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our food safety and quality program includes strict guidelines for incoming ingredients, batching, processing, packaging and finished goods. As part of our focus on safety and quality, we have implemented FDA-approved batch and lot traceability controls across our manufacturing network, including at our Heartland facility, where such controls have been implemented into our SAP ERP system. These controls allow us to track and tie discreet, inbound raw material components through the manufacturing process to the ultimate finished product, allowing us to maintain and control all finished product lot details and quickly access process manufacturing details. However, despite our strict quality controls, it is possible that there may be from time to time, as there has been in the past, issues or concerns with respect to our products. See “Risk Factors—Risks Related to Our Business and Industry—We may face issues with respect to raw materials and other supplies, including increased costs, disruptions of supply, shortages, contaminations, adulterations or mislabeling” and “Risk Factors—Risks Related to Our Business and Industry—If our products are alleged to cause injury or illness or fail to comply with governmental regulations, we may need to recall our products and may experience product liability claims.” We do not produce any of our products in Asia, where the oversight of the ingredient sourcing/purchasing and manufacturing can be difficult to manage. Many of our competitors’ products, including some Wholesome Natural products, are produced in Asia.

Our food safety and quality program also requires that finished goods are tested to ensure proper nutrition and the absence of microbial contaminants such as salmonella. These tests are performed at independent third-party and our internal laboratories. We do not release our products to customers without first receiving test results from these independent third-party or internal laboratories.

### **Strong Position at Our Retailers and Distribution Partners**

As a leader in advertising and brand-building in the pet food category, we continue to drive traffic to brick-and-mortar stores and eCommerce retailers where BLUE is sold. In addition to the regular traffic we help generate, we believe our products are attractive to retailers given the strong gross margins they deliver to retailers. We work with our retail partners to customize product assortment, starting with the highest sales velocity items that fit their customer base in order to optimize our retail partners’ economics. With our broad product portfolio, we see an opportunity to continue to increase our shelf space, especially outside of national pet superstores. These dynamics have made us a strong partner to our retailers, as we continue to increase the breadth and depth of our distribution.

Sales through the eCommerce channel represented approximately 4% of our U.S. retail sales in 2014 compared to approximately 2% of U.S. pet food sales overall. We intend to strengthen our partnerships with our brick-and-mortar retail partners on their eCommerce and internet marketing programs, as well as with online-only eCommerce retailers to continue to grow in this rapidly developing channel. As of mid-2014, we switched larger eCommerce accounts from distributors to direct Blue Buffalo accounts in order to strengthen and better manage our go-to-market approach in this channel. As the pet food brand with the highest online search volume in the United States and a higher share among younger consumers who typically have a higher affinity for online shopping, we believe BLUE is well-positioned for growth in the eCommerce channel.

We believe we have a differentiated, strategic and highly analytical approach to establishing and maintaining our relationship with our retail partners. We strive to understand their business needs and priorities and work with them to identify market opportunities and trends and develop customized solutions to efficiently execute an effective sales strategy. We have access to the consumer sell-through data of our products at a SKU-by-store level of our larger direct accounts and have visibility into their inventories, and we work closely with our retail partners to manage their inventories to optimize working capital and minimize out-of-stocks. We also have access to our distributors’ sales to their retail accounts as well as visibility into consumer sell-through for select retail accounts.

### ***Sales and Distribution***

We sell our products primarily in the United States and Canada. The vast majority of our sales are in the United States. In 2014, only 3% of our net sales were outside of the United States.