

# Dear Shareholders

Resolving the ultimate status of Central's long-standing alliance with Solaris consumed a significant amount of management's time in 1999, ending with a decision to substantially reduce our mutual dependence and prompting an in-depth review of Central's entire business. Working with the investment bank, Lazard Freres, we are now actively engaged in a process that we expect will help us restore shareholder value and growth and earnings momentum. This process includes evaluating everything from other partnerships to replace lost Solaris volume with other branded products, to a more comprehensive strategic restructuring and repositioning of Central. At the same time – as announced at the end of the fiscal fourth quarter – we have already taken steps to realign management so that we will be in a position to achieve the best possible performance from our existing branded products units.

## **Financial Results**

Net sales increased 19% in fiscal 1999 to \$1.5 billion from \$1.3 billion in fiscal 1998.

Net income decreased to \$24.5 million, or 89 cents per diluted share, from \$33.7 million, or \$1.15 per diluted share, in 1998. These results include fourth quarter charges of \$4.8 million and approximately \$3 million in sales allowances related to the expiration of the Solaris Alliance. The Company also recorded other charges of \$2.8 million associated with the reduction of personnel and facilities closures in the garden distribution business. Excluding these charges and allowances, net income for fiscal 1999 would have been \$30.9 million or \$1.12 per diluted share computed on weighted average outstanding shares of 31,545,000.

## **Distribution Business**

Our lawn and garden and pet supplies distribution business significantly underperformed during 1999. One major problem on the lawn and garden side was that we miscalculated expected sales volume, increasing resources based on early signs of strength in the season. Unfortunately, for a variety of reasons, anticipated sales did not materialize and we were not able to reduce our cost base in time to preserve margins. Especially in view of the Solaris development, we are reviewing this entire business very closely and are in the process of implementing our rightsizing plan, given that we expect significantly reduced volumes from Solaris products in 2000.

In pet supplies distribution, we continued to experience erosion of market share in our independent pet store customer base. We intend to concentrate in fiscal 2000 on three areas: continued expense reduction, including potential facilities closures; increased sales of proprietary and partner brands; and SKU reductions, which are intended to result in improved asset management.

### **Branded Lawn and Garden Products Business**

Our branded lawn and garden products business performed well in 1999, with revenues increasing nearly 60% to approximately \$381 million. These strong results were heavily influenced by Pennington, which contributed for the full year. In addition, this segment benefited from contributions from Norcal Pottery Products, Inc. – one of the country's leading designers, importers, and distributors of indoor and outdoor pottery products for the home and garden – which Central acquired in January 1999.

Central's branded lawn and garden products business is well positioned and is poised for continued growth. Under the excellent leadership of Sonny Pennington, Central is focused on building this business both internally, and through strategic acquisitions and partnerships that could significantly enhance value.

### **Branded Pet Products Business**

Central's branded pet products segment – which is comprised of Kaytee, TFH Publications, Four Paws and Wellmark – saw revenues increase 20% to approximately \$236 million. However, while Wellmark exceeded our expectations and Four Paws met expectations, our Kaytee and TFH businesses underperformed. As a result, we have taken steps in both areas to improve our results. Specifically, at Kaytee we have appointed Richard Best, a Pennington executive, as President of this business. And, at TFH, we are in the process of introducing several new products, including innovative dog houses and pet carriers, which initially have been well received by retailers.

Looking ahead, we continue to believe there is significant growth potential, both internally and externally, in the branded pet products arena. In addition to new product introductions, we are focused on signing up additional business with mass merchandisers, such as Wal\*Mart, Target and Kmart, reducing expenses, and continuing to pursue strategic acquisitions and partnerships. These efforts will be spearheaded by Central's

President and Chief Operating Officer, Glenn Novotny, who will devote the majority of his time to capitalizing on the opportunities in the branded pet products business.

### **Capital Management**

Despite our unsatisfactory performance overall, we believe that our shares remained significantly undervalued during the year. Therefore, consistent with our commitment to delivering real value and returns on equity for our shareholders, we were aggressive purchasers of Central shares. In fiscal 1999, we repurchased 10.8 million shares for approximately \$121.7 million – making marked progress under the authorized \$155 million program. Even with the significant share repurchases, Central has maintained a solid capital position – and therefore remains well situated to continue to pursue acquisition opportunities.

### **Fiscal 2000**

As we look to 2000, it is clear that many challenges and opportunities stand out on the horizon. We have already taken significant steps to enhance Central's performance – we know what needs to be done and are committed to executing on our plans. There is no doubt that 1999 was a challenging year, and we appreciate your patience. We are working hard to maximize the value of the Company and to ensure that you will be rewarded in 2000. Thank you for your continued support.

Sincerely,



William E. Brown

Chairman & Chief Executive Officer



Glenn W. Novotny

President & Chief Operating Officer