and negative items netting approximately \$12.7 million for fiscal 2008 awards and approximately \$9.9 million for fiscal 2009 awards, including adjustments for customer purchase cycles, the reversal of the gain on the sale of a facility in fiscal 2008 and facility exit costs.

In December 2010, the Committee determined that for options granted to the named executive officers in fiscal 2008, 2009 and 2010, 100% of the fiscal 2010 performance targets were satisfied. When determining whether the Adjusted EBIT performance targets for fiscal 2010 were satisfied, the Committee used its discretion to exclude certain positive and negative items netting approximately \$35.1 million for fiscal 2008 awards, approximately \$32.2 million for fiscal 2009 awards and approximately \$25.7 million for fiscal 2010 awards, including adjustments for customer purchase cycles, impairment charges, product returns in preparation for new product introductions and marketing launch expenses.

Because each option award includes performance targets for five future years, it is necessary for the Committee to review the actual EBIT and Net Controllable Assets for each completed fiscal year to exclude positive

Edgar Filing: CENTRAL GARDEN & PET CO - Form DEF 14A

and negative items that were unanticipated when the Adjusted EBIT targets were established and for items that are not reflective of on-going business operations. Some of these adjustments may be one-time events and others may impact the performance targets for the remaining performance periods. The adjustments applied to all outstanding performance options, including those held by the named executive officers.

Set forth below are the annual and cumulative performance targets for fiscal 2009 and 2010 with respect to the options granted in fiscal 2008, 2009 and 2010, along with the actual amounts achieved as a result of the Company's performance (*in millions of dollars*).

|                           | Fiscal 2009   |        |                   |         | Fiscal 2010   |        |                   |         |
|---------------------------|---------------|--------|-------------------|---------|---------------|--------|-------------------|---------|
|                           | Annual Target | Actual | Cumulative Target | Actual  | Annual Target | Actual | Cumulative Target | Actual  |
| <b>Fiscal 2008 Awards</b> |               |        |                   |         |               |        |                   |         |
| Company                   |               |        |                   |         |               |        |                   |         |
| Adjusted EBIT             | 119.0         | 139.3  | 224.0             | 249.3   | 133.0         | 144.8  | 357.0             | 394.1   |
| Net Controllable Assets   | 671.0         | 599.9  | 1,371.0           | 1,302.4 | 691.1         | 522.6  | 2,062.1           | 1,825.0 |
| Pet Segment               |               |        |                   |         |               |        |                   |         |
| Adjusted EBIT             | 111.6         | 110.1  | 215.6             | 221.2   | 120.7         | 121.1  | 336.3             | 342.3   |
| Net Controllable Assets   | 296.9         | 264.0  | 595.8             | 568.5   | 298.2         | 224.2  | 894.0             | 792.7   |
| Garden Segment            |               |        |                   |         |               |        |                   |         |
| Adjusted EBIT             | 53.6          | 70.8   | 103.1             | 112.5   | 57.8          | 65.4   | 160.9             | 177.9   |
| Net Controllable Assets   | 346.2         | 299.4  | 690.7             | 660.5   | 348.0         | 264.7  | 1,038.7           | 925.2   |
| <b>Fiscal 2009 Awards</b> |               |        |                   |         |               |        |                   |         |
| Company                   |               |        |                   |         |               |        |                   |         |
| Adjusted EBIT             | 119.0         | 135.9  | 119.0             | 135.9   | 133.0         | 141.3  | 252.0             | 277.2   |
| Net Controllable Assets   | 650.0         | 597.0  | 650.0             | 597.0   | 675.0         | 519.7  | 1,325.0           | 1,116.7 |
| Pet Segment               |               |        |                   |         |               |        |                   |         |
| Adjusted EBIT             | 111.6         | 107.1  | 111.6             | 107.1   | 120.7         | 118.1  | 232.3             | 225.2   |
| Net Controllable Assets   | 296.9         | 261.1  | 296.9             | 261.1   | 298.2         | 221.3  | 595.1             | 482.4   |
| Garden Segment            |               |        |                   |         |               |        |                   |         |
| Adjusted EBIT             | 45.0          | 70.4   | 45.0              | 70.4    | 50.0          | 65.0   | 95.0              | 135.4   |
| Net Controllable Assets   | 346.2         | 299.4  | 346.2             | 299.4   | 348.0         | 264.7  | 694.2             | 564.1   |
| <b>Fiscal 2010 Awards</b> |               |        |                   |         |               |        |                   |         |
| Company                   |               |        |                   |         |               |        |                   |         |
| Adjusted EBIT             | n/a           | n/a    | n/a               | n/a     | 128.0         | 134.8  | 128.0             | 134.8   |
| Net Controllable Assets   | n/a           | n/a    | n/a               | n/a     | 575.0         | 519.7  | 575.0             | 519.7   |
| Pet Segment               |               |        |                   |         |               |        |                   |         |
| Adjusted EBIT             | n/a           | n/a    | n/a               | n/a     | 105.0         | 111.6  | 105.0             | 111.6   |
| Net Controllable Assets   | n/a           | n/a    | n/a               | n/a     | 260.0         | 221.3  | 260.0             | 221.3   |
| Garden Segment            |               |        |                   |         |               |        |                   |         |
| Adjusted EBIT             | n/a           | n/a    | n/a               | n/a     | 57.8          | 65.0   | 57.8              | 65.0    |
| Net Controllable Assets   | n/a           | n/a    | n/a               | n/a     | 300.0         | 264.7  | 300.0             | 264.7   |