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Our ingredients typically account for more than half of our cost of sales and primarily include animal proteins, whole grains, vegetables and vitamin and mineral supplements. Animal proteins (such as chicken, lamb and fish), in the form of whole meats and meat meals, make up almost half of ingredient spending. We have increased the percentage of ingredients contracted for our dry foods from approximately 30% of our forward twelve-month needs in 2009 to approximately 90% in 2014. We enter into contracts relating to the physical purchase of the majority of our main ingredients, including our meats and meals, grains, fruit, vegetables, starches and fibers. These contracts are focused primarily on ensuring availability, quality and price predictability. Depending on the nature of the ingredients, some contracts are fixed in price while others have a variable component based on a pricing formula. For example, contracts for the purchase of poultry meals usually have a price adjustment component that follows fluctuations of soybean meal futures, but other terms, such as quantity, delivery and length of contract are fixed and negotiated with the particular suppliers. The length of the contracts is fixed for a period of time, typically up to a year or for a season and/or a crop year. These contracts often have minimum purchase requirements and are typically renewed annually. In 2015, under our Commodity Price Risk Management Policy, we expect to contract approximately 90% of our ingredients. In addition, we may enter into fixed price and/or fixed quantity contracts for a pre-determined amount of our ingredients to reduce short term price volatility in certain commodities. Although we do not currently engage in hedging activities, we expect to adopt certain hedging strategies in the future consistent with our Commodity Price Risk Management Policy. Historically, we have been able to pass along commodity cost increases to our customers in the form of increased prices. Over an 18-month period between the summer of 2011 and early 2013, we implemented three price increases while continuing to grow our volumes.

Packaging materials for wet products and treats are provided by our contract manufacturers and we pay for packaging as part of the unit price of the finished products. For our dry foods, our procurement team sources and purchases the packaging materials directly from suppliers. We then sell the packaging materials to our contract manufacturers as needed for production. The per unit amount paid by the contract manufacturer, plus an amount for allowable yield loss, is then charged back to us by the manufacturer as a component of the finished product charges. This arrangement puts the burden of excessive yield loss on our contract manufacturer and provides them with an incentive to reduce/eliminate packaging waste.

We believe that our supplier relationships and procurement planning will be able to support our potential capacity needs for the foreseeable future.

Quality Control

We believe that food safety and quality are paramount. We have developed, implemented and enforced a robust food safety and quality program.

We have established critical control points throughout the entire supply chain from ingredient sourcing to finished goods to ensure compliance with our quality program. All of our contract and owned manufacturing facilities are required to have a hazard analysis critical control points plan that identifies critical pathways for contaminants and mandates control measures that must be used to prevent, eliminate or reduce relevant food-borne hazards. This includes, among other things, proper kill steps, product flow, air balance control, proper cleaning of equipment and affirmative release of finished goods. We require our contract and owned manufacturing facilities to maintain third-party certifications and pass our own quality system and food safety audits and GMPs. The third party certifications provide an independent and external validation that a product and/or process complies with applicable food safety regulations and standards. In addition, our quality control team conducts both scheduled and unannounced audits of all aspects of our supply chain to ensure that ingredients, finished goods and manufacturing processes meet our strict food safety and quality requirements.

We ensure that all of our ingredients are rigorously tested prior to being approved for use in our products. Testing certifications, certificate of origin and certificate of analysis, which confirm that the ingredient meets our specifications as to quality and safety, must accompany or be on file for every shipment. In addition,