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Over the past several years, we have invested significant time and resources analyzing this market segment and plan to enter into this market segment with differentiated natural therapeutic pet food products. While we do not expect to generate significant revenues from Therapeutic products in the near term, we believe these investments will be synergistic for our relationship with the veterinarian community and provide an incremental avenue of future growth.

Industry Trends

The U.S. pet food industry has been growing as a result of a number of factors, including:

- continued humanization of pets – more pet parents consider their pets to be a family member, driving demand for more premium and specialized pet foods;
- strong secular health and wellness trends crossing over from human foods – there is increased focus on pets consuming high-quality, natural foods, as evidenced by the growth in the Wholesome Natural market segment; and
- growth of the specialty channels – the specialty channels have been growing faster than the FDM channel as pet parents are attracted to the variety, premium assortment and tailored shopping experience offered by retailers in specialty channels.

Nonetheless, the pet food industry faces a number of challenges and uncertainties including:

- the pet food industry's continued ability to innovate and meet pet parents' future needs;
- increased promotional activity in the pet food industry;
- a challenging economic climate, which may impact spending on pets; and
- new or increased regulatory requirements and scrutiny, including increased oversight by the FDA and the implementation of the Food Safety Modernization Act.

Components of our Results of Operations

Net Sales

We develop, produce, market and sell natural pet food and cat litter in the specialty channels in the United States and Canada. We rely on consumer demand for our products, financial performance of our products for retailers and our position in the marketplace, rather than entering into contracts with retailers to sell our products. We enter into agreements with various distributors to distribute our products to other stores in the specialty channel which typically stock a narrower range of our products given their smaller store footprints. We recognize revenues generally upon receipt of the product by the customer. See “—Critical Accounting Policies and Estimates—Revenue Recognition.” All sales are made on pre-agreed pricing terms, are not subject to contingencies and are, therefore, final.

We offer a variety of trade promotions and incentives to our customers and consumers, such as temporary price reductions, cooperative advertising programs, in-store displays and coupons. These trade promotions and incentives are accounted for as a reduction of our net sales. Our net sales are periodically influenced by the timing, extent and amount of such trade promotions and incentives.

In addition, the following trends have driven our growth in net sales over the past three years and we expect these trends to continue to drive our growth in net sales in the near future:

- our continued growth in net sales within national pet superstores as well as our increased availability to a greater proportion of pet parents as we have expanded our distribution to other retailers in the specialty channels;