

Blue Buffalo Pet Products, Inc.  
Form PREM14C  
March 19, 2018  
**Table of Contents**

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

**SCHEDULE 14C INFORMATION**  
**Information Statement Pursuant to Section 14(c) of the**  
**Securities Exchange Act of 1934**

Check the appropriate box:

Preliminary Information Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))**

Definitive Information Statement

**Blue Buffalo Pet Products, Inc.**

**(Name of Registrant as Specified in Its Charter)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed below per Exchange Act Rules 14c-5(g) and 0-11

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

Common Stock, par value \$0.01 per share

- (2) Aggregate number of securities to which transaction applies:  
199,060,348 shares of Company Common Stock in the aggregate, consisting of (a) 195,475,987 shares of Company Common Stock outstanding; (b) 114,051 shares of Restricted Stock; (c) 3,321,554 shares of Company Common Stock underlying Options and (d) 148,756 shares of Company Common Stock subject to issuance pursuant to RSU.
- (3) Per unit price or other underlying value of 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):  
The filing fee was determined based upon the sum of (a) 195,475,987 shares of Company Common Stock multiplied by \$40.00 per share, (b) 114,051 shares of Restricted Stock multiplied by \$40.00 per share, (c) 3,321,554 shares of Company Common Stock underlying Options multiplied by \$30.91, which is the difference between \$40.00 and the weighted average exercise price of \$9.09 per share and (d) 148,756 shares of Company Common Stock subject to issuance pursuant to RSU multiplied by \$40.00 per share. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying .0001245 by the sum of the preceding sentence.

- (4) Proposed maximum aggregate value of transaction:

\$7,932,220,994.14

- (5) Total fee paid:

\$987,561.51

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:
- 4) Date Filed:



**Table of Contents**

**PRELIMINARY COPY SUBJECT TO COMPLETION**

**Blue Buffalo Pet Products, Inc.**

**11 River Road**

**Wilton, Connecticut 06897**

**NOTICE OF WRITTEN CONSENT AND APPRAISAL RIGHTS**

**AND**

**INFORMATION STATEMENT**

**WE ARE NOT ASKING YOU FOR A PROXY AND**

**YOU ARE REQUESTED NOT TO SEND US A PROXY.**

To our Stockholders:

This notice of written consent and appraisal rights and information statement is being furnished to the holders of common stock, par value \$0.01 per share (the Company Common Stock) of Blue Buffalo Pet Products, Inc. (the Company), in connection with the Agreement and Plan of Merger, dated as of February 22, 2018, by and among General Mills, Inc., a Delaware corporation (Buyer), Bravo Merger Corp., a Delaware corporation and wholly-owned subsidiary of Buyer (Merger Sub), and the Company (the Merger Agreement), a copy of which is attached as Annex A to this information statement. Pursuant to the Merger Agreement, Merger Sub will merge with and into the Company with the Company surviving such merger as a wholly-owned subsidiary of Buyer (the Merger). Upon completion of the Merger, each share of Company Common Stock, issued and outstanding immediately prior to the effective time of the Merger (the Effective Time) will be canceled and converted automatically into the right to receive \$40.00 in cash, without interest and after giving effect to any required withholding taxes (the Merger Consideration). However, the Merger Consideration will not be paid in respect of (a) any shares of Company Common Stock held by Buyer, Merger Sub or the Company (including shares of Company Common Stock held in treasury by the Company) immediately prior to the effective time, which will automatically be cancelled and shall cease to exist without any conversion thereof and for no consideration, or shares of Company Common Stock held by any wholly-owned subsidiary of Buyer or the Company (other than Merger Sub) immediately prior to the Effective Time, which will remain outstanding without any conversion thereof and for no consideration and (b) those shares of Company Common Stock held by any person who has not voted in favor of the Merger or consented thereto in writing and who has properly exercised and perfected appraisal rights for such shares of Company Common Stock under Delaware law and not withdrawn his, her or its demand for appraisal rights.

The board of directors of the Company unanimously has (i) determined and resolved that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable, fair to and in the best interests of the Company and the stockholders of the Company, (ii) approved the Merger Agreement and the transactions contemplated thereby, including the Merger, (iii) directed that the Merger Agreement be submitted to the stockholders of the Company and (iv) determined and resolved to recommend that the stockholders of the Company adopt the Merger Agreement.

The adoption of the Merger Agreement by the Company stockholders required the affirmative vote or written consent by holders of a majority of shares of Company Common Stock entitled to vote thereon. On February 22, 2018, Invus, L.P., The Bishop Family Limited Partnership, The Orca Trust and William W. Bishop, Jr. (collectively, the Majority Stockholders ), which together on such date beneficially owned 101,294,224 shares of Company Common Stock (excluding shares of Company Common Stock held by such Majority Stockholder in street name) representing approximately 51.8% of the outstanding shares of Company Common Stock, delivered a written consent approving and adopting in all respects the Merger Agreement and the transactions contemplated thereby, including the Merger (the Written Consent ), which Written Consent provides that it shall be of no further force or effect following termination of the Merger Agreement in accordance with its terms (including, without limitation, a termination of the Merger Agreement in connection with the Company executing a definitive agreement with a third party with respect to a superior proposal in

---

**Table of Contents**

accordance with the Merger Agreement). As a result, no further action by any stockholder of the Company is required under applicable law or the Merger Agreement (or otherwise) to adopt the Merger Agreement, and the Company will not be soliciting your vote for or consent to the adoption of the Merger Agreement and the approval of the transactions contemplated thereby and will not call a stockholders' meeting for purposes of voting on the adoption of the Merger Agreement and the approval of the transactions contemplated thereby. **This notice and the accompanying information statement shall constitute notice to you from the Company of the Written Consent contemplated by Section 228(e) of the General Corporation Law of the State of Delaware (the "DGCL").**

Under Section 262 of the DGCL, if the Merger is completed, subject to compliance with the requirements of Section 262 of the DGCL, holders of shares of Company Common Stock, other than the Majority Stockholders, will have the right to seek an appraisal for, and be paid the fair value in cash of, their shares of Company Common Stock (as determined by the Delaware Court of Chancery) instead of receiving the Merger Consideration. To exercise your appraisal rights, you must submit a written demand for an appraisal no later than twenty (20) days after the mailing of this information statement, or [ ], 2018, and comply precisely with other procedures set forth in Section 262 of the DGCL, which are summarized in the accompanying information statement. A copy of Section 262 of the DGCL is attached to the accompanying information statement as Annex D. **This notice and the accompanying information statement shall constitute notice to you from the Company of the availability of appraisal rights under Section 262 of the DGCL in connection with the Merger.**

We urge you to read the entire information statement carefully. Please do not send in your Company Common Stock certificates at this time. If the Merger is completed, you will receive instructions regarding the surrender of your Company Common Stock certificates and payment for your shares of Company Common Stock.

BY ORDER OF THE BOARD OF DIRECTORS,

William Bishop  
Chairman of the Board of Directors

Lawrence Miller  
Senior Vice President, General Counsel  
and Secretary

**Neither the U.S. Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the Merger, passed upon the fairness of the Merger or passed upon the adequacy or accuracy of the disclosures in this notice or the accompanying information statement. Any representation to the contrary is a criminal offense.**

This information statement is dated [ ], 2018 and is first being mailed to stockholders on or about [ ], 2018.

**Table of Contents****TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <u>SUMMARY</u>   | 1           |
| <u>The Parties to the Merger Agreement (page 16)</u>                             | 1           |
| <u>The Merger (page 17)</u>  | 1           |
| <u>The Merger Consideration (page 55)</u>  | 2           |
| <u>Reasons for the Merger (page 27)</u>  | 2           |
| <u>Required Stockholder Approval for the Merger (page 73)</u>                    | 2           |
| <u>Opinion of J.P. Morgan Securities LLC (page 31 and Annex B)</u>               | 3           |
| <u>Opinion of Centerview Partners LLC (page 38 and Annex C)</u>                  | 3           |
| <u>Financing (page 47)</u>   | 4           |
| <u>The Merger Agreement (page 55 and Annex A)</u>                                | 4           |
| <u>Interests of Our Directors and Executive Officers in the Merger (page 48)</u> | 8           |
| <u>United States Federal Income Tax Consequences of the Merger (page 51)</u>     | 8           |
| <u>Regulatory Approvals (page 53)</u>  | 8           |
| <u>Procedures for Receiving Merger Consideration (page 56)</u>                   | 8           |
| <u>Specific Performance (page 72)</u>  | 9           |
| <u>Appraisal Rights (page 76 and Annex D)</u>                                    | 9           |
| <u>Market Price of Our Stock (page 75)</u>                                       | 9           |
| <u>QUESTIONS AND ANSWERS ABOUT THE MERGER</u>                                    | 10          |
| <u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>                 | 14          |
| <u>THE PARTIES TO THE MERGER AGREEMENT</u>                                       | 16          |
| <u>THE MERGER</u>  | 17          |
| <u>Background of the Merger</u>  | 17          |
| <u>Reasons for the Merger</u>  | 27          |
| <u>Opinion of J.P. Morgan Securities LLC (page 31 and Annex B)</u>               | 31          |
| <u>Opinion of Centerview Partners LLC (page 38 and Annex C)</u>                  | 37          |
| <u>Certain Financial Projections</u>   | 45          |
| <u>Financing</u>   | 47          |
| <u>Interests of Our Directors and Executive Officers in the Merger</u>           | 48          |
| <u>Delisting and Deregistration of Company Common Stock</u>                      | 52          |
| <u>United States Federal Income Tax Consequences of the Merger</u>               | 52          |
| <u>Regulatory Approvals</u>  | 54          |
| <u>THE MERGER AGREEMENT</u>  | 56          |
| <u>Explanatory Note Regarding the Merger Agreement</u>                           | 56          |
| <u>Form of Merger</u>  | 56          |
| <u>Consummation and Effectiveness of the Merger</u>                              | 56          |
| <u>Consideration to be Received in the Merger</u>                                | 56          |
| <u>Dissenting Shares</u>   | 57          |
| <u>Procedures for Receiving Merger Consideration</u>                             | 57          |
| <u>Representations and Warranties</u>  | 58          |
| <u>Conduct of Business by the Company Prior to Consummation of the Merger</u>    | 60          |
| <u>Regulatory Filings; Efforts</u>   | 63          |
| <u>Written Consent</u>   | 64          |
| <u>No Solicitation</u>   | 64          |

|  |    |
|--|----|
| <u>Superior Proposal</u>                       | 65 |
| <u>Change of Recommendation</u>                | 67 |
| <u>Employees</u>                               | 68 |
| <u>Indemnification and Insurance</u>           | 69 |
| <u>Financing Covenant; Company Cooperation</u> | 69 |
| <u>Other Covenants and Agreements</u>          | 70 |



**Table of Contents**

|   |     |
|---|-----|
| <u>Conditions to Consummation of the Merger</u>                       | 70  |
| <u>Termination of the Merger Agreement</u>                            | 71  |
| <u>Termination Fees and Expenses</u>                                  | 72  |
| <u>Amendment and Waiver</u>   | 73  |
| <u>Specific Performance</u>   | 73  |
| <u>Governing Law</u>  | 73  |
| <u>SUPPORT AGREEMENT</u>  | 74  |
| <u>MARKET PRICE OF OUR STOCK</u>                                      | 76  |
| <u>APPRAISAL RIGHTS</u>   | 77  |
| <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u> | 82  |
| <u>WHERE YOU CAN FIND MORE INFORMATION</u>                            | 85  |
| <u>ANNEX A</u>  | A-1 |
| <u>ANNEX B</u>  | B-1 |
| <u>ANNEX C</u>  | C-1 |
| <u>ANNEX D</u>  | D-1 |
| <u>ANNEX E</u>  | E-1 |

---

**Table of Contents**

**SUMMARY**

This summary highlights selected information from this information statement and may not contain all of the information that is important to you. To fully understand the merger, as described below, contemplated by the Agreement and Plan of Merger (the Merger Agreement), dated as of February 22, 2018, by and among General Mills, Inc., a Delaware corporation, ( Buyer ), Bravo Merger Corp, a Delaware corporation and wholly-owned subsidiary of Buyer ( Merger Sub ), and Blue Buffalo Pet Products, Inc., and for a more complete description of the legal terms of the Merger, you should carefully read this entire information statement, the annexes attached to this information statement and the documents referred to or incorporated by reference in this information statement. We have included page references in parentheses to direct you to the appropriate place in this information statement for a more complete description of the topics presented in this summary. In this information statement, the terms Blue Buffalo, Company, we, us and our refer to Blue Buffalo Pet Products, Inc. All references in this information statement to terms defined in the notice to which this information statement is attached have the meanings provided in that notice. This information statement is dated [ ], 2018 and is first being mailed to our stockholders on or about [ ], 2018.

**The Parties to the Merger Agreement (page 16)**

*The Company.* The Company, based in Wilton, Connecticut, is the nation's leading natural pet food company, providing natural foods and treats for dogs and cats under its BLUE Life Protection Formula, BLUE Wilderness, BLUE Basics, BLUE Freedom and BLUE Natural Veterinary Diet lines. Paying tribute to its founding mission, the Company, through the Blue Buffalo Foundation, is a leading sponsor of pet cancer awareness and of critical research studies of pet cancer, including causes, treatments and the role of nutrition, at leading veterinary medical schools and clinics across the United States. The Company's principal executive offices are located at 11 River Road, Wilton, Connecticut 06897 and its telephone number is (203) 762-9751. The Company's website is [www.bluebuffalo.com](http://www.bluebuffalo.com). Additional information about the Company is included in documents incorporated by reference into this information statement and our filings with the Securities and Exchange Commission (the SEC), copies of which may be obtained without charge by following the instructions in Where You Can Find More Information beginning on page 84.

The Company's shares of Company Common Stock are listed with, and trade on, the NASDAQ Global Select Market (the NASDAQ) under the symbol BUFF.

*Buyer.* Buyer is a leading global food company that serves the world by making food people love. Its brands include Cheerios, Annie's, Yoplait, Nature Valley, Fiber One, Häagen-Dazs, Betty Crocker, Pillsbury, Old El Paso, Wanchai Ferry, Yoki and more. Headquartered in Minneapolis, Minnesota, Buyer generated fiscal 2017 consolidated net sales of \$15.6 billion, as well as another \$1.0 billion from its proportionate share of joint-venture net sales. Buyer's principal executive offices are located at 1 General Mills Boulevard, Minneapolis, Minnesota 55426 and its telephone number is (763) 764-7600. Buyer's website is [www.generalmills.com](http://www.generalmills.com).

Shares of Buyer's common stock are listed with, and trade on, the New York Stock Exchange (the NYSE) under the symbol GIS.

*Merger Sub.* Merger Sub was formed by Buyer solely for the purpose of completing the Merger with the Company. Merger Sub is a wholly-owned subsidiary of Buyer and has not carried on any activities to date, except for activities incidental to its incorporation and activities undertaken in connection with the transactions contemplated by the Merger Agreement. Merger Sub's principal executive offices are located at c/o General Mills, Inc., 1 General Mills Boulevard, Minneapolis, Minnesota 55426 and its telephone number is (763) 764-7600.

**The Merger (page 17)**

Edgar Filing: Blue Buffalo Pet Products, Inc. - Form PREM14C

On February 22, 2018, the Company entered into the Merger Agreement with Buyer and Merger Sub. Upon the terms and subject to the conditions provided in the Merger Agreement, and in accordance with Delaware law,

## **Table of Contents**

at the effective time of the Merger (the **Effective Time** ), Merger Sub will merge with and into the Company, with the Company surviving such merger as a wholly-owned subsidiary of Buyer (the **Merger** ). Because the Merger Consideration (as defined below) will be paid in cash, you will receive no equity interest in Buyer, and after the Effective Time you will have no equity interest in the Company.

### **The Merger Consideration (page 55)**

Upon consummation of the Merger, each share of common stock of the Company, par value \$0.01 per share ( **Company Common Stock** ), issued and outstanding immediately prior to the Effective Time, other than Dissenting Shares, shares held in treasury and shares owned by Buyer, Merger Sub or any other subsidiary of Buyer or the Company, will automatically be converted into the right to receive \$40.00 in cash, without interest and after giving effect to any required withholding taxes (the **Merger Consideration** ), upon the surrender of such shares in accordance with the Merger Agreement.

At the Effective Time, each stock option of the Company ( **Option** ), whether vested or unvested, that is outstanding immediately before the Effective Time will be automatically cancelled and will only entitle the holder of such Option to receive a cash payment equal to the excess, if any, of the Merger Consideration over the exercise price of such Option and each restricted stock unit of the Company ( **RSU** ), whether vested or unvested, that is outstanding immediately prior to the Effective Time will automatically be cancelled and will only entitle the holder of such RSU to receive an amount in cash equal to the product of (A) the total number of shares of Company Common Stock subject to the RSU multiplied by (B) the Merger Consideration. Immediately prior to the Effective Time, the holding restrictions applicable to each share of restricted stock of the Company ( **Restricted Stock** ) outstanding immediately prior to the Effective Time will automatically expire and each such share of Restricted Stock will be converted into the right to receive the Merger Consideration.

We encourage you to read the Merger Agreement, which is attached as [Annex A](#) to this information statement, as it is the legal document that governs the Merger and the other transactions contemplated thereby.

### **Reasons for the Merger (page 27)**

After consideration of various factors as discussed in **The Merger Reasons for the Merger** beginning on page 27, the board of directors of the Company (the **Board** ), after consultation with its financial advisors and its legal counsel, unanimously determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, were advisable, fair to and in the best interests of the Company and its stockholders and approved the Merger Agreement, the Merger and the other transactions contemplated thereby.

### **Required Stockholder Approval for the Merger (page 73)**

The adoption of the Merger Agreement by our stockholders required the affirmative vote or written consent of stockholders of the Company holding in the aggregate at least a majority of the outstanding shares of Company Common Stock. On February 22, 2018, following the execution of the Merger Agreement, Invus, L.P., The Bishop Family Limited Partnership, The Orca Trust and William W. Bishop, Jr. (the **Majority Stockholders** ), which together on such date beneficially owned 101,294,224 shares of Company Common Stock (excluding shares of Company Common Stock held by such Majority Stockholder in street name) representing approximately 51.8% of the outstanding shares of Company Common Stock, delivered a written consent approving and adopting in all respects the Merger Agreement and the transactions contemplated thereby, including the Merger (the **Written Consent** ), which Written Consent provides that it will be of no further force or effect following termination of the Merger Agreement in accordance with its terms (including, without limitation, a termination of the Merger Agreement in connection with

the Company executing a definitive agreement with a third party with respect to a Superior Proposal (as defined in The Merger Agreement Superior Proposal beginning on page 64 and in the Merger Agreement)). No further action by any other Company stockholder is required under applicable law or the Merger Agreement (or otherwise) in connection

## **Table of Contents**

with the adoption of the Merger Agreement. As a result, the Company is not soliciting your vote for the adoption of the Merger Agreement and will not call a stockholders' meeting for purposes of voting on the adoption of the Merger Agreement. No action by the stockholders of Buyer is required to complete the Merger and all requisite corporate action by and on behalf of Merger Sub required to complete the Merger has been taken.

When actions are taken by written consent of less than all of the stockholders entitled to vote on a matter, Delaware law requires notice of the action to those stockholders who did not consent in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting. This information statement and the notice attached hereto constitute notice to you from the Company of the Written Consent as required by Delaware law.

### **Opinion of J.P. Morgan Securities LLC (page 31 and Annex B)**

At the meeting of the Board on February 22, 2018, J.P. Morgan Securities LLC ( J.P. Morgan ) rendered its oral opinion to the Board that, as of such date and based upon and subject to the factors and assumptions set forth in its opinion, the Merger Consideration to be paid to the holders of shares of Company Common Stock in the proposed Merger was fair, from a financial point of view, to such holders. J.P. Morgan has confirmed its February 22, 2018 oral opinion by delivering its written opinion to the Board, dated February 22, 2018, that, as of such date, the Merger Consideration to be paid to the holders of shares of Company Common Stock in the proposed Merger was fair, from a financial point of view, to such holders.

The full text of the written opinion of J.P. Morgan dated February 22, 2018, which sets forth the assumptions made, matters considered and limits on the review undertaken, is attached as Annex B to this information statement and is incorporated herein by reference. **The summary of the opinion of J.P. Morgan set forth in this information statement is qualified in its entirety by reference to the full text of such opinion. The Company's stockholders are urged to read the opinion in its entirety.** J.P. Morgan's written opinion was addressed to the Board (in its capacity as such) in connection with and for the purposes of its evaluation of the proposed Merger, was directed only to the consideration to be paid in the Merger and did not address any other aspect of the Merger. J.P. Morgan expressed no opinion as to the fairness of any consideration paid in connection with the Merger to the holders of any other class of securities, creditors or other constituencies of the Company or as to the underlying decision by the Company to engage in the proposed Merger. The issuance of J.P. Morgan's opinion was approved by a fairness committee of J.P. Morgan. The opinion does not constitute a recommendation to any stockholder of the Company as to whether such stockholder should consent with respect to the proposed Merger or any other matter.

**For a description of the opinion that the Board received from J.P. Morgan, see the section of this joint proxy statement/prospectus entitled "The Merger" Opinion of J.P. Morgan Securities LLC and Annex B.**

### **Opinion of Centerview Partners LLC (page 38 and Annex C)**

Pursuant to an engagement letter dated February 15, 2018, the Company retained Centerview Partners LLC ( Centerview ) as financial advisor to the Board in connection with the proposed Merger and the other transactions contemplated by the Merger Agreement, which are collectively referred to as the Transaction throughout this section and the summary of Centerview's opinion below under the caption "The Merger" Opinion of Centerview Partners LLC. In connection with this engagement, the Board requested that Centerview evaluate the fairness, from a financial point of view, to the holders of shares of Company Common Stock (other than (i) shares of Company Common Stock held by Buyer, Merger Sub, the Company or any of their respective wholly owned subsidiaries (ii) Dissenting Shares, (iii) any shares of Company Common Stock held by any other affiliate of Buyer or the Company and (iv) any shares of Company Common Stock beneficially owned by Invus, L.P., The Bishop Family Limited Partnership, William W. Bishop, Jr. and The Orca Trust, which are collectively referred to as Excluded Shares throughout this section and the

summary of Centerview's opinion below under

3

## **Table of Contents**

the caption "The Merger Opinion of Centerview Partners LLC") of the Merger Consideration proposed to be paid to such holders pursuant to the Merger Agreement. On February 22, 2018, Centerview rendered to the Board its oral opinion, which was subsequently confirmed by delivery of a written opinion dated February 22, 2018 that, as of such date and based upon and subject to the assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken by Centerview in preparing its opinion, the Merger Consideration proposed to be paid to the holders of shares of Company Common Stock (other than Excluded Shares) pursuant to the Merger Agreement was fair, from a financial point of view, to such holders.

The full text of Centerview's written opinion, dated February 22, 2018, which describes the assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken by Centerview in preparing its opinion, is attached as Annex C and is incorporated herein by reference. **Centerview's financial advisory services and opinion were provided for the information and assistance of the Board (in their capacity as directors and not in any other capacity) in connection with and for purposes of its consideration of the Transaction and Centerview's opinion addressed only the fairness, from a financial point of view, as of the date thereof, to the holders of shares of Company Common Stock (other than Excluded Shares) of the Merger Consideration to be paid to such holders pursuant to the Merger Agreement. Centerview's opinion did not address any other term or aspect of the Merger Agreement or the Transaction and does not constitute a recommendation to any stockholder of the Company or any other person as to whether such stockholder should have executed a consent with respect to the Merger or as to how such stockholder or other person should otherwise act with respect to the Transaction or any other matter.**

**The full text of Centerview's written opinion should be read carefully in its entirety for a description of the assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken by Centerview in preparing its opinion.**

### **Financing (page 47)**

In connection with its entry into the Merger Agreement, Buyer has entered into a commitment letter dated February 22, 2018 (the "Commitment Letter"), with Goldman Sachs Bank USA ("GS Bank") and Goldman Sachs Lending Partners LLC (together with GS Bank, the "Goldman Sachs Lenders") pursuant to which and subject to the terms and conditions set forth therein, the Goldman Sachs Lenders have agreed to provide a senior unsecured bridge term loan credit facility (the "Bridge Facility") of up to \$8.5 billion in the aggregate for the purpose of providing the financing necessary to fund the consideration to be paid pursuant to the terms of the Merger Agreement, refinance certain outstanding indebtedness of the Company and pay related fees and expenses. Commitments under the Bridge Facility will be reduced in equivalent amounts upon any issuance by Buyer of equity or notes in a public offering or private placement and/or the incurrence of term loans, in each case in replacement of all or any portion of the financing pursuant to the Commitment Letter (the "Permanent Financing") and upon other specified events prior to the consummation of the transaction. The funding of the Bridge Facility is contingent on the satisfaction of certain customary conditions. The obligations of Buyer and Merger Sub to complete the Merger are not subject to any financing condition.

### **The Merger Agreement (page 55 and Annex A)**

#### ***Conditions to Consummation of the Merger (page 69)***

The obligation of each party to consummate the Merger is subject to the satisfaction or, to the extent not prohibited by applicable law, waiver, as of the closing of the Merger, of the following conditions:



the adoption of the Merger Agreement by holders of a majority of the outstanding shares of Company Common Stock in accordance with the DGCL;

**Table of Contents**

the termination or expiration of any applicable waiting period (or any extensions thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the HSR Act ) relating to the consummation of the Merger;

the absence of any order, injunction or judgment by a court of competent jurisdiction or any governmental entity having jurisdiction over any party thereto and the absence of any applicable law or other legal restraint, injunction or prohibition that makes consummation of the Merger illegal or otherwise prohibited; and

the mailing of this information statement to the stockholders of the Company at least twenty (20) days prior to the date of the closing of the Merger.

The obligations of Buyer and Merger Sub to consummate the Merger are further subject to satisfaction or, to the extent not prohibited by applicable law, waiver, as of the closing of the Merger of, among other things, the following additional conditions:

the representations and warranties of the Company are true and correct as of the date of the Merger Agreement and as of the Effective Time in the manner described under The Merger Agreement Conditions to Consummation of the Merger beginning on page 69;

the Company has performed and complied in all material respects with all agreements and covenants required by it under the Merger Agreement at or prior to the consummation of the Merger;

the absence of, since the date of the Merger Agreement, a Company Material Adverse Effect (as defined in The Merger Agreement Representations and Warranties beginning on page 57 and in the Merger Agreement); and

the receipt by Buyer of a certificate signed by an executive officer of the Company on behalf of the Company stating that each of the conditions specified above has been satisfied.

The obligation of the Company to consummate the Merger is further subject to satisfaction or, to the extent not prohibited by applicable law, waiver, as of the closing of the Merger of, among other things, the following additional conditions:

the representations and warranties of Buyer and Merger Sub are true and correct except where such failure to be true and correct would not, individually or in the aggregate, prevent or have a material adverse effect on the ability of Buyer or Merger Sub to consummate the Merger;

Buyer and Merger Sub have performed and complied in all material respects with all agreements and covenants required by them under the Merger Agreement at or prior to the consummation of the Merger; and

the receipt by the Company of a certificate signed by an executive officer of Buyer on behalf of the Buyer stating that each of the conditions specified above has been satisfied.

***No Solicitation (page 63)***

The Merger Agreement provides that (i) the Company and its officers and directors will not and (ii) the Company will cause its affiliates and its affiliates' directors, officers, employees and (ii) will direct and otherwise use reasonable best efforts to cause its and their other representatives not to, directly or indirectly:

initiate, solicit or knowingly encourage, or knowingly facilitate the submission or making of, any Acquisition Proposal (as defined in The Merger Agreement No Solicitation beginning on page 63 and in the Merger Agreement);

other than informing third parties of the existence of these restrictions, participate or engage in negotiations or discussions, or furnish any information concerning the Company or any of its

**Table of Contents**

subsidiaries to, any third party, relating to any Acquisition Proposal or Acquisition Transaction (as defined in The Merger Agreement No Solicitation beginning on page 63 and in the Merger Agreement);

enter into any contract or other agreement (binding or non-binding, preliminary or definitive) for any Acquisition Proposal or Acquisition Transaction;

enter into any contract or other agreement to reimburse any third party for costs, expenses or other liabilities incurred in connection with making (or evaluating for the purpose of making) a potential Acquisition Proposal or Acquisition Transaction; or

enter into any agreement that would prevent the Company from complying with any provision of the no-solicitation covenant in the Merger Agreement.

Notwithstanding anything to the contrary in the Merger Agreement, if, prior to 11:59 p.m. Eastern Time on March 24, 2018, the Company receives an unsolicited, written bona fide Acquisition Proposal, the Company, the Board and their representatives may, until the Alternative Transaction End Time (as defined in The Merger Agreement Superior Proposal beginning on page 64 and in the Merger Agreement), engage in negotiations or discussions with, otherwise contact, or furnish any confidential information and reasonable access to, the third party making such Acquisition Proposal and its representatives, if and only if, the Board determines in good faith, after consultation with the Company's outside legal counsel and financial advisors, that such Acquisition Proposal constitutes, or would reasonably be expected to lead to or result in, a Superior Proposal.

At any time prior to the Alternative Transaction End Time, if, in response to an unsolicited, written bona fide Acquisition Proposal, the Board determines in good faith (after consultation with its outside legal counsel and financial advisors), that such Acquisition Proposal constitutes a Superior Proposal and the failure to approve such Superior Proposal would reasonably be expected to be inconsistent with its fiduciary duties under applicable law, the Company may terminate the Merger Agreement, subject to certain notice provisions and Buyer's right to renegotiate the terms of the Merger Agreement such that the Acquisition Proposal would no longer constitute a Superior Proposal and subject to the Company's substantially concurrent payment to Buyer of the Termination Fee described below.

A more detailed description of the foregoing circumstances and other circumstances under which the Company or Buyer may terminate the Merger Agreement is provided in The Merger Agreement beginning on page 55.

***Termination (page 70)***

The Merger Agreement may be terminated at any time prior to the consummation of the Merger by the mutual written consent of Buyer and the Company.

In addition, the Merger Agreement may be terminated by either Buyer or the Company, if:

the Merger is not consummated at or prior to 5:00 p.m. (New York City time) on August 22, 2018 (the end date), and we refer to Buyer's and the Company's right to terminate the merger agreement pursuant to this sub-bullet as the End Date Termination Right); or

any court of competent jurisdiction or any governmental entity has issued a final, non-appealable order or taken any other action, in each case permanently restraining, enjoining or otherwise prohibiting the Merger, or any applicable law is in effect that makes consummation of the Merger illegal or otherwise prohibited.

The Merger Agreement also may be terminated by Buyer if:

the Company has entered into any contract or other agreement with a third party constituting or relating to, or that is intended or would reasonably be expected to result in, any Acquisition Proposal or

**Table of Contents**

Acquisition Transaction (we refer to Buyer's right to terminate the merger agreement pursuant to this sub-bullet as the Alternative Acquisition Transaction Termination Right );

the Company has willfully breached any provision of the no-solicitation covenant (we refer to Buyer's right to terminate the merger agreement pursuant to this sub-bullet as the Non-Solicit Willful Breach Termination Right );

prior to the receipt of the Written Consent, the Board has effected a Change in Recommendation; or

the Company has breached or failed to perform in any material respect its agreements and covenants or any representation or warranty of the Company contained in the Merger Agreement is not true and correct in a manner such that the conditions to Buyer's and Merger Sub's obligation to consummate the closing would not be satisfied and is not curable or, if curable, is not cured within thirty (30) calendar days after written notice thereof is given by Buyer (or, if earlier, by the end date); provided that Buyer is not in material breach of the Merger Agreement (we refer to Buyer's right to terminate the merger agreement pursuant to this sub-bullet as the Company Breach Termination Right ).

The Merger Agreement also may be terminated by the Company:

prior to the Alternative Transaction End Time, in order to enter into a definitive acquisition agreement concerning a transaction that constitutes a Superior Proposal, if the Company (i) has paid, or pays concurrently with the termination, the Termination Fee and (ii) concurrently with or immediately following such termination, enters into a definitive acquisition agreement for such Superior Proposal (we refer to the Company's right to terminate the merger agreement pursuant to this sub-bullet as the Superior Proposal Termination Right ); or

Buyer or Merger Sub has breached or failed to perform in any material respect its agreements and covenants or any representation or warranty of Buyer or Merger Sub contained in the Merger Agreement is not true and correct in a manner such that the conditions to the Company's obligation to consummate the closing would not be satisfied and is not curable or, if curable, is not cured within 30 calendar days after written notice thereof is given by the Company (or, if earlier, the end date); provided that the Company is not in material breach of the Merger Agreement.

The Merger Agreement also provides that Buyer could have terminated the Merger Agreement if the Written Consent had not been executed and delivered to Buyer within twenty-four (24) hours following execution of the Merger Agreement; however, this termination provision expired following delivery of the Written Consent on February 22, 2018.

***Termination Fee (page 71)***

The Company will pay Buyer (or its designee) a termination fee of \$234 million under the following circumstances:

if the Merger Agreement is terminated:

by (i) Buyer pursuant to the Company Breach Termination Right or (ii) either Buyer or the Company pursuant to the End Date Termination Right;

prior to the date of such termination an Acquisition Proposal has been communicated to the management of the Company or the Board or has been publicly disclosed; and

within twelve (12) months after such termination, the Company enters into a definitive agreement with respect to any Acquisition Transaction with a third party that is thereafter consummated or the Company consummates any Acquisition Transaction with a third party, which, in either such case, need not be the same Acquisition Transaction referred to in the immediately preceding sub-bullet) (provided that for the purpose of this and the immediately preceding sub-bullet, all references in the definition of the term Acquisition Transaction to 15% will be deemed to be references to 50% ).

## **Table of Contents**

if the Merger Agreement is terminated (i) by Buyer pursuant to the Alternative Acquisition Transaction Termination Right or the Non-Solicit Willful Breach Termination Right or (ii) by the Company pursuant to the Superior Proposal Termination Right.

A more detailed description of the Termination Fee is provided in The Merger Agreement Termination Fee and Expenses beginning on page 71.

## **Interests of Our Directors and Executive Officers in the Merger (page 48)**

You should be aware that the Company's executive officers and directors have interests in the Merger that may be different from, or in addition to, the interests of the Company stockholders generally. The Board was aware of these interests and considered them, among other matters, in approving the Merger Agreement. These interests are described below in The Merger Interests of Our Directors and Executive Officers in the Merger beginning on page 48.

## **United States Federal Income Tax Consequences of the Merger (page 51)**

If you are a United States Holder (as defined in The Merger United States Federal Income Tax Consequences of the Merger beginning on page 51), the Merger will be a taxable transaction for U.S. federal income tax purposes. A United States Holder of shares of Company Common Stock receiving the Merger Consideration in the Merger generally will recognize capital gain or loss for United States federal income tax purposes in an amount equal to the difference between (x) the amount of cash the United States Holder receives (determined before deduction of any applicable withholding taxes) and (y) the adjusted tax basis of the surrendered shares of Company Common Stock.

If you are a Non-United States Holder (as defined in The Merger United States Federal Income Tax Consequences of the Merger ), the Merger will generally not be a taxable transaction to you under United States federal income tax laws unless you have certain connections to the United States.

**Holders of shares of Company Common Stock should read the section entitled The Merger United States Federal Income Tax Consequences of the Merger beginning on page 51 and consult their tax advisor about the United States federal, state, local and foreign tax consequences of the Merger.**

## **Regulatory Approvals (page 53)**

Under the HSR Act and related rules, certain transactions, including the Merger, may not be completed until notifications have been given and information furnished to the Antitrust Division of the United States Department of Justice ( Antitrust Division ) and the Federal Trade Commission ( FTC ) and all statutory waiting period requirements have been satisfied or early termination has been granted by the applicable agencies. On March 7, 2018, both the Company and Buyer filed their respective notification and report forms under the HSR. Early termination was granted on March 16, 2018.

## **Procedures for Receiving Merger Consideration (page 56)**

Promptly after the Effective Time (but in no event later than two (2) business days thereafter or on the closing date of the Merger with respect to any stockholder of the Company holding five percent (5%) or more of the outstanding shares of Company Common Stock who has taken the appropriate steps required by the Merger Agreement), Buyer will provide, or will cause a paying agent to provide, to each holder of record of shares of Company Common Stock immediately prior to the Effective Time a letter of transmittal and instructions as to how to surrender such holder's stock certificates in exchange for the Merger Consideration. Holders of uncertificated shares of Company Common Stock (*i.e.*, holders whose shares are held in book-entry form) will, upon receipt by the paying agent of an agent's



message in customary form, be entitled to receive the Merger Consideration, as promptly as reasonably practicable after the Effective Time without any further action required on the part of those holders.

**Table of Contents**

**Specific Performance (page 72)**

The parties to the Merger Agreement are entitled to an injunction or injunctions to prevent breaches of the Merger Agreement and to enforce specifically the terms and provisions of the Merger Agreement in the Court of Chancery of the State of Delaware and any states appellate court therefrom, or, if such courts do not have proper jurisdiction, the Federal District Court located in Wilmington, Delaware, and any appellate court therefrom, and, in any action for specific performance, each party waives the defense of adequacy of a remedy at law and waives any requirement for the securing or posting of any bond in connection with such remedy, this being in addition to any other remedy to which they are entitled at law or in equity.

**Appraisal Rights (page 76 and Annex D)**

Pursuant to Section 262 of the DGCL, holders of shares of Company Common Stock who did not consent to the adoption of the Merger Agreement, and who validly exercise (and do not withdraw or fail to perfect) appraisal rights, will be entitled to have their shares appraised by the Delaware Court of Chancery, and to receive, in lieu of the Merger Consideration, payment in cash of the fair value of those shares, together with interest, if any, determined by the court. The value that you may be entitled to receive in an appraisal proceeding may be less than, equal to or more than the amount of Merger Consideration. Stockholders who wish to exercise appraisal must make a written demand for appraisal on or prior to [ ], 2018, which is the date that is twenty (20) days following the mailing of this information statement, and otherwise comply precisely with the procedures set forth in Section 262 of the DGCL for perfecting appraisal rights. For a summary of these procedures, see Appraisal Rights beginning on page 76. A copy of Section 262 of the DGCL is attached to this information statement as Annex D. If you hold your shares of Company Common Stock through a bank, brokerage firm, trust or other nominee and you wish to exercise your appraisal rights, you should consult with your bank, brokerage firm, trust or other nominee to determine the appropriate procedures for the making of a demand for appraisal by the bank, brokerage firm, trust or the other nominee.

**Market Price of Our Stock (page 75)**

Shares of Company Common Stock are listed on the NASDAQ under the trading symbol BUFF. The closing sale price of Company Common Stock on the NASDAQ on February 13, 2018, the last trading day before the publication of an article suggesting that the Company was for sale, was \$33.05 and the closing sale price of Company Common Stock on the NASDAQ on February 22, 2018, which was the last trading day before we announced the Merger, was \$34.12. On [ ], 2018, the last practicable trading day before the date of this information statement, the closing price of Company Common Stock on the NASDAQ was \$[ ].

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE MERGER**

*The following questions and answers are intended to briefly address commonly asked questions as they pertain to the Merger Agreement and the Merger. These questions and answers may not address all questions that may be important to you as a Company stockholder. Please refer to the Summary beginning on page 1 and the more detailed information contained elsewhere in this information statement, the annexes to this information statement and the documents referred to or incorporated by reference in this information statement, each of which you should read carefully. You may obtain additional information, which is incorporated by reference in this information statement, without charge by following the instructions in Where You Can Find More Information beginning on page 84.*

**Q: What is the proposed transaction and what effects will it have on the Company?**

A: The proposed transaction is the acquisition of the Company by Buyer pursuant to the Merger Agreement. Once the closing conditions under the Merger Agreement have been satisfied or waived and subject to the other terms and conditions in the Merger Agreement, Merger Sub will merge with and into the Company. The Company will be the surviving corporation of the Merger and a wholly-owned subsidiary of Buyer, and the Company will cease to be an independent publicly traded company

**Q: What will I receive in the Merger?**

A: Upon completion of the Merger and subject to the terms and conditions in the Merger Agreement, you will receive the Merger Consideration, \$40.00 in cash, without interest and after giving effect to any required withholding taxes, for each share of Company Common Stock that you own, unless you properly exercise, and do not withdraw or fail to perfect, appraisal rights under Section 262 of the DGCL. For example, if you own 100 shares of Company Common Stock, you will receive \$4,000.00 in cash in exchange for your shares of Company Common Stock, less any required withholding taxes. Upon completion of the Merger, you will not own any equity in the surviving corporation.

**Q: What happens to Options, RSUs and Restricted Stock if the Merger is completed?**

A: At the Effective Time, each Option whether vested or unvested, that is outstanding immediately before the Effective Time will be automatically cancelled and will only entitle the holder of such Option to receive a cash payment equal to the excess, if any, of the Merger Consideration over the exercise price of such Option and each RSU, whether vested or unvested, that is outstanding immediately prior to the Effective Time will automatically be cancelled and will only entitle the holder of such RSU to receive an amount in cash equal to the product of (A) the total number of shares of Company Common Stock subject to the RSU multiplied by (B) the Merger Consideration. Immediately prior to the Effective Time, the holding restrictions applicable to each share of Restricted Stock outstanding immediately prior to the Effective Time will automatically expire and each such share of Restricted Stock will be converted into the right to receive the Merger Consideration.

**Q: When do you expect the Merger to be completed?**

A: We are working to complete the Merger as quickly as possible. We currently expect to complete the Merger promptly after all of the conditions to the Merger have been satisfied or waived and subject to the other terms and conditions in the Merger Agreement. Completion of the Merger is currently expected to occur in the second quarter of 2018, although the Company cannot assure completion by any particular date, if at all.

**Q: What happens if the Merger is not completed?**

A: If the Merger is not completed for any reason, stockholders will not receive any payment for their shares of Company Common Stock in connection with the Merger, Options and RSUs will remain outstanding and

**Table of Contents**

the holding restrictions applicable to each share of Restricted Stock will remain in place. Instead, the Company will remain a publicly traded company, and shares of Company Common Stock will continue to be traded on the NASDAQ.

**Q: Why am I not being asked to vote on the Merger?**

A: Applicable Delaware law and the Merger Agreement require the adoption of the Merger Agreement by the holders in the aggregate of a majority of the outstanding shares of Company Common Stock in order to effect the Merger. The Company's certificate of incorporation permits stockholders to act by written consent in certain circumstances, including in connection with the approval of transactions such as the Merger. The requisite stockholder approval was obtained immediately following the execution of the Merger Agreement on February 22, 2018, when the Written Consent was delivered by the Majority Stockholders, which owned shares of Company Common Stock constituting approximately 51.8% of the issued and outstanding shares of Company Common Stock on that date. Therefore, your vote is not required and is not being sought. We are not asking you for a proxy, and you are requested not to send us a proxy.

**Q: Why did I receive this information statement?**

A: Applicable laws and securities regulations require us to provide you with notice of the Written Consent that was delivered by the Majority Stockholders, as well as other information regarding the Merger, even though your vote or consent is neither required nor requested to adopt or authorize the Merger Agreement or complete the Merger. This information statement also constitutes notice to you of the availability of appraisal rights in connection with the Merger under Section 262 of the DGCL, a copy of which is attached to this information statement as Annex D.

**Q: Did the Board approve and recommend the Merger Agreement?**

A: Yes. After careful consideration, the Board unanimously (i) determined and resolved that the Merger Agreement and the transactions contemplated hereby, including the Merger, are advisable, fair to and in the best interests of the Company and the stockholders of the Company, (ii) approved the Merger Agreement and the transactions contemplated hereby, including the Merger, (iii) directed that the Merger Agreement be submitted to the stockholders of the Company and (iv) determined and resolved to recommend that the stockholders of the Company adopt the Merger Agreement.

**Q: What happens if I sell my shares before completion of the Merger?**

A: If you transfer your shares of Company Common Stock before consummation of the Merger, you will have transferred the right to receive the Merger Consideration and lose your appraisal rights. In order to receive the Merger Consideration or exercise appraisal rights, you must hold your shares through the Effective Time of the Merger.

**Q: Should I send in my Company Common Stock certificates now?**

**A:** No. You will be sent a letter of transmittal with related instructions after completion of the Merger, describing how you may exchange your shares of Company Common Stock for the Merger Consideration. **Please do NOT return your Company Common Stock certificate(s) to the Company.**

Holders of uncertificated shares of Company Common Stock (*i.e.*, holders whose shares are held in book-entry form) will automatically receive the Merger Consideration as promptly as reasonably practicable after the Effective Time without any further action required on the part of those holders.

**Table of Contents**

**Q: Is the Merger subject to the fulfillment of certain conditions?**

A: Yes. Before the Merger can be completed, the Company, Buyer and Merger Sub must fulfill or, if permissible, waive several closing conditions. If these conditions are not satisfied or waived, the Merger will not be completed. See *The Merger Agreement – Conditions to Consummation of the Merger* beginning on page 69.

**Q: Am I entitled to exercise appraisal rights instead of receiving the Merger Consideration for my shares?**

A: Yes. As a holder of Company Common Stock, you are entitled to appraisal rights under Section 262 of the DGCL in connection with the Merger if you meet certain conditions and comply with the applicable statutory procedures for perfecting appraisal rights, which are described in this information statement in *Appraisal Rights* beginning on page 76.

**Q: Will the Investor Rights Agreement affect my receipt of the Merger Consideration?**

A: Upon the consummation of the Merger, the Amended and Restated Investor Rights Agreement (the *Investor Rights Agreement*), dated as of January 21, 2015, by and among the Company and the stockholders listed on Exhibit A thereto and Invus, L.P., as amended July 28, 2017, will, along with all transfer restrictions thereunder, terminate in accordance with its terms and each stockholder party to the Investor Rights Agreement will be entitled to receive the Merger Consideration in accordance with the Merger Agreement. All provisions of the Investor Rights Agreement, including the transfer restrictions, will otherwise remain in effect until the consummation, if any, of the Merger.

**Q: What happens if a third party makes an offer to acquire the Company before the Merger is completed?**

A: If a third party makes an unsolicited, written bona fide Acquisition Proposal to the Company prior to 11:59 p.m. Eastern Time on March 24, 2018, the Company may, prior to the Alternative Transaction End Time, negotiate and discuss such proposal with the third party under certain circumstances specified in the Merger Agreement. If the Board determines in good faith, after consultation with the Company's outside legal counsel and financial advisors, that such Acquisition Proposal constitutes, or would reasonably be expected to lead to or result in, a Superior Proposal and the Company notifies Buyer and complies with certain additional requirements in the Merger Agreement, including, if requested by Buyer, negotiating with Buyer during a period of three (3) business days, so that Buyer has the opportunity to submit a matching or topping proposal, and Buyer does not submit a matching or topping proposal during such three (3) business day period, then the Company may terminate the Merger Agreement. The Company must pay Buyer the Termination Fee substantially concurrently with such termination. See *The Merger Agreement – Termination of the Merger Agreement* beginning on page 70.

**Q: Will I owe taxes as a result of the Merger?**

A: The Merger will generally be a taxable transaction for United States Holders of shares of Company Common Stock. As a result, assuming you are a United States Holder, you will recognize gain or loss with respect to the Merger Consideration received in exchange for shares of Company Common Stock in the Merger equal to the difference between (x) the amount of cash you receive (determined before the deduction of any applicable withholding taxes) and (y) the adjusted tax basis of your surrendered shares of Company Common Stock. If you are a Non-United States Holder, the Merger will generally not be a taxable transaction to you under United States federal income tax laws unless you have certain connections to the United States.



**Table of Contents**

See The Merger United States Federal Income Tax Consequences of the Merger beginning on page 51 for a more detailed explanation of the tax consequences of the Merger. Tax matters can be complicated, and the tax consequences of the Merger to you will depend on your particular tax situation. We urge you to consult your tax advisor regarding the tax consequences of the Merger to you.

**Q: What is householding and how does it affect me?**

A: The SEC permits companies to send a single set of certain disclosure documents to stockholders who share the same address and have the same last name, unless contrary instructions have been received, but only if the applicable company provides advance notice and follows certain procedures. In such cases, each stockholder continues to receive a separate set of disclosure documents. This practice, known as householding, is designed to reduce duplicate mailings and save significant printing and postage costs as well as natural resources.

If you received a householded mailing and you would like to have additional copies of this information statement mailed to you, or you would like to opt out of this practice for future mailings, please submit your request to the Company by phone at (203) 665-3400 or by mail to Blue Buffalo Pet Products, Inc., 11 River Road, Wilton, Connecticut 06897. We will promptly send additional copies of this information statement upon receipt of such request.

**Q: Where can I find more information about the Company?**

A: We file periodic reports and other information with the SEC. You may read and copy this information at the SEC's public reference facilities. Please call the SEC at (800) SEC-0330 for information about these facilities. This information is also available on the website maintained by the SEC at [www.sec.gov](http://www.sec.gov). For a more detailed description of the available information, please refer to Where You Can Find More Information beginning on page 84.

**Q: Who can help answer my other questions?**

A: If you have more questions about the Merger, please contact our Investor Relations Department at (203) 665-3400. If your broker holds your shares, you should call your broker for additional information.

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This information statement, and the documents to which we refer you in this information statement, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ), including, without limitation, statements regarding projections as described in The Merger Certain Financial Projections beginning on page 45, which are subject to the safe harbor created by those sections. These statements may be identified by the use of words such as outlook, believes, expects, potential, continues, may, will, should, seeks, predicts, intends, plans, projects, estimates, anticipates or the negative version of these words or other comparable words.

These statements are based on assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Accordingly, there are, or will be, important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. The projections by the Company's management included in this information statement reflect assumptions and estimates by management of the Company, many of which are driven by factors beyond the control of the Company, and it can be expected that one or more of them will not materialize as expected or will vary significantly from actual results. Accordingly, you should not place undue reliance on these projections or any other forward-looking statements in this information statement, which are likewise subject to numerous uncertainties. You should read statements that contain these words carefully. They discuss our future expectations or state other forward-looking information, and may involve known and unknown risks over which we have no control. Those risks include, without limitation:

risks associated with transactions generally, such as the inability to obtain, or delays in obtaining, required approvals under applicable antitrust legislation or regulations and other regulatory and third party consents and approvals;

the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement, including a termination under circumstances that could require us to pay the Termination Fee to Buyer;

the amount of the costs, fees, expenses and charges related to the Merger;

the risk that the Merger may not be completed in a timely manner or at all, which may adversely affect our business and the price of Company Common Stock;

the potential adverse effect on our business, properties and operations because of certain covenants we agreed to in the Merger Agreement;

the risk that we may be subject to litigation in connection with the Merger and the outcome thereof;

the effect of the announcement of the Merger on our business relationships, operating results and business generally, including our ability to retain key employees;

risks related to diverting management's attention from our ongoing business operations;

potential volatility in the capital markets and the impact on Buyer's ability to complete the financing necessary to consummate the Merger;

failure or inability to implement growth strategies in a timely manner;

future levels of revenues being lower than expected and costs being higher than expected;

conditions affecting the industry generally; local and global political and economic conditions; conditions in the securities market that are less favorable than expected; and changes in the level of capital investment;

certain presently unknown or unforeseen factors; and

**Table of Contents**

the impact of legislative, regulatory and competitive changes and other risk factors relating to the industry in which the Company operates and other risks detailed in our filings with the SEC, including Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended December 31, 2017. See Where You Can Find More Information beginning on page 84.

We believe that the assumptions on which our forward-looking statements are based are reasonable. However, we cannot assure you that the actual results or developments we anticipate will be realized or, if realized, that they will have the expected effects on our business or operations. All subsequent written and oral forward-looking statements concerning the Merger or other matters addressed in this information statement and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Forward-looking statements speak only as of the date of this information statement or the date of any document incorporated by reference in this document. Except as required by applicable law or regulation, we do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

**Table of Contents**

**THE PARTIES TO THE MERGER AGREEMENT**

***The Company***

**Blue Buffalo Pet Products, Inc.**

11 River Road

Wilton, Connecticut 06897

Phone: (203) 762-9751

The Company is the nation's leading natural pet food company, providing natural foods and treats for dogs and cats under its BLUE Life Protection Formula, BLUE Wilderness, BLUE Basics, BLUE Freedom and BLUE Natural Veterinary Diet lines. Paying tribute to its founding mission, the Company, through the Blue Buffalo Foundation, is a leading sponsor of pet cancer awareness and of critical research studies of pet cancer, including causes, treatments and the role of nutrition, at leading veterinary medical schools and clinics across the United States. Additional information regarding the Company is contained in our filings with the SEC, copies of which may be obtained without charge by following the instructions in "Where You Can Find More Information" beginning on page 84.

The Company's shares of Company Common Stock are listed with, and trade on, the NASDAQ under the symbol BUFF .

***Buyer***

**General Mills, Inc.**

1 General Mills Boulevard

Minneapolis, Minnesota 55426

Phone: (763) 764-7600

Buyer is a leading global food company that serves the world by making food people love. Its brands include Cheerios, Annie's, Yoplait, Nature Valley, Fiber One, Häagen-Dazs, Betty Crocker, Pillsbury, Old El Paso, Wanchai Ferry, Yoki and more. Headquartered in Minneapolis, Minnesota, Buyer generated fiscal 2017 consolidated net sales of \$15.6 billion, as well as another \$1.0 billion from its proportionate share of joint-venture net sales. For more information visit Buyer's website at [www.generalmills.com](http://www.generalmills.com).

Shares of Buyer's common stock are listed with, and trade on, the NYSE under the symbol GIS .

***Merger Sub***

**Bravo Merger Corp.**

c/o General Mills, Inc.

1 General Mills Boulevard

Minneapolis, Minnesota 55426

Phone: (763) 764-7600

Merger Sub, incorporated in the state of Delaware, was formed by Buyer solely for the purpose of completing the Merger with the Company. Merger Sub is a wholly-owned subsidiary of Buyer and has not carried on any activities to date, except for activities incidental to its incorporation and activities undertaken in connection with the transactions contemplated by the Merger Agreement.

**Table of Contents**

**THE MERGER**

**Background of the Merger**

The Board regularly reviews and assesses the Company's performance, risks, opportunities and strategy. Additionally, as part of its ongoing oversight and management of the Company's business, from time to time the Board and the Company's management, together with their legal and financial advisors, review and evaluate strategic opportunities and alternatives available to the Company with a view to maximizing stockholder value. Such opportunities and alternatives include, among other things, remaining as a stand-alone entity and pursuing organic growth initiatives (including the expansion of its distribution channels to include the food, drug and mass market ( FDM ) channel in the third quarter of 2017), share repurchases (including pursuant to the share repurchase program authorized in July 2017), business combinations and similar transactions.

As part of this ongoing review and evaluation, representatives of J.P. Morgan have periodically met with the Board and the Company's management and have advised the Company with respect to such strategic opportunities and alternatives. The Company has had a longstanding relationship with J.P. Morgan and retained J.P. Morgan to act as its financial advisor in connection with the proposed merger based on, among other factors, J.P. Morgan's overall reputation and experience as an investment banking firm, and its knowledge of the food sector and consumer packaged goods industry generally and the Company's business and operations in particular.

From time to time prior to and since the Company's initial public offering of shares of Company Common Stock in July 2015, various strategic parties have approached the Company regarding possible acquisitions of or other strategic transactions involving the Company. In response to such parties' expressions of interest in a potential transaction, the Company's management, in consultation with the Board, has generally engaged in discussions with such parties to assess such parties' seriousness with respect to pursuing a potential transaction that would maximize stockholder value. These discussions historically either have not resulted in formal proposals for the Company to evaluate or, in certain cases, resulted in proposals that the Company concluded significantly undervalued the Company. In particular, one strategic party expressed interest in a potential acquisition of the Company on multiple occasions, including most recently in the first quarter 2016. The Company expressed receptivity to assessing any proposal but such party never submitted a proposal or further pursued discussions regarding a transaction. The Company's understanding was that, among other things, such party was not prepared to pursue an acquisition of the Company based on such party's view that the Company's valuation was too high at its then trading price, which was at that time below \$20 per share.

On September 21, 2017, Doug Power, the Global Head of M&A at Buyer, contacted Raymond Debbane, a member of the Board and the President and Chief Executive Officer of The Invus Group, LLC ( Invus ), the financial sponsor behind the Company since 2006, requesting a meeting to discuss the Company.

On October 5, 2017, Mr. Power met with Mr. Debbane and Evren Bilimer, another member of the Board and a Managing Director at Invus. At the meeting, Mr. Power described the business priorities of Buyer and the success Buyer had previously had expanding its brand portfolio into the organic and natural food products business with its acquisition of Annie's, Inc. in 2014. The parties also discussed the business of the Company, Buyer's ongoing efforts to reshape its brand portfolio and, in the context of that discussion, among other things, the concept of a potential business combination.

On October 16, 2017, Mr. Power contacted Mr. Debbane and Mr. Bilimer to request an opportunity to speak further as a follow-up to their preliminary discussion on October 5. Later that day, Mr. Debbane contacted Mr. William Bishop, Chairman of the Board, and Mr. William Bishop, Jr., Chief Executive Officer of the Company and a member of the Board ( Billy Bishop or Mr. Bishop ), to report on the October 5 discussions with Mr. Power and to discuss the

possibility of Mr. Debbane having a further conversation with Mr. Power as per Mr. Power's request.

On October 17, 2017, Mr. Debbane spoke with Mr. Power. Mr. Power indicated that the management of Buyer were potentially interested in evaluating a business combination between Buyer and the Company.



## **Table of Contents**

Mr. Debbane indicated that Invus would be open to supporting a transaction that was in the best interest of all the Company's stockholders and that, in his capacity as a director, he was interested in evaluating any opportunities that were value maximizing. Messrs. Power and Debbane concluded that the appropriate next step would be a discussion between the companies' respective CEOs and agreed to work with Mr. Power to arrange such a meeting. Following the meeting Mr. Debbane contacted William Bishop and Billy Bishop to report on the discussion.

On October 19, 2017, Mr. Bishop provided a report regarding the foregoing discussions between Mr. Debbane, Mr. Bilimer and Mr. Power to the other members of the Board and also indicated that he planned to speak with representatives of J.P. Morgan, as a long-time advisor to the Company, to assist in his preparation for the planned meeting with Jeff Harmening, CEO of Buyer.

Also on October 19, Larry Miller, General Counsel of the Company, contacted the Board to schedule a special meeting following the anticipated meeting between Messrs. Bishop and Harmening so that the Board could receive a report on such meeting.

On October 27, 2017, Mr. Bishop met with Mr. Harmening. During such conversation, Mr. Harmening described the corporate culture at Buyer and Buyer's current strategy with respect to its brand portfolio generally, and how acquisitions fit into that strategy in particular. At the end of the conversation, without mentioning any transaction terms, Mr. Harmening asked Mr. Bishop if he thought the Board would be receptive to further evaluation by Buyer of a potential acquisition of the Company. Mr. Harmening also observed that an acquisition of the Company would involve Buyer entering a new product category and, as a result, it would be important to Buyer's interest in a transaction for key members of the Company's management team to continue their roles following a transaction to build on the Company's historic success, although no retention or employment arrangements were discussed. Mr. Bishop indicated that although the Company was not currently exploring a sale, he would raise the question to the Board.

Later that day on October 27, the Board convened a special meeting to receive a report on the contacts initiated by Buyer. Representatives of senior management, J.P. Morgan and Simpson Thacher & Bartlett LLP (Simpson Thacher), outside counsel to the Company, participated in the meeting. Messrs. Debbane and Bishop described the initial contacts with representatives of Buyer, including such representatives' suggestion that they would be interested in evaluating a potential acquisition of the Company. Mr. Bishop further informed the Board that he was generally in listen mode during the October 27 meeting and that Mr. Harmening described Buyer's business and its potential interest in evaluating a potential acquisition of the Company. Mr. Bishop also noted that Mr. Harmening had indicated the board of directors of Buyer would be meeting on November 6, 2017 and that Mr. Harmening expected to further discuss the topic of a potential business combination with the Company at such meeting. Representatives of Simpson Thacher discussed the Board's role in the event Buyer and the Company were to explore a potential transaction, including, among other things, the Board's fiduciary duties in connection with its review and consideration of any such potential transaction and the exploration of other strategic alternatives more generally. The representatives of J.P. Morgan also discussed with the Board market conditions generally, background information regarding Buyer, its potential reasons for exploring an acquisition of the Company and an overview of other potential acquirers of the Company. At the conclusion of the meeting, the Board determined that Mr. Bishop should convey to Buyer that the Company would be receptive to reviewing a specific proposal from Buyer.

On October 31, 2017, Mr. Bishop contacted Mr. Harmening to indicate that the Board would be receptive to reviewing a specific proposal from Buyer as it was always open to considering credible, value maximizing alternatives for the Company's stockholders. Mr. Harmening responded that he would discuss the topic with Buyer's board of directors at its meeting on November 6 and follow up with Mr. Bishop thereafter.



## Table of Contents

On November 7, 2017, Mr. Harmening informed Mr. Bishop that Buyer's board of directors was supportive of Mr. Harmening further evaluating a potential acquisition of the Company and that he would like to speak further with Mr. Bishop.

On November 10, 2017, Mr. Bishop spoke with Mr. Harmening. Mr. Harmening indicated that Buyer would need to conduct further internal analysis, which Mr. Harmening estimated would take five to six weeks, following which he would be in a position to revert to Mr. Bishop about any potential next steps. Mr. Bishop expressed again the Board's general receptiveness to evaluating specific proposals regarding potential value-maximizing alternatives, but also reiterated that the Board would require a specific written proposal to authorize significant engagement.

On December 8, 2017, Mr. Bishop spoke again with Mr. Harmening, at Mr. Harmening's request. Mr. Harmening reiterated Buyer's interest in evaluating a potential transaction, noting the apparent cultural fit of the organizations and the unique strategic opportunity such an acquisition would present for Buyer. Mr. Harmening also indicated that Buyer might need to discuss certain aspects of the business of the Company in order to finalize a preliminary view on valuation. Mr. Bishop reiterated the Company's preference that Buyer submit a preliminary proposal so that the Board could assess Buyer's seriousness.

On December 14, 2017, the Board held a regularly scheduled meeting. At that meeting, members of management presented a number of reports to the Board regarding the ongoing stand-alone operations of the Company, including regarding (i) the Company's financial performance for the 2017 fiscal year, (ii) the outlook for the pet food industry over the next five years and management's preliminary plans for fiscal year 2018, (iii) the Company's potential acquisition pipeline and (iv) ongoing legal matters. The presentation included management's draft 5-year financial plan with respect to the Company, including the potential short- and long-term financial impacts of the Company's base strategic initiatives, the challenging near-to-intermediate-term operational and financial risks for the Company's strategy to expand its FDM distribution, the impact on earnings growth and earnings predictability, and the impact of such a strategy on earnings and other financial metrics. The Board also received a report on the status of the outreach by Buyer and approved sharing the draft 5-year financial plan with J.P. Morgan for use in connection with its financial analysis to provide the Board additional context and stand-alone valuation perspectives for consideration when assessing any proposal that might be submitted by Buyer.

On December 22, 2017, Mr. Bishop spoke again with Mr. Harmening at Mr. Harmening's request. Mr. Harmening conveyed that the board of directors of Buyer was supportive of Buyer continuing to evaluate a transaction with the Company following its internal analysis. However, Mr. Harmening indicated that Buyer would need to conduct preliminary non-public due diligence on three topics so that Buyer could formulate a specific proposal: (i) the in-process expansion of the Company's distribution channels, especially with respect to FDM, (ii) the Company's financial projections and (iii) potential synergies. Mr. Bishop indicated that he would consider this request and speak with Mr. Harmening again the following week. Mr. Harmening also noted that Buyer would be willing to enter into a customary non-disclosure agreement to facilitate the foregoing due diligence.

Later that day on December 22, William Bishop, Billy Bishop, Mr. Debbane, Aflalo Guimarães, a member of the Board and a Managing Director at Invus, and Mr. Bilimer participated in a conference call with representatives of senior management, J.P. Morgan and Simpson Thacher to discuss the message conveyed by Mr. Harmening to Mr. Bishop and Buyer's requests for additional information. The members of the Board present also discussed the merits of sharing some threshold non-public information with Buyer pursuant to a customary confidentiality agreement.

On December 27, 2017, Mr. Bishop spoke again with Mr. Harmening and tentatively agreed to a meeting in early January to discuss the specific topics Mr. Harmening had previously outlined, subject to the execution of a satisfactory

non-disclosure agreement. The Company provided a draft of a non-disclosure agreement to Buyer later that day.

## **Table of Contents**

On January 2, 2018 the Company and Buyer executed a non-disclosure agreement. Such non-disclosure agreement included a standstill provision, the key provisions of which would automatically expire upon the Company entering into a definitive agreement relating to certain extraordinary transactions, and a prohibition on Buyer contacting financing sources (with the exception of one permitted financing source requested by Buyer to assist in its evaluation of the pricing and structure of its necessary financing to inform its formulation of a proposal) without the Company's prior approval.

On January 8, 2018, Messrs. Bishop, Miller and Bilimer met with Mr. Harmening, Donal Mulligan, Chief Financial Officer of Buyer, Richard Allendorf, General Counsel of Buyer, and Mr. Power. At this meeting, the representatives of the Company discussed (i) the Company's overall strategy, including its ongoing expansion in FDM and e-commerce sales channels, (ii) a high-level summary of the Company's recent financial performance and management's key financial targets for the next five years and (iii) the potential sources of synergies in the event of a transaction between the Company and Buyer. The representatives of Buyer asked questions regarding, among other things, the Company's margins and brand differentiation. They also noted Buyer's M&A strategy generally and reiterated its interest in key members of the Company's management team continuing in their roles following a transaction to build on the Company's historic success, although no retention or employment arrangements were discussed. At the conclusion of this meeting, the representatives of Buyer informed the Company's representatives that they would incorporate the information provided at the meeting into the internal work being conducted at Buyer regarding a potential transaction and that they would contact the Company within two weeks should Buyer determine to submit a specific proposal. Following the meeting, at Buyer's request, representatives of the Company e-mailed to Buyer sections of the presentation materials discussed at the meeting for its reference.

On January 16, 2018, Mr. Harmening contacted Mr. Bishop to inform him that Buyer would shortly be submitting a preliminary, non-binding proposal to acquire the Company at a valuation range of \$38-40 per share in cash. Mr. Harmening also detailed the areas of focus for Buyer's next stage of due diligence and requested the opportunity for Buyer to visit the Company's production and manufacturing facilities. Later in the day on January 16, Buyer submitted a written, preliminary and non-binding indication of interest (the Preliminary Proposal) to Mr. Bishop that confirmed the foregoing details and indicated that the Preliminary Proposal was not subject to any financing condition.

On January 17, 2018, the Board held a previously scheduled meeting. Representatives of senior management, Simpson Thacher and J.P. Morgan were in attendance. Prior to the meeting a copy of the Preliminary Proposal was shared with the Board. At the meeting, Mr. Bishop provided a report to the Board regarding, and the Board discussed, the high level due diligence meeting with Buyer earlier in the month and the Preliminary Proposal. The representatives of J.P. Morgan provided, among other things certain preliminary information to the Board and noted that a preliminary detailed valuation analysis utilizing the draft 5-year financial plan would be presented to the Board at a subsequent meeting. Representatives of J.P. Morgan then discussed the current mergers and acquisitions environment generally and with respect to the food and consumer packaged goods industry in particular and J.P. Morgan's preliminary views with respect to other parties that could potentially be interested in pursuing a strategic transaction with the Company. Representatives of J.P. Morgan expressed the view that it was likely that there were a limited number of potential buyers for the Company in light of, among other things, the valuation implied by the value range proposed in the Preliminary Proposal. The Board also discussed with the representatives of Simpson Thacher the appropriate considerations, including with respect to the directors' fiduciary duties, in evaluating the Preliminary Proposal and the potential next steps related thereto. At the conclusion of the meeting, the Board determined it was appropriate for management to engage further with Buyer to understand the seriousness of its proposal and its plans for due diligence without offering any perspective regarding Buyer's proposed value range until the Company's advisors had an opportunity to provide the Board a more detailed valuation analysis.

Following the January 17 meeting of the Board, all of the members of the Board discussed engaging Centerview as an additional financial advisor in light of, among other things, Centerview's overall reputation and

## **Table of Contents**

experience as an investment banking firm generally and its knowledge of the food and consumer packaged goods industry in particular. The members of the Board agreed to engage Centerview as an additional financial advisor, and requested Centerview attend the next meeting of the Board at which Buyer's non-binding indication of interest would be discussed.

Also on January 17, 2018, as directed by the Board, Mr. Bishop spoke with Mr. Harmening to indicate that the Preliminary Proposal was sufficiently credible that it was appropriate for the Company to permit Buyer to engage in further due diligence to refine its proposal.

On January 18, 2018, Mr. Miller and Mr. Allendorf spoke by telephone to discuss various process matters, including further due diligence by Buyer and, following this conversation, Buyer provided to the Company commercial and legal due diligence requests.

On January 19, 2018, Mr. Harmening e-mailed Mr. Bishop to highlight that since an acquisition of the Company would involve Buyer entering a new product category an area of particular focus for Buyer's due diligence efforts would be the evaluation of the Company's employee base. Mr. Harmening also requested a call on January 24 with Mr. Bishop and Buyer's Chief Human Resources Officer to discuss this topic in more detail. No retention or employment arrangements were discussed during this call.

On January 23, 2018, the Board held a special meeting in person at the offices of Simpson Thacher, at which representatives of senior management, Simpson Thacher, J.P. Morgan and Centerview were in attendance. Prior to the meeting, the Board was provided with disclosures for its review regarding J.P. Morgan's involvement in certain transactions involving the Company, Invus and its affiliates, Buyer and certain other relevant parties. Mr. Bishop and Mr. Miller first reported to the Board on the contact between representatives of the Company and Buyer since the January 17 board meeting. Mr. Bishop and Mr. Miller also described updates, which had been circulated to the Board on January 22 (discussed under "The Merger - Certain Company Forecasts"), to the draft 5-year financial plan, including to reflect actual results from December and more current forecasts in light of such results as well as new tax rates (the "5-Year Plan"). Following this report, representatives from Simpson Thacher discussed the Board's fiduciary duties in connection with their review and consideration of the Preliminary Proposal and the exploration of other strategic alternatives more generally. In anticipation of the deal structure that Buyer was likely to demand, Simpson Thacher also previewed for the Board the available mechanisms for obtaining stockholder approval for a transaction, including receipt of a written consent by the Company's majority stockholders as permitted by the Company's organizational documents. Following the presentation by Simpson Thacher, at the request of the Board, representatives of J.P. Morgan and Centerview discussed preliminary valuation topics regarding the Company based on the 5-Year Plan and the Preliminary Proposal submitted by Buyer, including observations regarding the valuation multiples in the Preliminary Proposal relative to other transactions in the food and consumer packaged goods industry. Centerview and J.P. Morgan also discussed financial topics in the food and consumer packaged goods industry generally, including the M&A environment thereof and the positioning of the pet food sector within the industry as well as the elevated trading multiples of most participants in the sector. In the context of the discussion of the Preliminary Proposal there was also a discussion of the Company's stand-alone prospects, including the risks and opportunities embedded in the 5-Year Plan that could impact the Company's stand-alone value. Such risks include the Company's ability to execute its prospective channel expansion and related existing customer concentration risks, pricing pressure in e-commerce and competition in FDM and the significance of the continuation of the existing authentic/founder led management team. As part of their discussion with the Board, the representatives of J.P. Morgan and Centerview also discussed with the Board other potential acquirers of the Company, with J.P. Morgan and Centerview expressing their view that it was likely there were a limited number of other potential buyers for the Company at the valuations reflected in the Preliminary Proposal. Simpson Thacher and representatives of senior management also discussed with the Board the potential increased execution risks and timing considerations presented by certain of the noted potential alternative

acquirers relative to Buyer. The Board then discussed the Preliminary Proposal and strategies it might pursue with respect to next steps and determined, given the attractive valuation reflected in the price range presented by Buyer, to authorize



## Table of Contents

management to continue discussions and due diligence with Buyer to facilitate the submission of a more refined value proposal that the Board could subsequently assess against its other strategic alternatives, including continuing to operate as a stand-alone company. The Board further concluded that efforts regarding a potential transaction should remain focused on Buyer and the Company should not contact other potential buyers at this time given the associated risks, including potential management distraction, risk of disruptive publicity and the potential impact on Buyer's engagement, but directed that the Company require any definitive agreement for a potential transaction include an adequate period of time for other potential acquirers to submit alternative proposals to the Board following any announcement of a potential transaction and adequate flexibility for the Board to evaluate and accept any such alternative proposals determined by the Board to be superior to a transaction with Buyer.

On January 24, 2018, Mr. Bishop and Mr. Harmening spoke regarding the status of the diligence process. During this discussion, Mr. Bishop expressed his initial views regarding the positive fourth quarter results the Company was likely to report and expressed his hope that any refined proposal from Buyer would take such strong performance and other positive factors into account. Later that day, the Company provided Buyer and its representatives with access to a virtual data room containing due diligence information requested by Buyer, which data room included the 5-Year Plan.

Also on January 24, representatives of Simpson Thacher and Cleary Gottlieb Steen & Hamilton LLP ( Cleary Gottlieb ), outside counsel to Buyer, spoke regarding process matters and the representatives of Cleary Gottlieb noted, among other things, that they would provide to Simpson Thacher for discussion a draft merger agreement. Later that day, Cleary Gottlieb sent Simpson Thacher a draft merger agreement (such draft, and subsequent iterations thereof exchanged between the parties, referred to as the Draft Merger Agreement ) that, among other things, (i) contemplated the Company's Majority Stockholders delivering an irrevocable written consent approving the transaction immediately after signing of the Draft Merger Agreement, (ii) did not include any flexibility for the Company to accept a superior proposal between signing and closing, and (iii) included a requirement that Buyer be permitted to avail itself of a so-called marketing period after all of the conditions to closing had been satisfied in order for Buyer to market and obtain permanent acquisition financing.

Also on January 24, Messrs. Bishop and Miller spoke with Mr. Harmening and Jacqueline Williams-Roll, the Chief Human Resources Officer of Buyer, to discuss preliminary diligence topics regarding the Company's employees. No retention or employment arrangements were discussed.

Between January 24 and February 13, 2018, representatives of J.P. Morgan, Centerview and Goldman Sachs & Co. LLC ( Goldman Sachs ), financial advisor to Buyer, discussed at regular intervals the progress of the due diligence process and the expected timing of Buyer's submission of a more refined value proposal.

On January 31, 2018, Mr. Miller spoke with Mr. Allendorf to discuss several topics, including the progress of due diligence and the continued importance of (and the Company's sensitivity regarding) confidentiality. Louis Lambert, Associate General Counsel of Buyer, e-mailed Mr. Miller regarding several follow-up items the next day, including coordination in the event of any media coverage of the parties' discussion and specific diligence matters.

On February 1, 2018, Cleary Gottlieb provided a draft of a form support agreement, including a form of written consent, that it requested the Majority Stockholders sign concurrently with the execution of the Draft Merger Agreement. Later in the day on February 1, Simpson Thacher provided a revised Draft Merger Agreement to Cleary Gottlieb which provided for, among other things, a 60-day window shop period during which the Company could consider and engage with third parties regarding unsolicited acquisition proposals and, in the event any such acquisition proposal was deemed a superior proposal, terminate the Draft Merger Agreement to accept such superior proposal, subject to a two-business day match right period and payment of a termination fee equal to 2.25% of

transaction equity value. Simpson Thacher's revised Draft Merger Agreement also deleted the proposed marketing period concept. The revised Draft Merger Agreement also indicated,

## **Table of Contents**

consistent with Buyer's request, that the Company might establish a retention program for non-named executive officers on terms determined in consultation with Buyer.

On February 4, 2018 and again on February 6, 2018, representatives of Simpson Thacher discussed with Cleary Gottlieb the revised Draft Merger Agreement provided by Simpson Thacher. In particular, Simpson Thacher conveyed that the Board would not proceed with any transaction that did not permit the Company to consider and engage with unsolicited acquisition proposals from third parties received after announcement of any transaction with Buyer. On the morning of February 6, Cleary Gottlieb distributed a revised Draft Merger Agreement to Simpson Thacher which included, among other things: (i) a window shop period of 25 days with no extension for any match period in process at the 25th day, (ii) a match right period of four business days, (iii) a termination fee equal to 3.50% percent of transaction equity value and (iv) acceptance of obligations on the Buyer to make any divestitures required to obtain required antitrust clearance, except to the extent doing so would cause a Material Adverse Effect on the Company.

During the day on February 5 and February 6, 2018, members of the Company's management participated in commercial and legal due diligence calls with representatives of Buyer.

On February 5, 2018, Mr. Bishop spoke with Mr. Harmening. The conversation between the CEOs focused on (i) a status update on the progress of due diligence and (ii) a conceptual discussion of the parameters of any retention and incentive programs for non-executive officer employees as requested by Buyer to ensure a smooth transition.

On February 6, 2018, the Board held a special meeting, at which representatives of senior management, Simpson Thacher, J.P. Morgan and Centerview were in attendance. Representatives of Centerview first provided a report to the Board on Buyer's diligence and financing efforts and noted for the Board the positive message being conveyed by Buyer with respect thereto. Mr. Bishop also made a report to the Board on his conversation with Mr. Harmening the previous day. Representatives of Simpson Thacher then reported to the Board on the status of negotiations regarding the Draft Merger Agreement and observed for the Board that the revised Draft Merger Agreement received from Cleary Gottlieb earlier in the day reflected an agreement-in-principle by Buyer with the Board's requirement that the Draft Merger Agreement include a window shop period, noting, however, that the details of such provision were still being negotiated. In connection with the Board's further consideration of whether to continue operating the Company as a stand-alone business in lieu of a strategic transaction, representatives of Centerview and J.P. Morgan then discussed with the Board the 5-Year Plan. This discussion addressed, among other things, the key components of the plan, comparisons to research analyst expectations and a discussion of key risks and opportunities facing the Company. The financial advisors observed that the 5-Year Plan included projections for revenue growth and margin expansion that were above research analyst expectations, and in particular discussed with the Board the fact that Buyer's representatives had communicated on multiple occasions during their due diligence efforts a belief that the 5-Year Plan did not sufficiently reflect risks associated with the Company's ongoing expansion of its sales channels. The representatives of Centerview also highlighted again for the Board the elevated trading multiples currently being experienced by participants in the food and consumer packaged goods industry. Representatives of J.P. Morgan also provided an update on recent developments in financial markets and discussed with the Board the increased financial market volatility since the Board's last meeting, including the resulting decline in the trading price of Buyer's stock and the increased financing costs for corporate borrowers. Notwithstanding Buyer's perceived risks in the execution of the 5-Year Plan and the volatility in the debt and equity markets, the Board directed its financial advisors to, in advance of Buyer's next meeting of its board of directors the following week, encourage Buyer to improve its offer.

On February 8, 2018, representatives of J.P. Morgan and Centerview spoke with representatives of Goldman Sachs and, consistent with the Board's prior instructions, encouraged Buyer to improve its offer. Also on February 8, Simpson Thacher sent a revised draft of the majority stockholders' support agreement and an initial



## **Table of Contents**

draft of the Company's disclosure schedules to Cleary Gottlieb. Later in the day on February 8, 2018, Cleary Gottlieb provided a draft of its debt commitment letter with affiliates of Goldman Sachs for the potential transaction to Simpson Thacher.

On February 9, 2018, Simpson Thacher sent a revised Draft Merger Agreement to Cleary Gottlieb, which draft included, among other things: (i) a window shop period of 50 days, (ii) a match right period of three business days and (iii) a termination fee equal to 2.50% of transaction equity value.

On February 13, 2018, representatives of Centerview and J.P. Morgan spoke with representatives of Goldman Sachs, who, at the direction of the board of directors of Buyer, conveyed a revised proposal from Buyer to acquire the Company for \$38.50 per share in cash. In conveying this proposal, the representatives of Goldman Sachs emphasized to the Company's financial advisors several potential risks that Buyer had identified during due diligence as well as the recent financial market volatility and associated increases in Buyer's expected borrowing costs and the industry leading multiple for a transaction of this size reflected in Buyer's revised proposal, while also reiterating Buyer's eagerness to conclude a transaction at an appropriate valuation. Representatives of Goldman Sachs also conveyed to the Company's financial advisors Buyer's desire to maintain a specific investment-grade rating and its plan to issue up to \$1 billion in new equity to finance the transaction. Representatives of Goldman Sachs also requested on behalf of Buyer meetings with additional members of the Company's management and an opportunity to visit the Company's production and manufacturing facilities.

On February 14, 2018, an article was published in certain media outlets suggesting that the Company had been approached about a potential takeover, without naming an acquirer or proposed price. At the direction of the Board, representatives of Centerview and J.P. Morgan discussed these rumors with representatives of Goldman Sachs per a pre-agreed protocol for rapidly reacting to media reports to minimize disruption to the respective parties' businesses.

Later in the day on February 14, the Board held a special meeting in person at the offices of Simpson Thacher, at which representatives of senior management, Simpson Thacher, J.P. Morgan and Centerview were in attendance. Prior to the meeting, the Board was provided with disclosures for its review regarding Centerview's involvement in certain transactions involving the Company, Invus and its affiliates, Buyer and certain other relevant parties. Representatives of Centerview and J.P. Morgan began by updating the Board on the revised proposal received from Buyer and certain additional due diligence requests. They also reported to the Board the market rumors from earlier that day regarding a potential transaction and the Board determined not to comment or otherwise respond to such rumors while continuing to monitor developments. Representatives of Centerview and J.P. Morgan next presented to the Board regarding market perspectives of the Company and updates on its industry and reviewed with the Board again certain elements of the 5-Year Plan. At the request of the Board, representatives of each of J.P. Morgan and Centerview then presented their respective preliminary financial analyses with respect to the Company and the proposed transaction and they also reviewed with the Board a presentation regarding Buyer and its financing considerations. The Board engaged in a lengthy discussion with its financial advisors regarding valuation considerations with respect to the Company and tactics for obtaining a higher per share price from Buyer. The Board then convened an executive session to discuss these and other topics, following which, notwithstanding the observation by the Board that Buyer's revised proposal reflected an attractive price in light of the financial analyses conducted by its advisers and the ongoing risks associated with execution of the Company's stand-alone strategy, the Board directed J.P. Morgan and Centerview to convey to Buyer that the Company would not proceed with a transaction at a price of \$38.50 per share and Buyer should therefore increase its price if they wished to proceed.

Shortly after the Board meeting on February 14, representatives of Centerview and J.P. Morgan spoke with representatives of Goldman Sachs to convey the Board's directive that the revised price did not represent a proposal the Board would consider moving forward with and that Buyer should resubmit its proposal with a higher price,

without providing Goldman Sachs further guidance as to what price would be acceptable to the Board.

## **Table of Contents**

On February 17, 2018, at the direction of the board of directors of Buyer, representatives of Goldman Sachs called representatives of Centerview and J.P. Morgan to convey a revised proposal from Buyer to acquire the Company for \$39.50 per share in cash. Later on February 17, following discussions with members of the Board, at the direction of the Board representatives of Centerview and J.P. Morgan conveyed to representatives of Goldman Sachs that Buyer's proposed price of \$39.50 per share remained inadequate and, consistent with the Board's prior instructions to continue to push for the highest price available, requested Buyer to again increase its proposal. During these exchanges on February 17, at the direction of the Board to further emphasize the rationale for the Company's request for an improved proposal, the representatives of Centerview and J.P. Morgan conveyed to representatives of Goldman Sachs that the Company expected to offer stronger earnings guidance during its upcoming earnings call than previously anticipated.

On February 18, 2018, Mr. Harmening reached out to Mr. Bishop to convey that Buyer remained enthusiastic about a potential transaction, but Buyer was unwilling to offer more than \$40.00 per share, noting that if the parties could not reach a deal at \$40.00 per share Buyer would be compelled to turn its attention to other opportunities. Mr. Bishop emphasized the strong financial performance of the Company, including its plans for stronger earnings guidance, but Mr. Harmening reiterated that \$40.00 per share represented the maximum price Buyer would offer and already incorporated all such positive considerations. Mr. Harmening also conveyed to Mr. Bishop in connection with raising Buyer's price to \$40.00 per share that any window shop period in the merger agreement would need to be limited to 30 days from signing of the Draft Merger Agreement to ensure it did not unduly delay or otherwise complicate the significant acquisition financing Buyer expected to pursue to consummate a potential transaction with the Company.

On February 19, 2018, the Board held a conference call to discuss Buyer's revised proposal. Representatives of Centerview and J.P. Morgan first provided a report to the Board on negotiations with Buyer since the previous Board meeting on February 14. Mr. Bishop then reported to the Board his conversation with Mr. Harmening the day before, during which Mr. Harmening had indicated that Buyer would not offer to acquire the Company at a price greater than \$40.00 per share and would require any window shop period be limited to 30 days. Representatives of Simpson Thacher then reminded the Board of the status of negotiations regarding the Draft Merger Agreement, noting that Cleary Gottlieb had also indicated the window shop period should be limited to 30 days and that Buyer's most recent proposal in the Draft Merger Agreement provided for a termination fee of 3.50%. The Board then engaged in a lengthy discussion regarding Buyer's offer price and request for a 30-day window shop period and 3.50% termination fee. The Board assessed that, following several successful attempts to extract price increases from Buyer, Buyer was unlikely to increase its price above \$40.00 per share and that, based on the Company's and its advisors' knowledge of other potential acquirers, neither a 30-day window shop period nor a 3.50% termination fee would deter any truly interested third party from submitting a competing proposal and, in fact, the public announcement of a transaction might spur other potential acquirers to action without jeopardizing the value opportunity at hand. Nevertheless, the Board directed that the Company's management and advisors continue to negotiate the window shop period and termination fee to obtain the best terms possible and authorized management to finalize terms of definitive agreements at a price equal to \$40.00 per share in cash.

During the course of the week of February 19 until the execution of the Merger Agreement, the respective management teams of the parties, together with representatives of Simpson Thacher and Cleary Gottlieb and the parties' financial advisors, discussed and negotiated the remaining open items in the transaction documents.

On February 21, 2018, following agreement between the parties with respect to the merger consideration (subject to finalizing the other terms of the Merger Agreement) and consistent with the respective boards' expectations regarding the timing of such discussions, representatives of Buyer presented to Mr. Bishop an offer letter (the February 21 Offer Letter) reflecting proposed terms for Mr. Bishop's employment, following closing, as a Senior Vice President of Buyer and head of its newly established pet segment, including terms regarding base salary, incentive and retention bonuses

and awards and severance protection following consummation of a transaction. Mr. Bishop did not negotiate or engage with Buyer regarding the terms of the February 21 Offer Letter.



---

**Table of Contents**

On February 21 and February 22, 2018, representatives of Buyer accompanied representatives of the Company on diligence visits to the Company's production and manufacturing facilities in Richmond, Indiana and Joplin, Missouri.

Late in the evening on February 21, 2018 and early in the morning on February 22, 2018, Cleary Gottlieb sent revised drafts of the transaction documents to Simpson Thacher, including a revised Draft Merger Agreement which included, among other things: (i) a window shop period of 30 days subject to an extension (solely with respect to a superior proposal made prior to the 30th day) until the next business day following the end of any in process match right period with respect to such superior proposal and (ii) a termination fee equal to 2.95% of transaction equity value. During the day on February 22, Simpson Thacher and Cleary Gottlieb finalized the transaction documents consistent with such terms.

Also on February 22, Mr. Bilimer, in his capacity as chairman of the Board's compensation committee, spoke with Ms. Williams-Roll to discuss the February 21 Offer Letter. During this conversation, Mr. Bilimer indicated that the Board expected to offer Mr. Bishop an increase in his base salary for the subsequent year in the ordinary course absent the potential transaction. Following this conversation, representatives of Buyer presented to Mr. Bishop a revised offer letter (the February 22 Offer Letter) reflecting an increased base salary, which base salary was also approved by the compensation committee of the Board during the day on February 22. Later that day, Mr. Bishop executed the February 22 Offer Letter. See also Interests of Our Directors and Executive Officers in the Merger Offer Letter between Buyer and William Bishop, Jr beginning on page 48.

On February 22, 2018, the Board held a special meeting, with representatives of senior management, Simpson Thacher, J.P. Morgan and Centerview in attendance. At the request of the Board, J.P. Morgan reviewed with the Board J.P. Morgan's financial analysis of the Merger Consideration, and rendered its oral opinion to the Board that, as of such date and based upon and subject to the factors and assumptions set forth in its opinion, the Merger Consideration to be paid to the holders of shares of Company Common Stock in the proposed Merger was fair, from a financial point of view, to such holders. J.P. Morgan subsequently confirmed its February 22, 2018 oral opinion by delivering its written opinion to the Board, dated February 22, 2018, that, as of such date, the Merger Consideration to be paid to the holders of shares of Company Common Stock in the proposed Merger was fair, from a financial point of view, to such holders. For a detailed discussion of J.P. Morgan's opinion, please see below under The Merger Opinion of J.P. Morgan Securities LLC. At the request of the Board, representatives of Centerview reviewed with the Board Centerview's financial analysis of the Merger Consideration, and rendered to the Board an oral opinion, which was subsequently confirmed by delivery of a written opinion dated February 22, 2018 that, as of such date and based upon and subject to various assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken in preparing its opinion, the Merger Consideration to be paid to the holders of shares of Company Common Stock (other than as specified in such opinion) pursuant to the Merger Agreement was fair, from a financial point of view, to such holders. For a detailed discussion of Centerview's opinion, please see below under the caption The Merger Opinion of Centerview Partners LLC. Representatives of Simpson Thacher then provided the Board with a summary of the key terms of the Draft Merger Agreement and described the resolutions before the Board. After further discussion by the Board, including further discussion of the resolutions to be adopted by the Board, the Board unanimously (i) resolved that the Draft Merger Agreement and the transactions contemplated thereby, including the potential merger, were advisable, fair to and in the best interests of the Company and the stockholders of the Company, (ii) approved the Draft Merger Agreement and the transactions contemplated thereby, including the potential merger, (iii) directed that the Draft Merger Agreement be submitted to the stockholders of the Company and (iv) determined and resolved to recommend that the stockholders of the Company adopt the Draft Merger Agreement.

Following the meeting, on February 22, 2018, the Company and Buyer executed the Merger Agreement, Buyer delivered a copy of the executed debt commitment letter and the Majority Stockholders delivered executed support

agreements. Shortly after execution of the Merger Agreement and the support agreements, the Majority

## **Table of Contents**

Stockholders delivered the Written Consent. The Company and Buyer issued a joint press release announcing the entry into the Merger Agreement before the opening of the U.S. stock exchanges on February 23, 2018.

### **Reasons for the Merger**

In the course of the Board making the determinations described above in *The Merger* Background of the Merger beginning on page 17, the Board consulted with management of the Company, as well as the Company's legal and financial advisors, and considered the following potentially positive factors, which are not intended to be exhaustive and are not presented in any relative order of importance:

***Merger Consideration.*** The Board considered the \$40.00 per share in cash to be paid as merger consideration in relation to (i) the Board's estimate of the current and future value of the Company as an independent entity, (ii) the multiple of enterprise value to EBITDA implied by such price and (iii) the market price of the Company Common Stock on February 13, 2018, the last trading day prior to news reports that the Company had received an approach about a possible acquisition of the Company.

***Negotiations with Buyer:*** The Board considered its belief that, after extensive negotiations and several increases in price by Buyer, the Company obtained the highest price and most favorable terms to which Buyer was willing to agree.

***Strategic Alternatives:*** The Board considered the likelihood and potential benefits of other potential strategic or other business combination transactions (including with alternative acquirers) and continuing as an independent company.

The Board considered the potential values, benefits, risks and uncertainties facing the Company's stockholders associated with possible strategic alternatives to the Merger (including possible alternative business combinations and scenarios involving the possibility of remaining independent), and the timing, risks and likelihood of accomplishing such alternatives, taking into account (i) the fact that the Company has, since its initial public offering, engaged in discussions with parties that have expressed interest in a potential transaction with the Company and which have historically not resulted in formal proposals for the Board to evaluate or and (ii) after consultation with the Financial Advisors, the fact that there were likely no other potential strategic purchasers that would be reasonably likely to engage in a transaction in the near term at a price greater than the price being offered by Buyer and no financial sponsors that would be reasonably likely to make an offer at a price greater than the price being offered by Buyer.

The Board also considered the fact that the Company had not been contacted regarding any alternative acquisition proposals since the initial meeting with Buyer in October 2017, despite the February 14, 2018 publication of an article suggesting that the Company was approached about a potential takeover.

The Board also considered the risk that prolonging the sale process further could have resulted in the loss of an opportunity to consummate a transaction with Buyer and distracted senior management from implementing the Company's business plan.

While the Board remained supportive of the Company's strategic plan and optimistic about its prospects on a stand-alone basis, the Board considered the Company's future prospects if the Company were to remain an independent public company, including the competitive landscape, the business, financial and execution risks and the Company's relationships with customers, providers and suppliers and the potential impact of those factors on the trading price of Company Common Stock (which cannot be quantified numerically).

Based on the value, risk allocation, timing and other terms and conditions negotiated with Buyer, the Board ultimately determined that the acquisition by Buyer is more favorable to the Company's stockholders than any other strategic alternative reasonably available to the Company, including continuing as an independent public company.

**Table of Contents**

***Premium to trading price:*** The Board considered that the Merger Consideration of \$40.00 per share to be received by the Company stockholders in the Merger represents a significant premium over the market prices at which shares of Company Common Stock traded prior to the announcement of the execution of the Merger Agreement, including the fact that the Merger Consideration of \$40.00 represented a premium of approximately:

21.0% over the closing price of shares of Company Common Stock as of February 13, 2018, the day before the publication of an article suggesting that the Company was approached about a potential takeover (the Unaffected Date ),

17.2% over the closing price of shares of Company Common Stock on February 22, 2018, the last trading day before the announcement of the execution of the Merger Agreement,

26.2% to the volume weighted average price of the Company Common Stock during the 90 days prior to the Unaffected Date, and

100% over the Company's initial public offering price.

***Cash consideration:*** The Board considered the fact that the Merger Consideration is all cash, which provides certainty and immediate liquidity and value to the Company's stockholders, enabling the Company's stockholders to realize value that has been created at the Company while eliminating long-term business and execution risk.

***Majority Stockholder support:*** The Board considered the support of the Majority Stockholders, which collectively controlled approximately 51.8% of the aggregate outstanding shares of Company Common Stock as of February 22, 2018 and which will be receiving the same form and amount of Merger Consideration for their shares of Company Common Stock as all other stockholders of the Company.

***Buyer's reputation:*** The Board considered the business reputation, experience and capabilities of Buyer and its management.

***Fairness opinions:*** The Board considered the respective financial analyses of J.P. Morgan and Centerview, as well as the respective opinion of each of J.P. Morgan and Centerview, rendered to the Board on February 22, 2018, which was subsequently confirmed by delivery of a written opinion dated February 22, 2018 that, as of such date and based upon and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations upon the review undertaken by J.P. Morgan and Centerview in preparing their respective opinions, the Merger Consideration to be paid to the holders of shares of Company Common Stock (other than as specified in such opinion) pursuant to the Merger Agreement was fair, from a financial point of view, to such holders. The J.P. Morgan and Centerview opinions are more fully described below under the captions "The Merger" Opinion of J.P. Morgan Securities LLC beginning on page 31 and The

Merger Opinion of Centerview Partners LLC beginning on page 38 and the full text of the J.P. Morgan opinion and the Centerview opinion is attached to this information statement as Annex B and Annex C, respectively.

**Merger Agreement:** The board considered, in consultation with its outside legal counsel, the terms of the Merger Agreement, which were the product of arm's-length negotiations and contained terms and conditions that were, in the Board's view, advisable and favorable to the Company and its stockholders, including:

the representations, warranties and covenants of the parties, the conditions to the parties obligations to complete the merger and their ability to terminate the Merger Agreement;

the limited number and nature of the conditions to Buyer's obligation to consummate the Merger;

the Company's ability, under certain limited circumstances, to furnish information to and conduct negotiations with third parties regarding an acquisition proposal;

**Table of Contents**

the fact that the definition of material adverse effect has a number of customary exceptions and is generally a very high standard applied by courts;

the fact that the Company has sufficient operating flexibility to conduct its business in the ordinary course between execution of the Merger Agreement and consummation of the Merger;

the Merger not being subject to a financing condition, the limited number and nature of the conditions to funding set forth in the financing commitment letter and the obligation of Buyer and Merger Sub to use their reasonable best efforts to obtain the financing;

the ability of the Company to seek specific performance in the event that Buyer breaches the Merger Agreement;

the requirement that the parties use their respective reasonable best efforts to complete the transactions contemplated by the Merger Agreement as promptly as practicable, including obtaining all necessary governmental approvals;

the inclusion of provisions that will allow the Board, under certain circumstances and even though the Company already obtained stockholder approval by written consent, until 11:59 p.m. New York City time on March 24, 2018, in response to an unsolicited bona fide acquisition proposal, to engage in negotiations or discussions, otherwise contact, or furnish any confidential information and reasonable access to, the third party making such acquisition proposal and its representatives, subject to certain notice and other requirements, and until 11:59 p.m. New York City time on March 24, 2018 to terminate the Merger Agreement to accept a superior proposal, subject to certain notice requirements and other conditions and the requirement that the Company pay the Company Termination Fee as more fully described in The Merger Agreement Termination of the Merger Agreement beginning on page 70, which provisions the Board determined were reasonable in light of, among other things, the benefits of the Merger to the Company stockholders, the typical length of time of such window shop periods and size of such fees in similar transactions and the likelihood that a window shop period of such length and a fee of such size would not preclude or unreasonably restrict the emergence of an acquisition proposal or acquisition transaction.

***Likelihood of consummation:*** The Board considered the likelihood that the Merger would be completed, in light of, among other things, the conditions to the Merger, the absence of a financing condition, the covenants by the parties to use their respective reasonable best efforts to obtain all necessary governmental approvals and the likelihood of obtaining required regulatory approvals for a transaction with Buyer prior to the outside date (as defined in The Merger Agreement Termination of the Merger Agreement beginning on page 70) and the potential regulatory challenges that certain other potential buyers would face in connection with an acquisition of the Company.

**Financing:** The Board considered that Buyer obtained committed debt financing for the transaction from a reputable financial institution as well as the fact that Buyer must use its reasonable best efforts to consummate the debt financing or other permanent financing in lieu thereof, and such financing, together with cash available on hand at Buyer, provides for sufficient funds to consummate the transactions contemplated by the Merger Agreement, including related fees and expenses required to be paid as of the consummation of the Merger.

**Appraisal rights:** The Board considered the fact that appraisal rights are available to the Company's stockholders who properly exercise their statutory rights under Section 262 of the DGCL (see Appraisal Rights beginning on page 76 and Annex D).



**Table of Contents**

The Board also considered and balanced against the potentially positive factors a number of potentially negative factors concerning the Merger, including the following factors:

***Participation in future gains:*** The Board considered the fact that following the completion of the Merger, the Company will no longer exist as an independent public company and that the Company's existing stockholders will not be able to participate in any future earnings or growth of the Company, or in any future appreciation in value of shares of Company Common Stock.

***Risks associated with announcement of the Merger:*** The Board considered the possibility of disruption to the Company's business that could result from the announcement of the Merger on the Company's operations, stock price, business ventures, employees, distributors, customers, suppliers and other business partners and the resulting distraction of management's attention from day-to-day operations of the business and its ability to attract and retain key employees during the pendency of the Merger.

***Risks associated with a failure to consummate the Merger:*** The Board considered the fact that, while the Merger is expected to be completed, there are no assurances that all conditions to the parties' obligations to complete the Merger will be satisfied or waived, and as a result, it is possible that the Merger may not be completed, as described under "The Merger Agreement - Conditions to Consummation of the Merger" beginning on page 70. The Board noted the fact that, if the Merger is not completed, (i) the Company will have incurred significant risk, transaction expenses and opportunity costs, including the possibility of disruption to its operations, diversion of management and employee attention, employee attrition and a potentially negative effect on our business and client relationships, (ii) depending on the circumstances that caused the Merger not to be completed, it is likely that the trading price of the Company Common Stock will decline, potentially significantly and (iii) the market's perception of the Company's prospects could be adversely affected.

***Restrictions on the operation of the Company's business:*** The Board considered the fact that the Merger Agreement prohibits the Company from taking a number of actions relating to the conduct of its business prior to the closing without the prior written consent of Buyer, which may delay or prevent the Company from undertaking business opportunities that may arise during the pendency of the Merger, whether or not the Merger is completed.

***Solicitation Efforts:*** The fact that the Company decided not to engage in a competitive bid process or other broad solicitation of interest prior to execution of the Merger Agreement, which decision by the Board, however, was informed by (i) the price and premium proposed by Buyer, (ii) the board's concern regarding increased risk of leaks if the Company contacted third parties regarding a potential transaction, (iii) the views expressed by J.P. Morgan and Centerview that there was a limited likelihood that other strategic buyers would be interested in pursuing a transaction with the Company at this time and that financial buyers would not be interested in making a fully financed, non-contingent offer to acquire the Company at a price per share greater than \$40.00, (iv) the Company's historical experience with the most likely other strategic acquirers being uninterested in moving forward with an acquisition process and (v) the inclusion in the Merger Agreement of a "window shop period" during which potentially interested parties could submit a

superior proposal.

***No-solicitation provision:*** The Board considered the fact that the Merger Agreement restricts the Company's ability to actively solicit acquisition proposals.

***Written Consent:*** The Board considered the fact that, as a condition to entering into the Merger Agreement, Buyer required that the Merger Agreement include a provision permitting Buyer to terminate the Merger Agreement if the Majority Stockholders failed to execute and deliver the Written Consent within twenty-four (24) hours of executing the Merger Agreement.

***Termination fees:*** The Board considered the possibility that the \$234 million termination fee payable to Buyer if the Board accepts a superior proposal might have the effect of discouraging acquisition proposals.

---

**Table of Contents**

***Tax Treatment:*** The Board considered the fact that any gains arising from the receipt of the Merger Consideration would generally be taxable to the Company stockholders for U.S. federal income tax purposes.

***Stockholder Litigation:*** The board considered the risk of litigation arising from stockholders in respect of the Merger Agreement or transactions contemplated thereby.

During its consideration of the transaction with Buyer, the Board was also aware of and considered that the Company's directors and executive officers may have interests in the Merger that differ from, or are in addition to, their interests as stockholders of the Company generally, as described under "The Merger - Interests of Our Directors and Executive Officers in the Merger" beginning on page 48.

After taking into account all of the factors set forth above, as well as others, the Board determined that the potentially positive factors outweighed the potentially negative factors. The foregoing discussion of the factors considered by the Board is not intended to be exhaustive, but summarizes the material information and factors considered by the Board in its consideration of the Merger. The Board reached the decision to recommend and approve the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement, in light of the factors described above and other factors the Board felt were appropriate. In view of the variety of factors and the quality and amount of information considered, the Board did not find it practicable to and did not quantify or otherwise assign relative weights to the specific factors considered in reaching its determination and individual members of the Board may have given different weights to different factors. The Board conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, senior management of the Company, J.P. Morgan and Centerview as financial advisors, and Simpson Thacher as legal advisors, and considered the factors overall to be favorable to, and to support, its determinations. This explanation of the reasoning of the Board and certain information presented in this section is forward-looking in nature and should be read in light of the factors set forth in "Cautionary Statement Regarding Forward-Looking Statements" beginning on page 14.

**Opinion of J.P. Morgan Securities LLC (page 31 and Annex B)**

Pursuant to an engagement letter dated February 9, 2018, the Company retained J.P. Morgan as its financial advisor in connection with the proposed Merger. At the meeting of the Board on February 22, 2018, J.P. Morgan rendered its oral opinion to the Board that, as of such date and based upon and subject to the factors and assumptions set forth in its opinion, the Merger Consideration to be paid to the holders of shares of Company Common Stock in the proposed Merger was fair, from a financial point of view, to such holders. J.P. Morgan has confirmed its February 22, 2018 oral opinion by delivering its written opinion to the Board, dated February 22, 2018, that, as of such date, the Merger Consideration to be paid to the holders of shares of Company Common Stock in the proposed Merger was fair, from a financial point of view, to such holders. The full text of the written opinion of J.P. Morgan dated February 22, 2018, which sets forth the assumptions made, matters considered and limits on the review undertaken, is attached as Annex B to this Information Statement and is incorporated herein by reference. The summary of the opinion of J.P. Morgan set forth in this Information Statement is qualified in its entirety by reference to the full text of such opinion. The Company's stockholders are urged to read the opinion in its entirety. J.P. Morgan's written opinion was addressed to the Board (in its capacity as such) in connection with and for the purposes of its evaluation of the proposed Merger, was directed only to the consideration to be paid in the Merger and did not address any other aspect of the Merger. J.P. Morgan expressed no opinion as to the fairness of any consideration paid in connection with the Merger to the holders of any other class of securities, creditors or other constituencies of the Company or as to the underlying decision by the Company to engage in the proposed Merger. The issuance of J.P. Morgan's opinion was approved by a fairness committee of J.P. Morgan. The summary of the opinion of J.P. Morgan set forth in this Information Statement is qualified in its entirety by reference to the full text of such opinion. The opinion does not constitute a recommendation

to any stockholder of the Company as to whether such stockholder should consent with respect to the proposed Merger or any other matter.

**Table of Contents**

In arriving at its opinion, J.P. Morgan, among other things:

reviewed the Merger Agreement;

reviewed certain publicly available business and financial information concerning the Company and the industries in which it operates;

compared the proposed financial terms of the Merger with the publicly available financial terms of certain transactions involving companies J.P. Morgan deemed relevant and the consideration paid for such companies;

compared the financial and operating performance of the Company with publicly available information concerning certain other companies J.P. Morgan deemed relevant and reviewed the current and historical market prices of the shares of Company Common Stock and certain publicly traded securities of such other companies;

reviewed certain internal financial analyses and projections prepared by the management of the Company relating to its business (referred to in this section as the Company Forecasts ), which projections are set forth in the section of this Information Statement entitled The Merger Certain Financial Projections ; and

performed such other financial studies and analyses and considered such other information as J.P. Morgan deemed appropriate for the purposes of its opinion.

In addition, J.P. Morgan held discussions with certain members of the management of the Company with respect to certain aspects of the Merger, and the past and current business operations of the Company, the financial condition and future prospects and operations of the Company, and certain other matters J.P. Morgan believed necessary or appropriate to its inquiry.

In giving its opinion, J.P. Morgan relied upon and assumed the accuracy and completeness of all information that was publicly available or was furnished to or discussed with J.P. Morgan by the Company or otherwise reviewed by or for J.P. Morgan, and J.P. Morgan did not independently verify any such information or its accuracy or completeness and, pursuant to its engagement letter with the Company, did not assume any obligation to undertake any such independent verification. J.P. Morgan did not conduct and was not provided with any valuation or appraisal of any assets or liabilities, nor did J.P. Morgan evaluate the solvency of the Company or Buyer under any state or federal laws relating to bankruptcy, insolvency or similar matters. In relying on financial analyses and forecasts provided to J.P. Morgan or derived therefrom, J.P. Morgan assumed that they were reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management as to the expected future results of operations and financial condition of the Company to which such analyses or forecasts relate. J.P. Morgan expressed no view as to such analyses or forecasts or the assumptions on which they were based. J.P. Morgan also assumed that the Merger and the other transactions contemplated by the Merger Agreement would be consummated as described in the Merger Agreement. J.P. Morgan also assumed that the representations and warranties made by the Company and Buyer in the Merger Agreement and the related agreements were and would be true and correct in all respects material to its

analysis. J.P Morgan is not a legal, regulatory or tax expert and relied on the assessments made by advisors to the Company with respect to such issues. J.P. Morgan further assumed that all material governmental, regulatory or other consents and approvals necessary for the consummation of the Merger would be obtained without any adverse effect on the Company or on the contemplated benefits of the Merger.

J.P. Morgan's opinion was necessarily based on economic, market and other conditions as in effect on, and the information made available to J.P. Morgan as of, the date of such opinion. J.P. Morgan's opinion noted that subsequent developments may affect J.P. Morgan's opinion, and that J.P. Morgan does not have any obligation to update, revise, or reaffirm such opinion. J.P. Morgan's opinion is limited to the fairness, from a financial point of view, of the Merger Consideration to be paid to the holders of shares of Company Common Stock in the proposed Merger, and J.P. Morgan expressed no opinion as to the fairness of any consideration paid in

**Table of Contents**

connection with the proposed Merger to the holders of any other class of securities, creditors or other constituencies of the Company or as to the underlying decision by the Company to engage in the proposed Merger. Furthermore, J.P. Morgan expressed no opinion with respect to the amount or nature of any compensation to any officers, directors, or employees of any party to the proposed Merger, or any class of such persons relative to the consideration to be paid to the holders of shares of Company Common Stock in the proposed Merger or with respect to the fairness of any such compensation. J.P. Morgan was not authorized to and did not solicit any expressions of interest from any other parties with respect to the sale of all or any part of the Company or any other alternative transaction.

The terms of the Merger Agreement were determined through arm's-length negotiations between the Company and Buyer, and the decision to enter into the Merger Agreement was solely that of the Board. J.P. Morgan's opinion and financial analyses were only one of the many factors considered by the Board in its evaluation of the proposed Merger and should not be viewed as determinative of the views of the Board or management with respect to the proposed Merger or the Merger Consideration.

In accordance with customary investment banking practice, J.P. Morgan employed generally accepted valuation methodologies in rendering its opinion to the Board on February 22, 2018 and contained in the presentation delivered to the Board on such date in connection with the rendering of such opinion. The following summary does not purport to be a complete description of the analyses or data presented by J.P. Morgan. Some of the summaries of the financial analyses include information presented in tabular format. The tables are not intended to stand alone, and in order to more fully understand the financial analyses used by J.P. Morgan, the tables must be read together with the full text of each summary. Considering the data set forth below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of J.P. Morgan's analyses.

**Public Trading Multiples Analysis.**

Using publicly available information, J.P. Morgan compared selected financial data of the Company with similar data for selected publicly traded companies engaged in businesses which J.P. Morgan judged to be analogous in certain respects to the Company or aspects thereof based on J.P. Morgan's experience and its familiarity with the industries in which the Company operates. The companies selected by J.P. Morgan were as follows:

The Estée Lauder Companies Inc.

Monster Beverage Corporation

lululemon athletica inc.

Under Armour, Inc.

National Beverage Corp.

Freshpet, Inc.

None of the selected companies reviewed is identical to the Company. Certain of these companies may have characteristics that are materially different from those of the Company. However, the companies were selected, among other reasons, because they are publicly traded companies with operations and businesses that, for purposes of J.P. Morgan's analysis, may be considered similar to those of the Company. The analyses necessarily involve complex considerations and judgments concerning differences in financial and operational characteristics of the companies involved and other factors that could affect the companies differently than they would affect the Company.

With respect to the selected companies, the information J.P. Morgan presented included the multiple of firm value (calculated as equity value plus or minus, as applicable, net debt or net cash) to estimates of earnings before interest expense, income taxes, depreciation and amortization less stock-based compensation expense and adjusted for non-recurring items, or Adjusted EBITDA, of the applicable selected company for calendar year



**Table of Contents**

2018, referred to in this section as FV/2018 Adjusted EBITDA. Financial data for the selected companies was based on the selected companies' filings with the SEC and publicly available Wall Street research analyst consensus estimates for calendar year 2018 that J.P. Morgan obtained from FactSet Research Systems. Results of this analysis were presented for the selected companies, as indicated in the following table:

| <b>Selected Company</b>         | <b>FV/2018 Adjusted EBITDA<sup>1</sup></b> |
|---------------------------------|--|
| The Estée Lauder Companies Inc. | 18.7x                                      |
| Monster Beverage Corporation    | 24.2x                                      |
| lululemon athletica inc.        | 15.4x                                      |
| Under Armour, Inc.              | 25.2x                                      |
| National Beverage Corp.         | 18.2x                                      |
| Freshpet, Inc.                  | NM   |
| <b>Mean</b>                     | <b>20.3x</b>                               |
| <b>Median</b>                   | <b>18.7x</b>                               |

<sup>1</sup> Enterprise Value/Adjusted EBITDA 2018E noted as NM as value is above 40.0x.

Based on the above analysis and other factors that J.P. Morgan considered appropriate in its professional judgment, J.P. Morgan selected an FV/2018 Adjusted EBITDA multiple reference range for the Company of 17.5x to 23.0x. J.P. Morgan then applied that range to the Company's estimated calendar year 2018 Adjusted EBITDA of approximately \$352 million derived from the Company Forecasts (utilizing the Company's estimated 2018 calendar year Adjusted EBITDA as set forth in the Company Forecasts and subtracting estimated stock-based compensation as set forth in the Company Forecasts). The analysis indicated an implied equity value per Share (rounded to the nearest \$0.25), which J.P. Morgan compared to the Merger Consideration of \$40.00 per share of Company Common Stock, to the closing price per Share as of February 20, 2018 and to the closing price per share of Company Common Stock as of February 13, 2018 (the day before the publication of an article suggesting that the Company was approached about a potential takeover), as follows:

**Implied Equity Value per Share**

| <b>Reference Range<sup>1</sup></b> | <b>Merger Consideration</b> | <b>2/20/2018 Closing Price<br/>Per Share</b> | <b>2/13/2018 Closing Price<br/>Per Share</b> |
|------------------------------------|-----------------------------|--|--|
| \$30.50 - \$40.25                  | \$ 40.00                    | \$ 34.76                                     | \$ 33.05                                     |

<sup>1</sup> Assumes debt of \$394mm and cash of \$282mm as of 12/31/17 as per management guidance.

**Selected Transaction Analysis.**

Using publicly available information, J.P. Morgan examined selected transactions with respect to businesses which J.P. Morgan judged to be analogous to the Company's business or aspects thereof based on J.P. Morgan's experience and familiarity with the industries in which the Company operates. The transactions indicated in the following table were selected by J.P. Morgan as relevant in evaluating the proposed Merger. Using publicly available information, J.P. Morgan calculated, for each selected transaction, among other things, the multiple of the target company's firm value (calculated as described above) implied in the relevant transaction to the target company's EBITDA for the last

twelve-month period for which financial information had been made public (which we refer to as LTM ) at the time of the transaction announcement (such multiple referred to in this section as FV/LTM Adjusted EBITDA). Financial data for the target companies was based on press releases, equity research and the target company s filings with the SEC, including filings made in connection with the applicable selected transaction. Results of this analysis were presented for the selected transactions, as indicated in the following table:

| <b>Announcement Date</b> | <b>Acquiror</b>             | <b>Target</b>                        | <b>FV/LTM Adjusted EBITDA</b> |
|--------------------------|-----------------------------|--------------------------------------|-------------------------------|
| September 2014           | General Mills, Inc.         | Annie s, Inc.                        | 38.7x                         |
| November 2012            | Reckitt Benckiser Group plc | Schiff Nutrition International, Inc. | 26.2x                         |

**Table of Contents**

| <b>Announcement Date</b> | <b>Acquiror</b>                   | <b>Target</b>                  | <b>FV/LTM Adjusted EBITDA</b> |
|--------------------------|-----------------------------------|--------------------------------|-------------------------------|
| July 2007                | Danone                            | Royal Numico N.V.              | 24.3x                         |
| July 2016                | Danone                            | The WhiteWave Foods Company    | 23.4x                         |
| October 2007             | The Clorox Company                | Burt's Bees, Inc.              | 22.2x                         |
| April 2012               | Nestle S.A.                       | Wyeth Nationals (Pfizer)       | 21.7x                         |
| May 2014                 | Bayer AG                          | Merck Consumer Care            | 21.0x                         |
| December 2017            | Campbell Soup Company             | Snyder's-Lance, Inc.           | 20.9x                         |
| January 2014             | Suntory Holdings Limited          | Beam Inc.                      | 20.3x                         |
| July 2017                | McCormick & Company, Incorporated | The French's Food Company      | 20.0x                         |
| December 2017            | The Hershey Company               | Amplify Snack Brands, Inc.     | 19.7x                         |
| April 2008               | Mars, Incorporated                | Wm. Wrigley Jr. Company        | 18.4x                         |
| February 2017            | Reckitt Benckiser Group plc       | Mead Johnson Nutrition Company | 17.4x                         |
| <b>Median</b>            |                                   |                                | <b>21.0x</b>                  |

None of the selected transactions reviewed was identical to the Merger. Certain of these transactions may have characteristics that are materially different from those of the Merger. However, the transactions selected were chosen because the participants in and certain other aspects of the transactions, for purposes of J.P. Morgan's analysis, may be considered similar to the participants in and aspects of the merger. The analyses necessarily involve complex considerations and judgments concerning differences in financial and operational characteristics of the companies involved and other factors that could affect the transactions differently than they would affect the Merger.

Based on the above analysis and other factors that J.P. Morgan considered appropriate in its professional judgment, J.P. Morgan then selected an FV/LTM Adjusted EBITDA multiple reference range for the Company of 17.5x to 26.0x. J.P. Morgan then applied that range to the Company's LTM Adjusted EBITDA of approximately \$315 million included in the Company Forecasts. The analysis indicated an implied equity value per share of Company Common Stock (rounded to the nearest \$0.25), which J.P. Morgan compared to the Merger Consideration of \$40.00 per share of Company Common Stock, to the closing price per share of Company Common Stock as of February 20, 2018 and to the closing price per share of Company Common Stock as of February 13, 2018 (the day before the publication of an article suggesting that the Company was approached about a potential takeover), as follows:

**Implied Equity Value per Share**

| <b>Reference Range<sup>1</sup></b> | <b>Merger Consideration</b> | <b>2/20/2018 Closing Price Per Share</b> | <b>2/13/2018 Closing Price Per Share</b> |
|------------------------------------|-----------------------------|--|--|
| \$27.25 - \$40.75                  | \$ 40.00                    | \$ 34.76                                 | \$ 33.05                                 |

<sup>1</sup> Assumes debt of \$394mm and cash of \$282mm as of 12/31/17 as per management guidance.

**Discounted Cash Flow Analysis.**

J.P. Morgan conducted a discounted cash flow analysis for the purpose of determining the fully diluted equity value per share of Company Common Stock of the Company. J.P. Morgan calculated the unlevered free cash flows that the Company is expected to generate during calendar years 2018 through 2022 as derived from the Company Forecasts.

J.P. Morgan also calculated a range of terminal values of the Company at the end of this period by applying perpetuity growth rates ranging from 2.5% to 3.5% to estimates of the unlevered free cash flow of the Company during calendar year 2022 as provided in the Company Forecasts. The unlevered free cash flows and the range of terminal values were then discounted to present values using a range of discount rates from 8.25% to 9.25% and the mid-period convention, which were chosen by J.P. Morgan based upon an analysis of the weighted average cost of capital of the Company. The present value of the unlevered free cash flows and

**Table of Contents**

the range of terminal asset values were then adjusted for the Company's 2017 fiscal year-end excess cash and total debt. This analysis indicated a range of implied equity values for the Company, which J.P. Morgan divided by the total number of share of Company Common Stock outstanding as of February 20, 2018, calculated on a fully-diluted basis based on information provided by the Company's management, to derive a range of implied equity values per share of Company Common Stock (rounded to the nearest \$0.25), which J.P. Morgan compared to the Merger Consideration of \$40.00 per share of Company Common Stock, to the closing price per share of Company Common Stock as of February 20, 2018 and to the closing price per share of Company Common Stock as of February 13, 2018 (the day before the publication of an article suggesting that the Company was approached about a potential takeover), as follows:

**Implied Equity Value per Share**

| <b>Reference Range</b> | <b>Merger Consideration</b> | <b>2/20/2018 Closing Price<br/>Per Share</b> | <b>2/13/2018 Closing Price<br/>Per Share</b> |
|------------------------|-----------------------------|--|--|
| \$33.50 - \$46.75      | \$ 40.00                    | \$ 34.76                                     | \$ 33.05                                     |

**Other Information.**

**Historical Trading Range for the Company.** For reference purposes only and not as a component of its fairness analysis, J.P. Morgan reviewed the historical closing prices of the shares of Company Common Stock during the 52-week period prior to February 20, 2018, noting that the low and high closing prices during such period ranged from \$21.51 per Share to \$35.81 per share of Company Common Stock, as compared to the Merger Consideration of \$40.00 per Share, the closing price per Share as of February 20, 2018 of \$34.76 and to the closing price per share of Company Common Stock as of February 13, 2018 (the day before the publication of an article suggesting that the Company was approached about a potential takeover) of \$33.05.

**Analyst Price Targets for the Company.** For reference purposes only and not as a component of its fairness analysis, J.P. Morgan reviewed certain publicly available equity research analyst share price targets for the shares of Company Common Stock, noting that these share price targets ranged from \$28.50 per share of Company Common Stock to \$52.00 per share of Company Common Stock, with an average price target of \$34.50 per share of Company Common Stock, as compared to the Merger Consideration of \$40.00 per share of Company Common Stock, the closing price per share of Company Common Stock as of February 20, 2018 of \$34.76 and to the closing price per share of Company Common Stock as of February 13, 2018 (the day before the publication of an article suggesting that the Company was approached about a potential takeover) of \$33.05.

**Miscellaneous**

The foregoing summary of certain material financial analyses does not purport to be a complete description of the analyses or data presented by J.P. Morgan. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. J.P. Morgan believes that the foregoing summary and its analyses must be considered as a whole and that selecting portions of the foregoing summary and these analyses, without considering all of its analyses as a whole, could create an incomplete view of the processes underlying the analyses and its opinion. As a result, the ranges of valuations resulting from any particular analysis or combination of analyses described above were merely utilized to create points of reference for analytical purposes and should not be taken to be the view of J.P. Morgan with respect to the actual value of the Company. The order of analyses described does not represent the relative importance or weight given to those analyses by J.P. Morgan. In arriving at its opinion, J.P. Morgan did not attribute any particular weight to any analyses or factors considered by it and did not form an opinion as to whether any individual analysis or factor (positive or negative), considered in

isolation, supported or failed to support its opinion. Rather, J.P. Morgan considered the totality of the factors and analyses performed in determining its opinion.

Analyses based upon forecasts of future results are inherently uncertain, as they are subject to numerous factors or events beyond the control of the parties and their advisors. Accordingly, forecasts and analyses used or made by J.P. Morgan are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by those analyses. Moreover, J.P. Morgan's analyses are not and do not purport to

---

**Table of Contents**

be appraisals or otherwise reflective of the prices at which businesses actually could be acquired or sold. None of the selected companies reviewed as described in the above summary is identical to the Company, and none of the selected transactions reviewed was identical to the Merger. However, the companies selected were chosen because they are publicly traded companies with operations and businesses that, for purposes of J.P. Morgan's analysis, may be considered similar to those of the Company. The transactions selected were similarly chosen because their participants, size and other factors, for purposes of J.P. Morgan's analysis, may be considered similar to the Merger. The analyses necessarily involve complex considerations and judgments concerning differences in financial and operational characteristics of the companies involved and other factors that could affect the companies compared to the Company and the transactions compared to the Merger.

As a part of its investment banking business, J.P. Morgan and its affiliates are continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, investments for passive and control purposes, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for corporate and other purposes. J.P. Morgan was selected to advise the Company with respect to the Merger on the basis of, among other things, such experience and its qualifications and reputation in connection with such matters and its familiarity with the Company and the industries in which it operates.

For financial advisory services rendered in connection with the proposed Merger (including the delivery of its opinion), the Company has agreed to pay J.P. Morgan a fee of approximately \$22 million, \$3 million of which was payable upon delivery by J.P. Morgan of its opinion, and the remainder of which will become due upon the closing of the proposed Merger. In addition, the Company has agreed to reimburse J.P. Morgan for certain of its reasonable costs and expenses incurred in connection with its services, including certain of the reasonable fees and disbursements of counsel, and will indemnify J.P. Morgan against certain liabilities arising out of J.P. Morgan's engagement. During the two years preceding the date of J.P. Morgan's opinion, J.P. Morgan and its affiliates have had commercial or investment banking relationships with the Company and Buyer for which J.P. Morgan and such affiliates have received customary compensation. Such services during such period have included acting as joint lead bookrunner on the Company's offerings of equity securities in June 2016 and September 2016 and as joint lead arranger and joint bookrunner on the Company's credit facility in May 2017, and acting as joint lead arranger and joint bookrunner on Buyer's credit facility in May 2016 and joint lead bookrunner on Buyer's offering of debt securities in September 2017. During the two years preceding the date of J.P. Morgan's opinion, J.P. Morgan and its affiliates have also had commercial or investment banking relationships with portfolio companies of Invus, the Company's financial sponsor that are unrelated to the Merger, for which J.P. Morgan and such affiliates have received customary compensation. Such services have included debt syndication and equity and debt underwriting. In addition, J.P. Morgan's commercial banking affiliate is an agent bank and a lender under outstanding credit facilities of such portfolio companies, for which it receives customary compensation or other financial benefits. In addition, J.P. Morgan and its affiliates hold, on a proprietary basis, less than 1% of the outstanding common stock of each of the Company, Invus and Buyer. During the two year period preceding delivery of its opinion, the aggregate fees received by J.P. Morgan from the Company were approximately \$6 million. During the two year period preceding delivery of its opinion, the aggregate fees received by J.P. Morgan from Buyer were approximately \$3 million. During the two year period preceding delivery of its opinion, the aggregate fees received by J.P. Morgan from Invus were approximately \$12 million. In the ordinary course of J.P. Morgan's businesses, J.P. Morgan and its affiliates may actively trade the debt and equity securities or financial instruments (including derivatives, bank loans or other obligations) of the Company or Buyer for its own account or for the accounts of customers and, accordingly, may at any time hold long or short positions in such securities or other financial instruments.

**Opinion of Centerview Partners LLC (page 38 and Annex C)**

On February 22, 2018, Centerview rendered to the Board its oral opinion, subsequently confirmed in a written opinion dated February 22, 2018, that, as of such date and based upon and subject to various assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken by



**Table of Contents**

Centerview in preparing its opinion, the Merger Consideration to be paid to the holders of shares of Company Common Stock (other than Excluded Shares) pursuant to the Merger Agreement was fair, from a financial point of view, to such holders.

The full text of Centerview's written opinion, dated February 22, 2018, which describes the assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken by Centerview in preparing its opinion, is attached as Annex C and is incorporated herein by reference. **The summary of the written opinion of Centerview set forth below is qualified in its entirety by reference to the full text of Centerview's written opinion attached as Annex C. Centerview's financial advisory services and opinion were provided for the information and assistance of the Board (in their capacity as directors and not in any other capacity) in connection with and for purposes of its consideration of the Transaction and Centerview's opinion only addressed the fairness, from a financial point of view, as of the date thereof, to the holders of shares of Company Common Stock (other than Excluded Shares) of the Merger Consideration to be paid to such holders pursuant to the Merger Agreement. Centerview's opinion did not address any other term or aspect of the Merger Agreement or the Transaction and does not constitute a recommendation to any stockholder of the Company or any other person as to whether such stockholder should have executed a consent with respect to the Merger or as to how such stockholder or other person should otherwise act with respect to the Transaction or any other matter.**

**The full text of Centerview's written opinion should be read carefully in its entirety for a description of the assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken by Centerview in preparing its opinion.**

In connection with rendering the opinion described above and performing its related financial analyses, Centerview reviewed, among other things:

a draft of the Merger Agreement dated February 22, 2018, referred to in this summary of Centerview's opinion as the Draft Merger Agreement ;

Annual Reports on Form 10-K of the Company for the years ended December 31, 2016 and December 31, 2015;

the Registration Statements on Form S-1 of the Company, as amended;

certain interim reports to stockholders and Quarterly Reports on Form 10-Q of the Company;

certain publicly available research analyst reports for the Company;

certain other communications from the Company to its stockholders; and

certain internal information relating to the business, operations, earnings, cash flow, assets, liabilities and prospects of the Company (including certain financial forecasts, analyses and projections relating to the Company prepared by management of the Company and furnished to Centerview by the Company for purposes of Centerview's analysis, which are set forth in the section of this Information Statement entitled "The Merger - Certain Financial Projections" and referred to in this summary of Centerview's opinion as the "Forecasts"), which are collectively referred to in this summary of Centerview's opinion as the "Internal Data."

Centerview also participated in discussions with members of the senior management and representatives of the Company regarding their assessment of the Internal Data. In addition, Centerview reviewed publicly available financial and stock market data, including valuation multiples, for the Company and compared that data with similar data for certain other companies, the securities of which are publicly traded, in lines of business that Centerview deemed relevant. Centerview also compared certain of the proposed financial terms of the Transaction with the financial terms, to the extent publicly available, of certain other transactions that Centerview deemed relevant, and conducted such other financial studies and analyses and took into account such other information as Centerview deemed appropriate.

---

**Table of Contents**

Centerview assumed, without independent verification or any responsibility therefor, the accuracy and completeness of the financial, legal, regulatory, tax, accounting and other information supplied to, discussed with, or reviewed by Centerview for purposes of its opinion and, with the Company's consent, Centerview relied upon such information as being complete and accurate. In that regard, Centerview assumed, at the Company's direction, that the Internal Data (including, without limitation, the Forecasts) were reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of the Company as to the matters covered thereby and Centerview relied at the Company's direction on the Internal Data for purposes of Centerview's analysis and opinion. Centerview expressed no view or opinion as to the Internal Data or the assumptions on which it was based. In addition, at the Company's direction, Centerview did not make any independent evaluation or appraisal of any of the assets or liabilities (contingent, derivative, off-balance-sheet or otherwise) of the Company, nor was Centerview furnished with any such evaluation or appraisal, and was not asked to conduct, and did not conduct, a physical inspection of the properties or assets of the Company. Centerview assumed, at the Company's direction, that the final executed Merger Agreement would not differ in any respect material to Centerview's analysis or opinion from the Draft Merger Agreement reviewed by Centerview. Centerview also assumed, at the Company's direction, that the Transaction will be consummated on the terms set forth in the Merger Agreement and in accordance with all applicable laws and other relevant documents or requirements, without delay or the waiver, modification or amendment of any term, condition or agreement, the effect of which would be material to Centerview's analysis or Centerview's opinion and that, in the course of obtaining the necessary governmental, regulatory and other approvals, consents, releases and waivers for the Transaction, no delay, limitation, restriction, condition or other change will be imposed, the effect of which would be material to Centerview's analysis or Centerview's opinion. Centerview did not evaluate and did not express any opinion as to the solvency or fair value of the Company, or the ability of the Company to pay its obligations when they come due, or as to the impact of the Transaction on such matters, under any state, federal or other laws relating to bankruptcy, insolvency or similar matters. Centerview is not a legal, regulatory, tax or accounting advisor, and Centerview expressed no opinion as to any legal, regulatory, tax or accounting matters.

Centerview's opinion expressed no view as to, and did not address, the Company's underlying business decision to proceed with or effect the Transaction, or the relative merits of the Transaction as compared to any alternative business strategies or transactions that might be available to the Company or in which the Company might engage. Centerview's opinion was limited to and addressed only the fairness, from a financial point of view, as of the date of Centerview's written opinion, to the holders of the shares of Company Common Stock (other than Excluded Shares) of the Merger Consideration to be paid to such holders pursuant to the Merger Agreement. For purposes of its opinion, Centerview was not asked to, and Centerview did not, express any view on, and its opinion did not address, any other term or aspect of the Merger Agreement or the Transaction, including, without limitation, the structure or form of the Transaction, or any other agreements or arrangements contemplated by the Merger Agreement or entered into in connection with or otherwise contemplated by the Transaction, including, without limitation, the fairness of the Transaction or any other term or aspect of the Transaction to, or any consideration to be received in connection therewith by, or the impact of the Transaction on, the holders of any other class of securities, creditors or other constituencies of the Company or any other party. In addition, Centerview expressed no view or opinion as to the fairness (financial or otherwise) of the amount, nature or any other aspect of any compensation to be paid or payable to any of the officers, directors or employees of the Company or any party, or class of such persons in connection with the Transaction, whether relative to the Merger Consideration to be paid to the holders of the shares of Company Common Stock pursuant to the Merger Agreement or otherwise. Centerview's opinion was necessarily based on financial, economic, monetary, currency, market and other conditions and circumstances as in effect on, and the information made available to Centerview as of, the date of Centerview's written opinion, and Centerview does not have any obligation or responsibility to update, revise or reaffirm its opinion based on circumstances, developments or events occurring after the date of Centerview's written opinion. Centerview's opinion does not constitute a recommendation to any stockholder of the Company or any other person as to whether such stockholder should have executed a consent with respect to the Merger or as to how such stockholder or other person should otherwise act with

respect to the Transaction or any other matter. Centerview's financial advisory services and its

## Table of Contents

written opinion were provided for the information and assistance of the members of the Board (in their capacity as directors and not in any other capacity) in connection with and for purposes of its consideration of the Transaction. The issuance of Centerview's opinion was approved by the Centerview Partners LLC Fairness Opinion Committee.

### *Summary of Centerview Financial Analysis*

The following is a summary of the material financial analyses prepared and reviewed with the Board in connection with Centerview's opinion, dated February 22, 2018. **The summary set forth below does not purport to be a complete description of the financial analyses performed or factors considered by, and underlying the opinion of, Centerview, nor does the order of the financial analyses described represent the relative importance or weight given to those financial analyses by Centerview. Centerview may have deemed various assumptions more or less probable than other assumptions, so the reference ranges resulting from any particular portion of the analyses summarized below should not be taken to be Centerview's view of the actual value of the Company. Some of the summaries of the financial analyses set forth below include information presented in tabular format. In order to fully understand the financial analyses, the tables must be read together with the text of each summary, as the tables alone do not constitute a complete description of the financial analyses performed by Centerview. Considering the data in the tables below without considering all financial analyses or factors or the full narrative description of such analyses or factors, including the methodologies and assumptions underlying such analyses or factors, could create a misleading or incomplete view of the processes underlying Centerview's financial analyses and its opinion.** In performing its analyses, Centerview made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of the Company or any other parties to the Transaction. None of the Company, Buyer, Merger Sub or Centerview or any other person assumes responsibility if future results are materially different from those discussed. Any estimates contained in these analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than as set forth below. In addition, analyses relating to the value of the Company do not purport to be appraisals or reflect the prices at which the Company may actually be sold. Accordingly, the assumptions and estimates used in, and the results derived from, the financial analyses are inherently subject to substantial uncertainty. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before February 20, 2018 and is not necessarily indicative of current market conditions.

### *Selected Public Company Analysis*

Centerview reviewed certain financial information of the Company and compared it to corresponding financial information of certain publicly traded companies that Centerview selected based on its experience and professional judgment (which we refer to as the selected companies in this summary of Centerview's opinion). Although none of the selected companies is directly comparable to the Company, the companies listed below were chosen by Centerview, among other reasons, because they are publicly traded companies with certain operational, business and/or financial characteristics that, for purposes of Centerview's analysis, may be considered similar to those of the Company. However, because none of the selected companies is exactly the same as the Company, Centerview believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the selected public company analysis. Accordingly, Centerview also made qualitative judgments, based on its experience and professional judgment, concerning differences between the business, financial and operating characteristics and prospects of the Company and the selected companies that could affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis.

Using publicly available information obtained from SEC filings and other data sources as of February 20, 2018, Centerview calculated, among other things, for each selected company set forth below, the implied enterprise value

(calculated, to the extent publicly available, as the market value of common equity (determined using the treasury stock method and taking into account outstanding in the money options, other equity awards

**Table of Contents**

and other convertible securities, as applicable) plus the debt, preferred stock and noncontrolling interests less cash and cash equivalents (excluding cash held on trust and restricted cash, as applicable) and equity investments) as a multiple of Wall Street research analyst consensus estimated earnings before interest expense, income taxes, depreciation and amortization and non-recurring items (which we refer to in this summary of Centerview's opinion as Adjusted EBITDA) for calendar year 2018. The results of this analysis are summarized as follows:

| <b>Selected Companies</b>                | <b>Enterprise Value/<br/>2018E Adjusted EBITDA</b> |
|--|--|
| Freshpet, Inc.                           | 44.7x  |
| McCormick & Company, Incorporated        | 16.6x <sup>1</sup>                                 |
| Monster Beverage Corporation             | 24.2x  |
| National Beverage Corp.                  | 18.2x  |
| The Hain Celestial Group, Inc.           | 12.5x  |
| The Hershey Company                      | 12.8x <sup>2</sup>                                 |
| The J.M. Smucker Company                 | 11.0x  |
| <b>Mean (including Freshpet, Inc.)</b>   | <b>20.0x</b>                                       |
| <b>Median (including Freshpet, Inc.)</b> | <b>16.6x</b>                                       |
| <b>Mean (excluding Freshpet, Inc.)</b>   | <b>15.9x</b>                                       |
| <b>Median (excluding Freshpet, Inc.)</b> | <b>14.7x</b>                                       |

<sup>1</sup> McCormick & Company, Incorporated figures pro forma for acquisition of The French's Food Company.

<sup>2</sup> The Hershey Company figures pro forma for acquisition of Amplify Snack Brands, Inc.

Based on the foregoing analysis and other considerations that Centerview deemed relevant in its professional judgment and experience, Centerview selected a reference of multiples of enterprise value to estimated 2018 calendar year Adjusted EBITDA of 16.5x to 21.0x. In selecting this range of multiples, Centerview made qualitative judgments based on its experience and professional judgment concerning differences between the business, financial and operating characteristics and prospects of the Company and the selected companies that could affect the public trading values in order to provide a context in which to consider the results of the quantitative analysis. Centerview applied this range to the Company's estimated 2018 calendar year Adjusted EBITDA of approximately \$352 million derived from the Forecasts (utilizing the Company's estimated 2018 calendar year Adjusted EBITDA as set forth in the Forecasts and subtracting estimated stock-based compensation as set forth in the Forecasts) to derive a range of implied enterprise values for the Company. Centerview subtracted from this range of implied enterprise values the Company's net debt as of December 31, 2017, as set forth in the Internal Data, to derive a range of equity values for the Company. Centerview then divided these ranges of implied equity values by the number of fully-diluted outstanding shares of Company Common Stock as of February 20, 2018 set forth in the Internal Data to derive a range of implied values per share of Company Common Stock of approximately \$28.80 to \$36.75, rounded to the nearest \$0.05. Centerview compared this range to the Merger Consideration of \$40.00 per share of Company Common Stock to be paid pursuant to the Merger Agreement.

**Selected Transactions Analysis**

Centerview reviewed and compared certain information relating to the following selected transactions that Centerview, based on its experience and professional judgment, deemed relevant to consider in relation to the Company and the Transaction. These transactions were selected, among other reasons, because their participants, size

or other factors, for purposes of Centerview's analysis, may be considered similar to the Transaction. Centerview used its experience, expertise and knowledge of these industries to select transactions that involved companies with certain operations, results, business mix or product profiles that, for purposes of this analysis, may be considered similar to certain operations, results, business mix or product profiles of the Company.

Centerview calculated, for each selected transaction set forth below, among other things, the enterprise value (calculated as described above) implied for the applicable target company based on the consideration



**Table of Contents**

payable in the applicable selected transaction as a multiple of the target company's Adjusted EBITDA for the latest twelve-month period (which we refer to as LTM) at the time of the transaction announcement. The results of this analysis are summarized as follows:

| <b>Announcement Date</b> | <b>Acquiror</b>                      | <b>Target</b>                     | <b>Enterprise Value /<br/>LTM<br/>Adjusted EBITDA</b> |
|--------------------------|--------------------------------------|-----------------------------------|---|
| January 2001             | Nestle S.A.                          | Ralston Purina Company            | 15.7x   |
| April 2007               | Nestle S.A.                          | Gerber Products Company           | 15.7x <sup>1</sup>                                    |
| July 2007                | Danone                               | Royal Numico N.V.                 | 24.3x   |
| April 2008               | Mars, Incorporated                   | Wm. Wrigley Jr. Company           | 18.4x   |
| January 2010             | Kraft Foods Inc.                     | Cadbury plc                       | 13.0x   |
| April 2012               | Nestle S.A.                          | Pfizer Nutrition                  | 21.7x <sup>2</sup>                                    |
| February 2013            | 3G Capital Partners, L.P.            | H. J. Heinz Company               | 13.5x   |
| April 2013               | JAB Holdings                         | D.E. Master Blenders 1753<br>N.V. | 18.3x   |
| July 2014                | Tyson Foods, Inc.                    | The Hillshire Brands<br>Company   | 16.8x   |
| September 2014           | General Mills, Inc.                  | Annie's, Inc.                     | 38.7x   |
| February 2015            | The J.M. Smucker<br>Company          | Big Heart Pet Brands, Inc.        | 15.3x   |
| December 2015            | JAB Holdings                         | Keurig Green Mountain,<br>Inc.    | 13.3x   |
| July 2016                | Danone                               | The WhiteWave Foods<br>Company    | 23.4x   |
| February 2017            | Reckitt Benckiser Group<br>plc       | Mead Johnson Nutrition<br>Company | 17.4x   |
| July 2017                | McCormick & Company,<br>Incorporated | The French's Food<br>Company      | 20.0x <sup>3</sup>                                    |
| September 2017           | Post Holdings, Inc.                  | Bob Evans Farms, Inc.             | 16.5x   |
| December 2017            | Campbell Soup Company                | Snyder's-Lance, Inc.              | 20.9x   |
| December 2017            | The Hershey Company                  | Amplify Snack Brands,<br>Inc.     | 19.7x   |
| <b>Median</b>            |                                      |                                   | <b>17.9x</b>  |

<sup>1</sup> Utilized a CY2007 multiple.

<sup>2</sup> Utilized an estimated FY2011 multiple.

<sup>3</sup> Utilized an estimated LTM multiple based on an average of FY2016 and 2017E figures publicly disclosed. No company or transaction used in this analysis is identical or directly comparable to the Company or the Transaction. The companies included in the selected transactions listed above were selected, among other reasons, based on Centerview's experience and professional judgment, because they have certain characteristics that, for the purposes of this analysis, may be considered similar to certain characteristics of the Company. The reasons for and the circumstances surrounding each of the selected transactions analyzed were diverse and there are inherent differences in the business, operations, financial conditions and prospects of the Company and the companies included in the

selected transactions analysis. Accordingly, Centerview believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the selected transactions analysis. This analysis involves complex considerations and qualitative judgments concerning differences in financial and operating characteristics and other factors that could affect the public trading, acquisition or other values of the selected target companies and the Company.

Based on its analysis and other considerations that Centerview deemed relevant in its professional judgment and experience, Centerview selected a reference of multiples of enterprise value to LTM Adjusted EBITDA of 17.5x to 24.5x. In selecting this range of multiples, Centerview made qualitative judgments based on its experience and professional judgment concerning differences between the business, financial and operating characteristics and prospects of the Company and the companies included in the selected transactions and other

---

**Table of Contents**

factors that could affect the public trading, acquisition or other values of such companies or the Company in order to provide a context in which to consider the results of the quantitative analysis. Centerview applied this range to the Company's LTM Adjusted EBITDA of \$315 million for the period ended December 31, 2017 to derive a range of implied enterprise values for the Company. Centerview subtracted from this range of implied enterprise values the Company's net debt as of December 31, 2017, as set forth in the Internal Data, to derive a range of equity values for the Company. Centerview then divided these ranges of implied equity values by the number of fully-diluted outstanding shares of Company Common Stock as of February 20, 2018 as set forth in the Internal Data to derive a range of implied values per share of Company Common Stock of approximately \$27.30 to \$38.40, rounded to the nearest \$0.05. Centerview compared this range to the Merger Consideration of \$40.00 per share of Company Common Stock to be paid pursuant to the Merger Agreement.

***Discounted Cash Flow Analysis***

Centerview performed a discounted cash flow analysis of the Company based on the Forecasts and the calculations of unlevered free cash flows set forth in The Merger Certain Financial Projections. A discounted cash flow analysis is a traditional valuation methodology used to derive a valuation of an asset by calculating the present value of estimated future cash flows of the asset. Present value refers to the current value of future cash flows and is obtained by discounting those future cash flows by a discount rate that takes into account macroeconomic assumptions and estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors.

In performing this analysis, Centerview calculated a range of illustrative equity values for the Company by (a) discounting to present value using discount rates ranging from 8.5% to 9.5% (reflecting Centerview's analysis of the Company's weighted average cost of capital) and the mid-year convention: (i) the forecasted fully taxed unlevered free cash flows of the Company over the period beginning January 1, 2018 and ending on December 31, 2022, as set forth in The Merger Certain Financial Projections, and (ii) a range of illustrative terminal values of the Company, calculated by Centerview applying perpetuity growth rates ranging from 2.5% to 3.5% to the Company's fully taxed unlevered free cash flows for the terminal year (as set forth in The Merger Certain Financial Projections) and (b) subtracting from the foregoing results the Company's net debt as of December 31, 2017, as set forth in the Internal Data. Centerview divided the result of the foregoing calculations by the number of fully-diluted outstanding shares of Company Common Stock as of February 20, 2018 based on the Internal Data to derive a range of implied values per Share of approximately \$32.20 to \$44.30 per share of Company Common Stock, rounded to the nearest \$0.05. Centerview compared this range to the Merger Consideration of \$40.00 per share of Company Common Stock to be paid pursuant to the Merger Agreement.

***Other Factors***

Centerview noted for the Board certain additional factors solely for informational purposes, including, among other things, the following:

*Historical Stock Price Trading Analysis.* Centerview reviewed historical share price performance of the shares of Company Common Stock for the 52-week period ended February 20, 2018, which reflected low and high intraday prices for the shares of Company Common Stock during this 52-week period of \$21.51 and \$35.81 (or \$34.31, disregarding high closing prices for the shares of Company Common Stock after February 14, 2018, the day of the publication of an article suggesting that the Company was approached about a potential takeover).

*Analyst Price Target Analysis.* Centerview reviewed stock price targets for the shares of Company Common Stock in Wall Street research analyst reports publicly available as of February 20, 2018, noting these stock price targets ranged from \$28.50 per share of Company Common Stock to \$52.00 per share of Company

**Table of Contents**

Common Stock. The 25<sup>th</sup> percentile and 75<sup>th</sup> percentile for the equity research analyst share price targets for the shares of Company Common Stock were as follows:

|                             |   |
|-----------------------------|---|
| 25 <sup>th</sup> Percentile | \$30.00 per share of Company Common Stock |
| 75 <sup>th</sup> Percentile | \$37.00 per share of Company Common Stock |

*Enterprise Value to LTM Net Revenue Multiple.* For reference purposes only, Centerview performed the selected transactions analysis described above using enterprise value to LTM net revenue multiples. Centerview calculated, for each selected transaction set forth above, among other things, the implied enterprise value (calculated as described above) as a multiple of the target company's LTM net revenue at the time of the transaction announcement (except with respect to Pfizer Nutrition/Nestle where estimates of fiscal year 2011 were used, and Gerber/Nestle where calendar year 2007 was used). This analysis resulted in a median enterprise value to LTM net revenue multiple of 3.38x. Based on its analysis and other considerations that Centerview deemed relevant in its professional judgment and experience, Centerview selected a range of multiples of enterprise value to LTM net revenue of 4.00x to 5.50x. In selecting this range of multiples, Centerview made qualitative judgments based on its experience and professional judgment concerning differences between the business, financial and operating characteristics and prospects of the Company and the companies included in the selected transactions and other factors that could affect the public trading, acquisition or other values of such companies or the Company in order to provide a context in which to consider the results of the quantitative analysis. Centerview applied this range to the Company's LTM net revenue of \$1.275 billion for the period ended December 31, 2017, to derive a range of implied enterprise values for the Company. Centerview subtracted from this range of implied enterprise values the Company's net debt as of December 31, 2017, as set forth in the Internal Data, to derive a range of equity values for the Company. Centerview then divided these ranges of implied equity values by the number of fully-diluted outstanding shares of Company Common Stock as of February 20, 2018 set forth in the Internal Data to derive a range of implied values per share of Company Common Stock of approximately \$25.20 to \$34.80, rounded to the nearest \$0.05. Centerview compared this range to the Merger Consideration of \$40.00 per share of Company Common Stock to be paid pursuant to the Merger Agreement.

***General***

The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to summary description. In arriving at its opinion, Centerview did not draw, in isolation, conclusions from or with regard to any factor or analysis that it considered. Rather, Centerview made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of the analyses.

Centerview's financial analyses and opinion were only one of many factors taken into consideration by the Board in its evaluation of the Transaction. Consequently, the analyses described above should not be viewed as determinative of the views of the Board or management of the Company with respect to the Merger Consideration or as to whether the Board would have been willing to determine that a different consideration was fair. The consideration for the transaction was determined through arm's-length negotiations between the Company and Buyer and was approved by the Board. Centerview provided advice to the Company during these negotiations. Centerview did not, however, recommend any specific amount of consideration to the Company or the Board or that any specific amount of consideration constituted the only appropriate consideration for the Transaction.

Centerview is a securities firm engaged directly and through affiliates and related persons in a number of investment banking, financial advisory and merchant banking activities. In the two years prior to the date of its written opinion Centerview was not (except for its current engagement) engaged to provide financial advisory or

801 \$5.67  
 Granted  
 Forfeited  
 Exercised (1) (35) 2.60  
 Vested (299) 5.69  
 Expired

Outstanding as of March 31, 2012 (2) 6,685 \$4.79 \$1,264 2.6 502 \$5.66

Exercisable as of March 31, 2012 5,613 \$4.81 \$1,264 1.9

- (1) Unless otherwise specified, such as in the case of the exercise of stock options, the per share prices were determined using the closing price of the Company's Common Stock as quoted on the NYSE Amex Equities. Shares issued upon exercise of options represent original issuances in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended.
- (2) All shares outstanding as of March 31, 2012 are expected to vest.

**Table of Contents**

The following table presents certain information regarding the Company's stock-based compensation for the periods presented (in thousands):

|  | Three Months Ended March 31, |               |
|--|------------------------------|---------------|
|  | 2012                         | 2011          |
| <b>Compensation expense:</b>                               |                              |               |
| Stock options  | \$ 337                       | \$ 254        |
| Restricted stock   | 675                          | 144           |
| <b>Total</b>   | <b>\$ 1,012</b>              | <b>\$ 398</b> |
| <b>Deferred tax benefits:</b>                              |                              |               |
| Stock options  | \$ 130                       | \$ 98         |
| Restricted stock   | 204                          |               |
| <b>Total</b>   | <b>\$ 334</b>                | <b>\$ 98</b>  |
| <b>Realized tax benefits:</b>                              |                              |               |
| Stock options  | \$ 14                        | \$            |
| Restricted stock   | 291                          |               |
| <b>Total</b>   | <b>\$ 305</b>                | <b>\$</b>     |
| <b>Excess tax benefits(shortfall):</b>                     |                              |               |
| Stock options  | \$                           | \$            |
| Restricted stock   | (142)                        |               |
| <b>Total</b>   | <b>\$ (142)</b>              | <b>\$</b>     |
| <b>Weighted avg grant date fair value for grants:</b>      |                              |               |
| Stock options  | \$                           | \$            |
| Restricted stock   |                              |               |
| <b>Total</b>   | <b>\$</b>                    | <b>\$</b>     |
| <b>Intrinsic value of options exercised</b>                | <b>\$ 35</b>                 | <b>\$</b>     |
| <b>Fair value of restricted stock vested</b>               | <b>\$ 1,164</b>              | <b>\$ 540</b> |
| <b>Cash received for strike price and tax withholdings</b> | <b>\$ 518</b>                | <b>\$ 199</b> |

The following table presents the amount of unrecognized compensation expense as of the most recent balance sheet date and the weighted average period over which those expenses will be recorded for both stock options and restricted stock (dollars in thousands):

|   | As of March 31, 2012 |                  |
|---|----------------------|------------------|
|   | Stock Options        | Restricted Stock |
| <b>Unrecognized expense</b>             | <b>\$ 1,273</b>      | <b>\$ 2,513</b>  |
| <b>Weighted average remaining years</b> | <b>1.18</b>          | <b>1.41</b>      |

**7. Stockholders' Equity****Dividends**

On February 23, 2012, the Company declared a dividend of \$0.10 per share on its outstanding common stock. The dividend was paid on April 6, 2012 to the Company's shareholders of record at the close of business on March 28, 2012.





**Table of Contents****8. Related Party Transactions**

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, Senior Vice President and Chief Operating Officer of the Company.

The following table presents payments made by the Company to Downes and Associates for the periods presented (in thousands):

|                       | Three Months Ended<br>March 31, |        |
|-----------------------|---------------------------------|--------|
|                       | 2012                            | 2011   |
| Claims adjusting fees | \$ 130                          | \$ 260 |

There were no amounts due to Downes and Associates as of March 31, 2012 and December 31, 2011.

**9. Income Taxes**

Deferred income taxes represent the temporary differences between the GAAP and tax basis of the Company's assets and liabilities. The tax effects of temporary differences are as follows for the periods presented (in thousands):

|  | As of March 31,<br>2012 | As of December 31,<br>2011 |
|--|-------------------------|----------------------------|
| Deferred income tax assets:                  |                         |                            |
| Unearned premiums                            | \$ 7,305                | \$ 9,007                   |
| Advance premiums                             | 2,345                   | 1,451                      |
| Unpaid losses                                | 2,977                   | 3,139                      |
| Stock option expense                         | 4,142                   | 4,026                      |
| Accrued wages                                | 993                     | 958                        |
| Allowance for uncollectible receivables      | 236                     | 276                        |
| Additional tax basis of securities           | 995                     | 2,407                      |
| Restricted stock grant                       | 86                      | 315                        |
| Unrealized losses on investments             | 2,881                   | 6,425                      |
| <b>Total deferred income tax assets</b>      | <b>21,960</b>           | <b>28,004</b>              |
| Deferred income tax liabilities:             |                         |                            |
| Deferred policy acquisition costs, net       | (4,551)                 | (5,013)                    |
| <b>Total deferred income tax liabilities</b> | <b>(4,551)</b>          | <b>(5,013)</b>             |
| <b>Net deferred income tax asset</b>         | <b>\$ 17,409</b>        | <b>\$ 22,991</b>           |

A valuation allowance is deemed unnecessary as of March 31, 2012 and December 31, 2011, because management believes it is probable that the Company will generate taxable income sufficient to realize the tax benefits associated with the net deferred income tax asset shown above in the near future.

Tax years that remain open for purposes of examination of the Company's income tax liability by taxing authorities include the years ended December 31, 2010, 2009 and 2008. The Company's 2009 consolidated federal income tax return is currently under examination by the Internal Revenue Service.



**Table of Contents**

The following table reconciles the statutory federal income tax rate to the Company's effective tax rate for the periods presented:

|  | Three Months Ended |       |
|--|--------------------|-------|
|  | March 31,          |       |
|  | 2012               | 2011  |
| Statutory federal income tax rate                | 35.0%              | 35.0% |
| Increases resulting from:                        |                    |       |
| Disallowed meals & entertainment                 | 0.3%               | 0.1%  |
| Disallowed compensation                          | 0.3%               | 0.6%  |
| State income tax, net of federal tax benefit (1) | 3.6%               | 3.6%  |
| Other, net                                       | 0.0%               | 0.5%  |
| Effective tax rate                               | 39.2%              | 39.8% |

(1) Included in income tax is State of Florida income tax at a statutory tax rate of 5.5%.

**10. Earnings Per Share**

Basic earnings per share (EPS) is based on the weighted average number of shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution that could occur if securities to issue common stock were exercised or restricted stock vests.

**Table of Contents**

The following table reconciles the numerator (i.e., income) and denominator (i.e., shares) of the basic and diluted earnings per share computations for net income for the periods presented (in thousands, except per share data):

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2012                            | 2011      |
| <b>Numerator for EPS:</b>                                |                                 |           |
| Net income   | \$ 9,873                        | \$ 13,898 |
| Less: Preferred stock dividends                          | (254)                           | (5)       |
| Income available to common stockholders                  | \$ 9,619                        | \$ 13,893 |
| <b>Denominator for EPS:</b>                              |                                 |           |
| Weighted average common shares outstanding               | 39,388                          | 39,388    |
| Plus: Assumed conversion of stock-based compensation (1) | 668                             | 962       |
| Assumed conversion of preferred stock (2)                | 488                             | 488       |
| Weighted average diluted common shares outstanding       | 40,544                          | 40,838    |
| Basic earnings per common share                          | \$ 0.24                         | \$ 0.35   |
| Diluted earnings per common share                        | \$ 0.24                         | \$ 0.34   |

(1) Represents the dilutive effect of unvested restricted stock and unexercised stock options.

(2) The assumed conversion of preferred stock for the three months ended March 31, 2011 has been corrected to reflect the conversion factor of 1 to 5 for Series M Preferred Stock. A conversion factor of 1 to 1.25 was incorrectly used to calculate the assumed conversion of Series M Preferred Stock as presented in the Company's Form 10-Q for the three months ended March 31, 2011. This error resulted in an understatement of the assumed conversion of preferred stock for purposes of calculating the average diluted shares outstanding resulting in an overstatement of diluted earnings per share of an amount less than \$0.01.

**11. Commitments and Contingencies****Employment Agreements**

The Company has employment agreements with certain employees which are in effect as of March 31, 2012. The agreements provide for minimum salaries, which may be subject to annual percentage increases, and non-equity incentive compensation for certain executives based on pre-tax, or net income levels attained by the Company. The agreements also provide for payments contingent upon the occurrence of certain events.

**Table of Contents**

The following table presents the amount of commitments and estimated contingent payments the Company is obligated to pay in the form of salaries and non-equity incentive compensation under the agreements with named executive officers (in thousands):

|  |           | As of March 31, 2012                    |                        |
|--|-----------|---|------------------------|
|  | Salaries  | Non-equity<br>incentive<br>compensation | Equity<br>compensation |
| Commitments                              | \$ 8,221  | \$ 4,397                                |                        |
| Contingent payments upon certain events: |           |   |                        |
| Termination                              | \$ 4,449  | \$ 2,823                                |                        |
| Change in control                        | \$ 13,634 | \$ 5,016                                | \$ 319                 |
| Death                                    | \$ 6,249  | \$ 3,571                                |                        |
| Disability                               | \$ 4,036  | \$ 2,277                                |                        |

**Litigation**

Certain lawsuits have been filed against the Company. These lawsuits involve matters that are routine litigation incidental to the claims aspect of the Company's business for which estimated losses are included in Unpaid Losses and Loss Adjustment Expenses in the Company's Condensed Consolidated Financial Statements. In the opinion of management, these lawsuits are not material individually or in the aggregate to the Company's financial position or results of operations. Accruals made or assessments of materiality of disclosure related to probable or possible losses do not consider any anticipated insurance proceeds.

**12. Fair Value Measurements**

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAP describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. GAAP does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

Level 1 Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

*Summary of significant valuation techniques for assets measured at fair value on a recurring basis*

Level 1

*Cash and cash equivalents:* Cash equivalents comprise actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access. The carrying value of cash and cash equivalents approximates fair value due to its liquid nature.



**Table of Contents**

*Common stock:* Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

*Exchange-traded and mutual funds:* Comprise actively traded funds. Valuation is based on daily quoted net asset values for identical assets in active markets that the Company can access.

*Other investments:* Currently comprise physical metal positions held by the Company. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Level 2

*U.S. government obligations and agencies:* Comprise U.S. Treasury Bills or Notes or U.S. Treasury Inflation Protected Securities (TIPS). The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

*Derivatives:* The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that are not active or highly active.

As required by GAAP, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect their placement within the fair value hierarchy levels.



**Table of Contents**

The following tables set forth by level within the fair value hierarchy the Company's assets that were accounted for at fair value on a recurring basis as of the periods presented (in thousands):

|   | Fair Value Measurements<br>As of March 31, 2012 |                 |           | Total             |
|---|---|-----------------|-----------|-------------------|
|   | Level 1   | Level 2         | Level 3   |                   |
| Cash and cash equivalents                           | \$ 325,968                                      | \$              | \$        | \$ 325,968        |
| Restricted cash and cash equivalents                | 48,178  |                 |           | 48,178            |
| <b>Trading portfolio:</b>                           |   |                 |           |                   |
| Debt securities:                                    |   |                 |           |                   |
| U.S. government securities obligations and agencies |   | 3,800           |           | 3,800             |
| Equity securities:                                  |   |                 |           |                   |
| Common stock:                                       |   |                 |           |                   |
| Metals and mining                                   | 34,460  |                 |           | 34,460            |
| Energy  | 7,203   |                 |           | 7,203             |
| Other   | 2,145   |                 |           | 2,145             |
| Exchange-traded and mutual funds:                   |   |                 |           |                   |
| Metals and mining                                   | 15,174  |                 |           | 15,174            |
| Agriculture   | 19,811  |                 |           | 19,811            |
| Indices   | 18,203  |                 |           | 18,203            |
| Derivatives (non-hedging)                           |   | 60              |           | 60                |
| Other investments                                   | 385   |                 |           | 385               |
| <b>Total trading portfolio investments</b>          | <b>97,381</b>                                   | <b>3,860</b>    |           | <b>101,241</b>    |
| <b>Total investments</b>                            | <b>\$ 471,527</b>                               | <b>\$ 3,860</b> | <b>\$</b> | <b>\$ 475,387</b> |

|   | Fair Value Measurements<br>As of December 31, 2011 |                 |           | Total             |
|---|--|-----------------|-----------|-------------------|
|   | Level 1  | Level 2         | Level 3   |                   |
| Cash and cash equivalents                           | \$ 229,685   | \$              | \$        | \$ 229,685        |
| Restricted cash and cash equivalents                | 78,312   |                 |           | 78,312            |
| <b>Trading portfolio:</b>                           |  |                 |           |                   |
| Debt securities:                                    |  |                 |           |                   |
| U.S. government securities obligations and agencies | 174  | 3,627           |           | 3,801             |
| Equity securities:                                  |  |                 |           |                   |
| Common stock:                                       |  |                 |           |                   |
| Metals and mining                                   | 38,816   |                 |           | 38,816            |
| Energy  | 4,999  |                 |           | 4,999             |
| Other   | 6,927  | 18              |           | 6,945             |
| Exchange-traded and mutual funds:                   |  |                 |           |                   |
| Metals and mining                                   | 25,997   |                 |           | 25,997            |
| Agriculture   | 16,878   |                 |           | 16,878            |
| Indices   | 1,710  |                 |           | 1,710             |
| Derivatives (non-hedging)                           |  | 123             |           | 123               |
| Other investments                                   | 371  |                 |           | 371               |
| <b>Total trading portfolio investments</b>          | <b>95,872</b>                                      | <b>3,768</b>    |           | <b>99,640</b>     |
| <b>Total investments</b>                            | <b>\$ 403,869</b>                                  | <b>\$ 3,768</b> | <b>\$</b> | <b>\$ 407,637</b> |

## Edgar Filing: Blue Buffalo Pet Products, Inc. - Form PREM14C

The Company utilizes third-party independent pricing services that provide a price quote for each debt security, equity security and derivatives. Management reviews the methodology used by the pricing services. If management believes that the price used by the pricing service does not reflect an orderly transaction between participants, management will use an alternative valuation methodology. There were no adjustments made by the Company to the prices obtained from the independent pricing source for any debt securities, equity securities or derivatives included in the tables above.

**Table of Contents**

The Company did not have any transfers between Level 1 and Level 2 for the three-month periods ended March 31, 2012 and 2011.

The following table summarizes the carrying value and estimated fair values of the Company's financial instruments that are not carried at fair value (in thousands):

|                     | As of March 31, 2012<br>(Level 3)<br>Estimated<br>Fair<br>Value |           |
|---------------------|---|-----------|
|                     | Carrying<br>value   |           |
| <b>Liabilities:</b> |   |           |
| Long-term debt      | \$ 21,324   | \$ 18,602 |
|                     |   |           |
|                     | As of December 31, 2011<br>(Level 3)<br>Estimated Fair<br>Value |           |
|                     | Carrying value  |           |
| <b>Liabilities:</b> |   |           |
| Long-term debt      | \$ 21,691   | \$ 18,775 |

Level 3

*Long-term debt:* The carrying value of long-term debt was determined by management from the expected cash flows discounted using the interest rate quoted by the issuer of the note, the State Board of Administration of Florida ( SBA ) which is below prevailing rates quoted by private lending institutions. However, as the Company's use of funds from the surplus note is limited by the terms of the agreement, the Company has determined the interest rate quoted by the SBA to be appropriate for purposes of establishing the fair value of the note.

**13. Subsequent Events**

The Company performed an evaluation of subsequent events through the date the Financial Statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the Financial Statements as of March 31, 2012, except the following.

On April 23, 2012, the Company declared a dividend of \$0.08 per share on its outstanding common stock, payable on July 9, 2012, to the Company's shareholders of record at the close of business on June 26, 2012.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Unless the context otherwise requires, all references to we, us, our, and Company refer to Universal Insurance Holdings, Inc. and its subsidiaries. You should read the following discussion together with our unaudited condensed consolidated financial statements and the related notes thereto included in Part I, Item 1 Financial Statements. Operating results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for the year.*

**Forward-Looking Statements**

*In addition to historical information, the following discussion may contain forward-looking statements within the meaning of the Private Securities Reform Litigation Act of 1995. The words expect, estimate, anticipate, believe, intend, project, plan and similar expressions and variations thereof, speak only as of the date the statement was made and are intended to identify forward-looking statements. Forward-looking statements are based on various factors and assumptions that include known and unknown risks and uncertainties. Such statements may include, but not be limited to, projections of revenues, income or loss, expenses, plans, as well as assumptions relating to the foregoing.*

## **Table of Contents**

*Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future results could differ materially from those in the following discussion and those described in forward-looking statements as a result of the risks set forth below.*

### **Risk Factors Summary**

We operate in a rapidly changing environment that involves a number of uncertainties, some of which are beyond our control. Certain statements made in this report that reflect management's expectations regarding future events are forward-looking in nature and, accordingly are subject to risks and uncertainties. These forward-looking statements are only current expectations about future events. Actual results could differ materially from those set forth in or implied by any forward-looking statement. Factors that could cause or contribute to such differences include, but are not limited to, risk factors set forth in filings with the Securities and Exchange Commission, including our annual and quarterly reports. The following is a summary of uncertainties which were disclosed in greater detail in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011:

#### Risks Relating to the Property-Casualty business

As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events

Unanticipated increases in the severity or frequency of claims may adversely affect our profitability and financial condition

Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition

Predicting claim expense relating to environmental liabilities is inherently uncertain and may have a material adverse effect on our operating results and financial condition

The failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations

Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business

Regulation limiting rate increases and requiring us to participate in loss sharing may decrease our profitability

The potential benefits of implementing our profitability model may not be fully realized

Our financial condition and operating results and the financial condition and operating results of the Insurance Entities may be adversely affected by the cyclical nature of the property and casualty business

Continued weakness in the Florida real estate market could adversely affect our loss results

#### Risks Relating to Investments

## Edgar Filing: Blue Buffalo Pet Products, Inc. - Form PREM14C

We have periodically experienced, and may experience further reductions in returns or losses on our investments especially during periods of heightened volatility, which could have a material adverse effect on our results of operations or financial condition

We are subject to market risk which may adversely impact investment income

Concentration of our investment portfolios in any particular segment of the economy may have adverse effects on our operating results and financial condition

Our overall financial performance is significantly dependent on the returns on our investment portfolio, which may have a material adverse effect on our results of operations or cause such results to be volatile

Risks Relating to the Insurance Industry and Other Factors

Our future results are dependent in part on our ability to successfully operate in an insurance industry that is highly competitive

Difficult conditions in the economy generally could adversely affect our business and operating results

There can be no assurance that actions of the U.S. federal government, Federal Reserve and other governmental and regulatory bodies for the purpose of stabilizing the financial markets and stimulating the economy will achieve the intended effect

We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth

## **Table of Contents**

Reinsurance subjects us to the credit risk of our reinsurers and may not be adequate to protect us against losses arising from ceded risks, which could have a material adverse effect on our operating results and financial condition

The continued threat of terrorism and ongoing military actions may adversely affect the level of claim losses we incur and the value of our investment portfolio

A downgrade in our Financial Stability Rating<sup>®</sup> may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms

Changing climate conditions may adversely affect our financial condition, profitability or cash flows

Loss of key executives could affect our operations

## **Overview**

Universal Insurance Holdings, Inc. ( UIH ) is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through our wholly-owned subsidiaries, including Universal Property & Casualty Insurance Company ( UPCIC ) and American Platinum Property and Casualty Insurance Company ( APPCIC ), collectively referred to as the ( Insurance Entities ), we are principally engaged in the property and casualty insurance business offered primarily through a network of independent agents. Our primary product is homeowners insurance currently offered in five states, including Florida, which represented 98% of the 584 thousand policies-in-force as of March 31, 2012, and 98% of the 593 thousand policies-in-force as of December 31, 2011. As for the geographic distribution of business within Florida as of March 31, 2012, and December 31, 2011, 30% and 32%, respectively, of the policies-in-force are in Miami-Dade, Broward and Palm Beach Counties. Risk from catastrophic losses is managed through the use of reinsurance agreements.

We generate revenues primarily from the collection of premiums and the investment of funds in excess of those retained for claims-paying obligations and insurance operations. Other significant sources of revenue include commissions collected from reinsurers and policy fees.

## **2012 Developments**

On January 11, 2012, we announced that UPCIC received OIR approval for premium rate increases for its homeowners and Dwelling Fire programs within Florida. The premium rate increases will average approximately 14.9% statewide for its homeowners program and 8.8% statewide for its dwelling fire program. The effective dates for both of the premium rate increases are January 9, 2012 for new business and February 28, 2012 for renewal business.

UPCIC made a forms filing immediately after the rate filing to segregate sinkhole coverage and to include updated policy language as a result of the property insurance bill which became law in May 2011 (Senate Bill 408). The OIR approved the forms filing with effective dates of April 1, 2012 for new business and May 21, 2012 for renewals. With the approval of this forms filing, sinkhole coverage will be removed from certain base homeowners policies and the coverage will be offered via endorsement for an additional surcharge, and a mandatory 10% deductible, to those policyholders that meet the proposed eligibility standards. Revised inspection and eligibility requirements will not be imposed upon existing policyholders who elect to continue sinkhole coverage at their policy renewal. Form changes for sinkhole coverage on dwelling fire policies, which are similar in nature to those filed for homeowners policies, were approved by the OIR with effective dates of May 1, 2012 for new business and June 8, 2012 for renewal business. Coverage for catastrophic ground cover collapse will remain a covered peril under all standard policy forms.

On February 22, 2012, we declared a dividend of \$0.10 per share on our outstanding common stock payable on April 6, 2012, to shareholders of record at the close of business on March 28, 2012.

## Edgar Filing: Blue Buffalo Pet Products, Inc. - Form PREM14C

On April 17, 2012, Demotech, Inc. affirmed UPCIC's Financial Stability Rating® of A. A Financial Stability Rating® of A is the third highest of six possible rating levels. According to Demotech, Inc., A ratings are assigned to insurers that have exceptional ability to maintain liquidity of invested assets, quality reinsurance, acceptable financial leverage and realistic pricing while simultaneously establishing loss and loss adjustment expense reserves at reasonable levels. The rating of UPCIC is subject to at least annual review by, and may be revised upward or downward or revoked at the sole discretion of Demotech, Inc.

---

## **Table of Contents**

On April 23, 2012, we declared a dividend of \$0.08 per share on our outstanding common stock payable on July 9, 2012, to shareholders of record at the close of business on June 26, 2012. We expect to declare additional quarterly dividends in the same amount to shareholders of record in the third and fourth quarters of 2012. Declaration and payment of future dividends is subject to the discretion of UIH's board of directors and will be dependent on future earnings, cash flows, financial requirements and other factors.

### ***Impact of new accounting pronouncement***

We prospectively adopted new accounting guidance related to accounting for costs associated with acquiring or renewing insurance contracts effective January 1, 2012. The overall impact under the new guidance, which was adopted on January 1, 2012, was a reduction in earnings of \$2.7 million (\$1.7 million after tax or \$0.04 per diluted share). The \$2.7 million pre-tax reduction in earnings during the three months ended March 31, 2012, includes an acceleration of capitalized costs existing as of December 31, 2011, which would have been amortized to earnings within a twelve-month period, and the immediate recognition of costs which otherwise would have been deferred, partially offset by a lesser amount of amortization expense due to the reduction in capitalized costs. The new guidance does not result in incremental charges to earnings, but rather affects the timing of the recognition of those charges in the income statement.

### ***2011-2012 Reinsurance Program***

In the normal course of business, we limit the maximum net loss that can arise from large risks, risks in concentrated areas of exposure and catastrophes, such as hurricanes or other similar loss occurrences, by reinsuring certain levels of risk in various areas of exposure with other insurers or reinsurers under our reinsurance agreements. Our intention is to limit our exposure and the Insurance Entities' exposure thereby protecting stockholders' equity and the Insurance Entities' capital and surplus, even in the event of catastrophic occurrences, through reinsurance agreements. Without these reinsurance agreements, the Insurance Entities would be more substantially exposed to catastrophic losses with a greater likelihood that those losses could exceed their statutory capital and surplus. Any such catastrophic event, or multiple catastrophes, could have a material adverse effect on the Insurance Entities' solvency and our results of operations, financial condition and liquidity.

### ***Quota Share***

Effective June 1, 2011 through May 31, 2012, UPCIC entered into a quota share reinsurance contract with Everest Re. Everest Re has the following ratings from each of the rating agencies: A+ from A.M. Best Company, A+ from Standard and Poor's Rating Services and Aa3 from Moody's Investors Service, Inc. Under the quota share contract, UPCIC cedes 50% of its gross written premiums, losses and LAE for policies with coverage for wind risk with a ceding commission equal to 25% of ceded gross written premiums. In addition, the quota share contract has a limitation for any one occurrence not to exceed \$34.8 million (of which UPCIC's net liability on the first \$34.8 million of losses in a first event scenario is \$17.4 million, in a second event scenario is \$17.4 million and in a third event scenario is \$30 million) and a limitation from losses arising out of events that are assigned a catastrophe serial number by the Property Claims Services (PCS) office not to exceed \$69.6 million. The contract requires UPCIC to reassume 100% of the attritional loss and LAE activity from 30% to 37.5% of gross written premium and has a limitation for LAE not to exceed 30% of indemnity losses paid during the contract period. Further, the contract requires UPCIC to purchase and maintain certain inuring reinsurance agreements. The contract limits the amount of reinsurance premiums inuring to the contract to \$288 million excluding reinstatement premiums, and limits the total reinsurance premiums inuring to the contract to \$326 million including any reinstatement premiums and all ancillary payments under the inuring reinsurance agreements.

### ***Excess Per Risk***

Effective June 1, 2011 through May 31, 2012, UPCIC entered into a multiple line excess per risk contract with various reinsurers. Under the multiple line excess per risk contract, UPCIC obtained coverage of \$1.4 million in excess of \$600 thousand ultimate net loss for each risk and each property loss, and \$1 million in excess of \$300 thousand for each casualty loss. A \$7 million aggregate limit applies to the term of the contract.

Effective June 1, 2011 through May 31, 2012, UPCIC entered into a property per risk excess contract covering ex-wind only policies. Under the property per risk excess contract, UPCIC obtained coverage of \$400 thousand in excess of \$200 thousand for each property loss. A \$2 million aggregate limit applies to the term of the contract.



**Table of Contents**

The total cost of our multiple line excess reinsurance program effective June 1, 2011 through May 31, 2012 is \$4 million of which our cost is 50%, or \$2 million and the quota share reinsurers' cost is the remaining 50%. The total cost of our property per risk reinsurance program effective June 1, 2011 through May 31, 2012 is \$575 thousand.

Effective October 1, 2011 through May 31, 2012, APPCIC entered into a multiple line excess per risk contract with various reinsurers. Under the multiple line excess per risk contract, APPCIC obtained coverage of \$8.4 million in excess of \$600 thousand ultimate net loss for each risk and each property loss, and \$1 million in excess of \$300 thousand for each casualty loss. A \$21 million aggregate limit applies to the term of the contract.

The total cost of the APPCIC multiple line excess reinsurance program effective October 1, 2011 through May 31, 2012 is a minimum premium of \$31,475, of which our cost is 50% or \$15,737 and the quota share reinsurers' cost is the remaining 50%, which is equated as follows: \$25,000 minimum premium on 87.5% of the contract, \$75,000 minimum premium on 10% of the contract and \$84,000 minimum premium on 2.5% of the contract. The final premium will be determined based upon APPCIC's volume of business during the contract term and a predetermined pricing algorithm.

*Excess Catastrophe*

Effective June 1, 2011 through May 31, 2012, under excess catastrophe contracts, UPCIC obtained catastrophe coverage of \$541.3 million in excess of \$185 million covering certain loss occurrences including hurricanes. The coverage of \$541.3 million in excess of \$185 million has a second full limit available to UPCIC. Additional premium is calculated pro rata as to amount and 100% as to time, as applicable.

Effective June 1, 2011 through May 31, 2012, UPCIC purchased reinstatement premium protection which reimburses UPCIC for its cost to reinstate the catastrophe coverage of the first \$399.3 million (part of \$541.3 million) in excess of \$185 million.

Effective June 1, 2011 through May 31, 2012, under an excess catastrophe contract specifically covering risks located in Georgia, North Carolina and South Carolina, UPCIC obtained catastrophe coverage of 50% of \$24.8 million in excess of \$10 million and 100% of \$20 million in excess of \$34.8 million covering certain loss occurrences including hurricanes. Both coverages have a second full limit available to UPCIC. Additional premium is calculated pro rata as to amount and 100% as to time, as applicable. The cost of UPCIC's excess catastrophe contracts specifically covering risks in Georgia, North Carolina and South Carolina is \$3.9 million.

Effective June 1, 2011 through May 31, 2012, UPCIC also obtained subsequent catastrophe event excess of loss reinsurance to cover certain levels of UPCIC's net retention through three catastrophe events including hurricanes, as follows:

|  | 2 <sup>nd</sup> Event                 | 3 <sup>rd</sup> Event                 |
|--|---------------------------------------|---------------------------------------|
| Coverage                               | \$140.2 million in excess of          | \$155.0 million in excess of          |
|  | \$44.8 million each loss occurrence   | \$30.0 million each loss occurrence   |
|  | subject to an otherwise               | subject to an otherwise               |
|  | recoverable amount of \$140.2 million | recoverable amount of \$310.0 million |
|  | (placed 100%)                         | (placed 100%)                         |
| Deposit premium (100%)                 | \$27.8 million                        | \$11.9 million                        |
| Minimum premium (100%)                 | \$22.2 million                        | \$9.5 million                         |
| Premium rate -% of total insured value | 0.021863 %                            | 0.009400 %                            |

UPCIC also obtained coverage from the Florida Hurricane Catastrophe Fund ( FHCF ), which is administered by SBA. Under the reimbursement agreement, the FHCF would reimburse UPCIC, for each loss occurrence during the contract year, for 90% of the ultimate loss paid by UPCIC in excess of its retention plus 5% of the reimbursed losses to cover loss adjustment expenses, subject to an aggregate contract limit. A covered event means any one storm declared to be a hurricane by the National Hurricane Center for losses incurred in Florida, both while it is a hurricane and through



**Table of Contents**

subsequent downgrades. For the contract year June 1, 2011 to May 31, 2012, UPCIC purchased the traditional FHCF coverage and did not purchase the Temporary Increase in Coverage Limit Option offered to insurers by the FHCF. UPCIC's traditional FHCF coverage is based upon UPCIC's exposure in-force as of June 30, 2011, and is 90% of \$1.221 billion in excess of \$461.4 million. The premium for this coverage is \$74 million.

Also at June 1, 2011, the FHCF made available, and UPCIC obtained, \$10.0 million of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies or companies that participated in the Insurance Capital Build-Up Incentive Program offered by the FHCF, such as UPCIC. This particular layer of coverage at June 1, 2011 is \$10.0 million in excess of \$34.8 million. The premium for this coverage is \$5.0 million.

On October 28, 2011, the SBA published its most recent estimate of the FHCF's loss reimbursement capacity in the *Florida Administrative Weekly*. The SBA estimated that the FHCF's total loss reimbursement capacity under current market conditions for the 2011-2012 contract year is projected to be \$15.17 billion over the 12-month period following the estimate. The SBA also referred to its report entitled, "October 18, 2011 Estimated Claims Paying Capacity Report" (Report) as providing greater detail regarding the FHCF's loss reimbursement capacity. The Report estimated that the FHCF's loss reimbursement capacity range is \$12.17 billion to \$18.17 billion. UPCIC elected to purchase the FHCF Mandatory Layer of Coverage for the 2011-2012 contract year, which corresponds to FHCF loss reimbursement capacity of \$17 billion. By law, the FHCF's obligation to reimburse insurers is limited to its actual claims-paying capacity. The aggregate cost of UPCIC's reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF's loss reimbursement capacity. Fortunately, no hurricanes made landfall in Florida during the 2011-2012 contract year and no reimbursement payments for the 2011-2012 contract year were required from the FHCF to participating companies. Accordingly, the effect of the change in the FHCF's reimbursement capacity estimate as compared to prior estimates had no effect on our financial position, results of operations and liquidity. In the 2012 Florida legislative session, the FHCF advocated a statutory change that would have reduced the amount of reimbursement capacity made available to the insurance industry in future years. However, the proposal did not pass.

The total cost of UPCIC's multiple line excess and property per risk reinsurance program effective June 1, 2011 through May 31, 2012 is \$4.575 million, of which UPCIC's cost is \$2.575 million, and the quota share reinsurer's cost is the remaining \$2.0 million. The total costs of APPCIC's multiple line excess is at a minimum \$31,475, of which APPCIC's cost is at a minimum \$15,737 and the quota share reinsurer's cost is the remaining 50%. The total cost of UPCIC's underlying excess catastrophe contract with T25 (see below) is \$111.4 million, subject to a potential return premium of \$83.4 million, which is eliminated in consolidation. The total cost of UPCIC's private catastrophe reinsurance program effective June 1, 2011 through May 31, 2012 is \$135.8 million, of which UPCIC's cost is 50%, or \$67.9 million, and the quota share reinsurer's cost is the remaining 50%. In addition, UPCIC purchases reinstatement premium protection as described above, the cost of which is \$22.4 million. UPCIC's cost of the subsequent catastrophe event excess of loss reinsurance is \$19.8 million. The estimated premium that UPCIC plans to cede to the FHCF for the 2011 hurricane season is \$73.3 million of which UPCIC's cost is 50%, or \$36.7 million, and the quota share reinsurer's cost is the remaining 50%. UPCIC is also participating in the additional coverage option for Limited Apportionment Companies or companies that participated in the Insurance Capital Build-Up Incentive Program offered by the FHCF, the premium for which is \$5.0 million, of which UPCIC's cost is 50%, or \$2.5 million, and the quota share reinsurer's cost is the remaining 50%.

UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program.

UPCIC estimates, based upon its in-force exposures as of December 31, 2011, it had coverage to approximately the 137-year Probable Maximum Loss (PML), modeled using AIR CLASIC/2 v.11.0, long term, without demand surge. Recently, AIR updated its catastrophe model and outlook of risk with the release of its new version, AIR CLASIC/2 v.12.04. UPCIC estimates, based on its in-force exposures as of December 31, 2011, that it had coverage to approximately the 94-year PML, modeled using AIR CLASIC/2 v.12.04, long term, without demand surge. Additionally, from time to time, UPCIC uses estimates from other catastrophe modeling vendors to estimate its PML. UPCIC estimates based upon its in-force exposures as of September 30, 2011, that it had coverage to approximately the 131-year PML, modeled using RMS's new release of its RiskLink model, v11, long term, without loss amplification. PML is a general concept applied in the insurance industry for defining high loss scenarios that should be considered when underwriting insurance risk. Both loss

---

**Table of Contents**

amplification and demand surge refer to the potential impact of secondary contributors to insured losses arising from catastrophic events. Examples of loss amplification or demand surge include increases in the cost of labor or materials, incremental losses associated with time elapsing between the initial date of loss and the date of repair, claim inflation, and potential coverage ambiguities due to concurrent causes of loss. Catastrophe models produce loss estimates that are quantified in terms of dollars and probabilities. Probability of exceedance or the probability that the actual loss level will exceed a particular threshold is a standard catastrophe model output. For example, the 100-year PML represents a 1.00% Annual Probability of Exceedance (the 137-year, 94-year and 131-year PML represents a 0.80%, 1.06% and 0.76% Annual Probability of Exceedance, respectively, for AIR v11.0, AIR v12.04 and RMS v11). It is estimated that the 100-year PML is likely to be equaled or exceeded in one year out of 100 on average, or 1 percent of the time. It is the 99th percentile of the annual loss distribution.

With the implementation of our 2011-2012 reinsurance program at June 1, 2011, we retained a maximum, pre-tax net liability of \$157.6 million as of December 31, 2011 for the first catastrophic event up to \$1.781 billion of losses. Refer to the preceding table for information with respect to subsequent catastrophic events coverage. If catastrophic losses result in a net operating loss for the 2011 tax year, we can carry back the net operating loss to the 2010 and 2009 tax years and recover all, or a portion of, income taxes paid in those years.

Separately from the Insurance Entities' reinsurance programs, UIH protected its own interests against diminution in value due to catastrophe events by purchasing \$60 million in coverage via a catastrophe risk-linked transaction contract, effective June 1, 2011 through December 31, 2011. The contract provided for a recovery by UIH in the event of the exhaustion of UPCIC's catastrophe coverage. The total cost to UIH of the risk-linked transaction contract is \$8.7 million.

We continually evaluate strategies to more effectively manage our exposure to catastrophe losses, including the maintenance of catastrophic reinsurance coverage. The Company is currently in the process of renegotiating its 2012-2013 reinsurance program. Based on current discussions, the Company does not expect that the terms of the 2012-2013 reinsurance program will differ materially from the 2011-2012 reinsurance program, but there can be no assurance that the Company will be able to obtain reinsurance at the same levels, terms or price as the 2011-2012 program.

*Termination of Agreements with Segregated Account T25*

Effective January 1, 2012, the agreement between the Insurance Entities and UIH's Segregated Account T25 - Universal Insurance Holdings of White Rock Insurance (SAC) Ltd. (T25) was replaced at identical limits and retentions as the prior agreement with an unaffiliated third-party reinsurer as an open market purchase. Effective January 1, 2012 through May 31, 2012, under an excess catastrophe contract, the Insurance Entities obtained catastrophe coverage of \$140.2 million in excess of \$44.8 million covering certain loss occurrences including hurricanes. The total cost of this reinsurance coverage is \$4.4 million. In the event of a non-hurricane loss subject to this contract, the Insurance Entities will pay to the reinsurer 20.0% of the ultimate net loss ceded to the reinsurer arising out of such non-hurricane loss.

**Wind Mitigation Discounts**

The insurance premiums charged by the Insurance Entities are subject to various statutory and regulatory requirements. Among these, the Insurance Entities must offer wind mitigation discounts in accordance with a program mandated by the Florida Legislature and implemented by the OIR. The level of wind mitigation discounts mandated by the Florida Legislature to be effective June 1, 2007 for new business and August 1, 2007 for renewal business have had a significant negative effect on our premium.

**Table of Contents**

The following table reflects the effect of wind mitigation credits received by our policy holders (in thousands):

| Date       | Reduction of in-force premium (only policies including wind coverage) |               |                  |  |
|------------|---|---------------|------------------|--|
|            | Percentage of UPCIC policyholders receiving credits                   | Total credits | In-force premium | Percentage reduction of in-force premium |
| 6/1/2007   | 1.9%  | \$ 6,285      | \$ 487,866       | 1.3%                                     |
| 12/31/2007 | 11.8%   | \$ 31,952     | \$ 500,136       | 6.0%                                     |
| 3/31/2008  | 16.9%   | \$ 52,398     | \$ 501,523       | 9.5%                                     |
| 6/30/2008  | 21.3%   | \$ 74,186     | \$ 508,412       | 12.7%                                    |
| 9/30/2008  | 27.3%   | \$ 97,802     | \$ 515,560       | 16.0%                                    |
| 12/31/2008 | 31.1%   | \$ 123,525    | \$ 514,011       | 19.4%                                    |
| 3/31/2009  | 36.3%   | \$ 158,230    | \$ 530,030       | 23.0%                                    |
| 6/30/2009  | 40.4%   | \$ 188,053    | \$ 544,646       | 25.7%                                    |
| 9/30/2009  | 43.0%   | \$ 210,292    | \$ 554,379       | 27.5%                                    |
| 12/31/2009 | 45.2%   | \$ 219,974    | \$ 556,557       | 28.3%                                    |
| 3/31/2010  | 47.8%   | \$ 235,718    | \$ 569,870       | 29.3%                                    |
| 6/30/2010  | 50.9%   | \$ 281,386    | \$ 620,277       | 31.2%                                    |
| 9/30/2010  | 52.4%   | \$ 291,306    | \$ 634,285       | 31.5%                                    |
| 12/31/2010 | 54.2%   | \$ 309,858    | \$ 648,408       | 32.3%                                    |
| 3/31/2011  | 55.8%   | \$ 325,511    | \$ 660,303       | 33.0%                                    |
| 6/30/2011  | 56.4%   | \$ 322,640    | \$ 673,951       | 32.4%                                    |
| 9/30/2011  | 57.1%   | \$ 324,313    | \$ 691,031       | 31.9%                                    |
| 12/31/2011 | 57.7%   | \$ 325,315    | \$ 703,459       | 31.6%                                    |
| 3/31/2012  | 57.9%   | \$ 323,286    | \$ 718,164       | 31.0%                                    |

Insurers like UPCIC fully experience the impact of rate or discount changes more than 12 months after implementation because insurance policies renew throughout the year. Although UPCIC may seek to offset the impact of wind mitigation credits through subsequent rate increase filings with the OIR, there is no assurance that the OIR and UPCIC will agree on the amount of rate change that is needed. In addition, any adjustments to UPCIC's rates similarly take more than 12 months to be fully integrated into its business.

**Table of Contents****Results of Operations Three Months Ended March 31, 2012, Compared to Three Months Ended March 31, 2011**

The following table summarizes changes in each component of our Statement of Income for the three months ended March 31, 2012, compared to the same period in 2011 (in thousands):

|   | Three Months Ended March 31, |                  | Change            |               |
|---|------------------------------|------------------|-------------------|---------------|
|   | 2012                         | 2011             | \$                | %             |
| <b>PREMIUMS EARNED AND OTHER REVENUES</b>   |                              |                  |                   |               |
| Direct premiums written                     | \$ 190,003                   | \$ 173,175       | \$ 16,828         | 9.7%          |
| Ceded premiums written                      | (163,434)                    | (123,891)        | (39,543)          | 31.9%         |
| Net premiums written                        | 26,569                       | 49,284           | (22,715)          | -46.1%        |
| Decrease (increase) in net unearned premium | 22,071                       | (1,280)          | 23,351            | NM            |
| Premiums earned, net                        | 48,640                       | 48,004           | 636               | 1.3%          |
| Net investment (expense) income             | (36)                         | 257              | (293)             | NM            |
| Net realized (losses) gains on investments  | (7,449)                      | 3,652            | (11,101)          | NM            |
| Net unrealized gains on investments         | 9,187                        | 2,588            | 6,599             | 255.0%        |
| Net foreign currency gains on investments   | 23                           | 71               | (48)              | -67.6%        |
| Commission revenue                          | 4,541                        | 4,180            | 361               | 8.6%          |
| Policy fees                                 | 3,901                        | 4,173            | (272)             | -6.5%         |
| Other revenue                               | 1,440                        | 1,408            | 32                | 2.3%          |
| Total premiums earned and other revenues    | 60,247                       | 64,333           | (4,086)           | -6.4%         |
| <b>OPERATING COSTS AND EXPENSES</b>         |                              |                  |                   |               |
| Losses and loss adjustment expenses         | 26,174                       | 26,185           | (11)              | 0.0%          |
| General and administrative expenses         | 17,844                       | 15,072           | 2,772             | 18.4%         |
| Total operating costs and expenses          | 44,018                       | 41,257           | 2,761             | 6.7%          |
| <b>INCOME BEFORE INCOME TAXES</b>           |                              |                  |                   |               |
| Income taxes, current                       | 774                          | 8,737            | (7,963)           | -91.1%        |
| Income taxes, deferred                      | 5,582                        | 441              | 5,141             | 1165.8%       |
| Income taxes, net                           | 6,356                        | 9,178            | (2,822)           | -30.7%        |
| <b>NET INCOME</b>                           | <b>\$ 9,873</b>              | <b>\$ 13,898</b> | <b>\$ (4,025)</b> | <b>-29.0%</b> |

Net income decreased by \$4 million, or 29%, primarily as a result of realized losses in our investment portfolio compared to realized gains during the three months ended March 31, 2011 and an increase in general and administrative expenses due primarily to accelerated amortization of deferred acquisition costs as a result of adopting new accounting guidance provided by the FASB. These factors were partially offset by an increase in unrealized gains of \$6.6 million.

The increase in net earned premiums of \$636 thousand, or 1.3%, reflects an increase in direct earned premium of \$14.2 million mostly offset by an increase in ceded earned premium of \$13.6 million. The increase in direct earned premium is due primarily to rate increases that first became effective in February and March of 2011. These rate increases have had a positive effect on premium generated by renewal policies but have resulted in a moderate reduction in the number of policies in force. The benefit from the rate increases continued to be partially offset by wind mitigation credits within the state of Florida. The increase in ceded earned premium of \$13.6 million includes \$2.7 million in the 2012 period relating to the aforementioned underlying property catastrophe excess of loss reinsurance contract with an unaffiliated third-party reinsurer.

Net investment expenses for the three months ended March 31, 2012, compared to net investment income for the same period in the prior year, reflects one time charges for investment accounting services as we convert to a new investment accounting service provider.

## Edgar Filing: Blue Buffalo Pet Products, Inc. - Form PREM14C

Realized losses on investments of \$7.5 million recorded during the three months ended March 31, 2012 reflect loss in value primarily in the metals and mining sector.

Net unrealized gains on investments of \$9.2 million, recorded during the three months ended March 31, 2012, include both a reclassification of unrealized gains and losses recorded in prior periods to realized gains and losses upon disposition during the current period and a net increase in value of investments held in our trading portfolio as of March 31, 2012. The majority of the increase in value was in the metals and mining sector.

**Table of Contents**

Commission revenue is comprised principally of reinsurance commission sharing agreements. The increase in commission revenue of \$361 thousand is due to an increase in the amount of ceded premiums.

Policy fees are comprised primarily of the managing general agent's policy fee income from insurance policies. The decrease of \$272 thousand reflects a reduction in the number of policies written primarily due to the rate increases that have taken affect, which has caused some attrition.

The net loss and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 53.8% and 54.5% during the three-month periods ended March 31, 2012 and 2011, respectively, and were comprised of the following components (in thousands):

|                                   | Three months ended March 31, 2012 |            |           |
|-----------------------------------|-----------------------------------|------------|-----------|
|                                   | Direct                            | Ceded      | Net       |
| Loss and loss adjustment expenses | \$ 52,607                         | \$ 26,433  | \$ 26,174 |
| Premiums earned                   | \$ 178,804                        | \$ 130,164 | \$ 48,640 |
| Loss & LAE ratios                 | 29.4%                             | 20.3%      | 53.8%     |

|                                   | Three months ended March 31, 2011 |            |           |
|-----------------------------------|-----------------------------------|------------|-----------|
|                                   | Direct                            | Ceded      | Net       |
| Loss and loss adjustment expenses | \$ 53,131                         | \$ 26,946  | \$ 26,185 |
| Premiums earned                   | \$ 164,587                        | \$ 116,583 | \$ 48,004 |
| Loss & LAE ratios                 | 32.3%                             | 23.1%      | 54.5%     |

The reduction in the direct loss and LAE ratio reflects an increase in earned premiums.

General and administrative expenses increased by \$2.8 million due primarily to the adoption of new accounting guidance related to deferred acquisition costs. The overall impact under the new guidance, which was adopted on January 1, 2012, was a reduction in earnings of \$2.7 million (\$1.7 million after tax or \$0.04 per diluted share). The \$2.7 million pre-tax reduction in earnings during the three months ended March 31, 2012, includes an acceleration of capitalized costs existing as of December 31, 2011, which would have been amortized to earnings within a twelve-month period, and the immediate recognition of costs which otherwise would have been deferred, partially offset by a lesser amount of amortization expense due to the reduction in capitalized costs. The new guidance does not result in incremental charges to earnings, but rather affects the timing of the recognition of those charges in the income statement. There were also increases in stock-based compensation of \$614 thousand for the three months ended March 31, 2012 compared to the same period in 2011, and non-recurring credits in the amount of \$469 thousand from the recovery of Florida Insurance Guaranty Association ( FIGA ) assessments recorded during the three months ended March 31, 2011. FIGA assessments are ultimately passed down to policyholders. Amounts charged or credited to our earnings represent timing differences between the time assessments are made by FIGA to us, and the collection of those assessments from policyholders. These increases were partially offset by a decrease in performance-based bonus accruals of \$418 thousand and a decrease of \$242 thousand in legal fees related to corporate matters. Performance-based bonuses are based on either net income before taxes or net income.

The decrease in income tax expense was the result of a reduction in taxable income due primarily to the realized losses in the trading portfolio and an increase general and administrative expenses.

**Analysis of Financial Condition As of March 31, 2012 Compared to December 31, 2011**

We believe that premiums will be sufficient to meet our working capital requirements for at least the next twelve months.



**Table of Contents**

Our policy is to invest amounts considered to be in excess of current working capital requirements. We have a receivable of \$4.1 million at March 31, 2012 for securities sold that had not yet settled compared to \$9.7 million at December 31, 2011, and a payable for securities purchased that had not yet settled of \$8.0 million as of March 31, 2012 compared to \$1.1 million at December 31, 2011.

The following table summarizes, by type, the carrying values of investments (in thousands):

| Type of Investment                   | As of March 31, 2012 | As of December 31, 2011 |
|--------------------------------------|----------------------|-------------------------|
| Cash and cash equivalents            | \$ 325,968           | \$ 229,685              |
| Restricted cash and cash equivalents | 48,178               | 78,312                  |
| Debt securities                      | 3,800                | 3,801                   |
| Equity securities                    | 96,996               | 95,345                  |
| Non-hedge derivatives                | 60                   | 123                     |
| Other investments                    | 385                  | 371                     |
| <b>Total Investments</b>             | <b>\$ 475,387</b>    | <b>\$ 407,637</b>       |

Prepaid reinsurance premiums represent ceded unearned premiums related to our catastrophe and quota share reinsurance programs. The increase of \$33.3 million to \$276.4 million during the three months ended March 31, 2012, was primarily due to an increase in premiums for catastrophe reinsurance coverage, as previously described in Recent Developments, 2011-2012 Reinsurance Program, and an increase in quota share reinsurance premiums commensurate with the increase in direct written premium. Premiums for catastrophe reinsurance coverage are earned over the respective contract periods which are generally effective from June 1, 2011, through May 31, 2012.

Reinsurance recoverables represent amounts due from reinsurers for ceded loss and LAE. The decrease in reinsurance recoverables of \$8.7 million to \$77 million reflects favorable loss experience in the current period and the timing of settlements with reinsurers.

Reinsurance receivable, net, represents inuring premiums receivable, net of ceded premiums payable with our quota share reinsurer. The decrease of \$39.4 million to \$15.8 million during the three months ended March 31, 2012 was due to timing of the settlement with the quota share reinsurer.

The increase in Property and Equipment of \$1.3 million to \$8.4 million reflects the cost of building a new office building which was placed into service at the end of March 2012.

See Note 5, Insurance Operations, in our Notes to Condensed Consolidated Financial Statements for a roll-forward in the balance of our deferred policy acquisition costs.

The decrease in net deferred income tax asset of \$5.6 million during the three months ended March 31, 2012 is due primarily to a decrease in the amount of unrealized losses in the trading portfolio.

See Note 5, Insurance Operations, in our Notes to Condensed Consolidated Financial Statements for a roll-forward in the balance of our unpaid losses and LAE.

Unearned premiums represent the portion of written premiums that will be earned pro rata in the future. The increase of \$11.2 million to \$371 million during the three months ended March 31, 2012 was due to growth in, and timing of, direct written premiums.

Advance premium represents premium payments made by policy holders ahead of a policy's effective date. The increase of \$11.7 million to \$31.1 million reflects a trend for an increase in the volume of policies with advance payments in March, relative to December.

---

## **Table of Contents**

Reinsurance payable, net, represents our liability to reinsurers for ceded written premiums, net of ceding commissions receivable. The increase of \$27 million to \$114.5 million during the three months ended March 31, 2012 was primarily due to the timing of settlements with reinsurers and amounts not yet due to reinsurers for catastrophe reinsurance coverage, as previously described above in Recent Developments, **2011-2012 Reinsurance Program**.

### **Liquidity and Capital Resources**

#### Liquidity

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet its short and long-term obligations. Funds generated from operations have generally been sufficient to meet our liquidity requirements and we expect that in the future funds from operations will continue to meet such requirements.

The balance of cash and cash equivalents as of March 31, 2012 was \$326 million compared to \$229.7 million at December 31, 2011. See our Condensed Consolidated Statements of Cash Flows for a reconciliation of the balance of cash and cash equivalent between March 31, 2012 and December 31, 2011. Most of this amount is available to pay claims in the event of a catastrophic event pending reimbursement amounts recoverable under reinsurance agreements. The source of liquidity for possible claim payments consists of the collection of net premiums after deductions for expenses, reinsurance recoverables and short-term loans.

The balance of restricted cash and cash equivalents as of March 31, 2012 was \$48.2 million. Restricted cash as of March 31, 2012 is mostly comprised of cash equivalents on deposit with regulatory agencies in the various states in which our Insurance Entities do business.

The Company's liquidity requirements primarily include potential payments of catastrophe losses, the payment of dividends to shareholders, and interest and principal payments on debt obligations. The declaration and payment of future dividends to shareholders will be at the discretion of our Board of Directors and will depend upon many factors, including our operating results, financial condition, capital requirements and any regulatory constraints.

Our insurance operations provide liquidity in that premiums are generally received months or even years before losses are paid under the policies sold. Historically, cash receipts from operations, consisting of insurance premiums, commissions, policy fees and investment income, have provided more than sufficient funds to pay loss claims and operating expenses. We maintain substantial investments in highly liquid, marketable securities. Liquidity can also be generated by funds received upon the sale of marketable securities in our investment portfolio.

Effective July 1, 2010, we elected to classify our securities investment portfolio as trading. Accordingly, purchases and sales of investment securities are included in cash flows from operations beginning July 1, 2010. We generated \$95.3 million in cash from operations during the three months ended March 31, 2012, compared to \$119.8 million of cash generated by operating activities for the three months ended March 31, 2011. The generation of cash during the three months ended March 31, 2012 reflects proceeds from sales of investment securities, net of purchases, of \$12.4 million, compared to \$71.2 million during the three months ended March 31, 2011.

The Insurance Entities are responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by the Insurance Entities' reinsurance programs and for losses that otherwise are not covered by the reinsurance programs, which could have a material adverse effect on either the Insurance Entities' or our business, financial condition, results of operations and liquidity (see **2011-2012 Reinsurance Program** above for a discussion of the 2011-2012 reinsurance program).

### **Capital Resources**

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks and facilitate continued business growth. At March 31, 2012, we had total capital of \$177.9 million, comprised of stockholders' equity of \$156.6 million and total debt of \$21.3 million. Our debt-to-total-capital ratio and debt-to-equity ratio were 12% and 13.6%, respectively, at March 31, 2012. At December 31, 2011, we had total capital of \$171.7 million, comprised of stockholders' equity of \$150 million and total debt of \$21.7 million. Our debt-to-total-capital ratio and debt-to-equity ratio were 12.6% and 14.5%, respectively, at December 31, 2011.

## **Table of Contents**

At March 31, 2012, UPCIC was in compliance with all of the covenants under its surplus note and its total adjusted capital was in excess of regulatory requirements.

### **Cash Dividends**

On February 22, 2012, we declared a dividend of \$0.10 per share on our outstanding common stock to be paid on April 6, 2012, to the shareholders of record at the close of business on March 28, 2012.

On April 23, 2012, we declared a dividend of \$0.08 per share on our outstanding common stock to be paid on July 9, 2012, to the shareholders of record at the close of business on June 26, 2012. We expect to declare additional quarterly dividends in the same amount to shareholders of record in the third and fourth quarters of 2012. Declaration and payment of future dividends is subject to the discretion of UIH's board of directors and will be dependent on future earnings, cash flows, financial requirements and other factors.

### **Contractual Obligations**

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q, outside of the ordinary course of business, to the contractual obligations specified in the table of contractual obligations included in Part 1, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011.

### **Critical Accounting Policies and Estimates**

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to Critical Accounting Policies and Estimates previously disclosed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011.

### **Accounting Pronouncements Issued and Not Yet Adopted**

In December 2011, the Financial Accounting Standards Board updated its guidance to the Balance Sheet Topic 210 of the FASB Accounting Standards Codification. The objective of this updated guidance requires entities that have financial and derivative instruments that are offset to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on an entity's financial position. This guidance is to be applied for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Disclosure is required retrospectively for all comparative periods presented. The additional disclosures required by the updated guidance will not have an impact on our operating results, cash flows or financial position.

### **Related Parties**

See Note 8, Related Party Transactions, in our Notes to Condensed Consolidated Financial Statements for information about related parties.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk is the potential for economic losses due to adverse changes in fair value of financial instruments. Our primary market risk exposures are related to our investment portfolio and include interest rates, equity prices and commodity prices. We also have exposure to foreign currency exchange rates for investments denominated in foreign currencies, and to a lesser extent, our debt obligation in the form of a surplus note. The surplus note, as previously described in Liquidity and Capital Resources, accrues interest at an adjustable rate based on the 10-year Constant Maturity Treasury rate. Investments held in trading are carried on the balance sheet at fair value. Our investment trading portfolio is comprised primarily of debt and equity securities and also includes non-hedging derivatives and physical positions in precious metals. See Note 5, Investments, for a schedule of investment holdings as of March 31, 2012 and December 31, 2011.

**Table of Contents**

Our investments have been, and may in the future be, subject to significant volatility. Our investment objective is to maximize total rate of return after federal income taxes while maintaining liquidity and minimizing risk. Our investment strategy includes maintaining investments to support unpaid losses and loss adjustment expenses for the Insurance Entities in accordance with guidelines established by insurance regulators. In addition to investment securities, we invest in derivative financial instruments to try to increase investment returns and for income-generation purposes. The most commonly used instruments are call and put equity options and written call options on common stock (i.e., covered calls). These derivatives are held in our trading portfolio and do not meet the criteria for hedge accounting.

**Interest Rate Risk**

Interest rate risk is the sensitivity of a fixed-rate instrument to changes in interest rates. When interest rates rise, the fair value of our fixed-rate investment securities declines.

The following table provides information about our fixed income investments, which are sensitive to changes in interest rates. The table presents cash flows of principal amounts and related weighted average interest rates by expected maturity dates for investments held in trading as of the periods presented (in thousands):

|   | As of March 31, 2012 |      |            |                |    |          |          | Fair Value |
|---|----------------------|------|------------|----------------|----|----------|----------|------------|
|   | 2012                 | 2013 | 2014       | Amortized Cost |    | Total    |          |            |
|   | 2015                 | 2016 | Thereafter | Total          |    |          |          |            |
| U.S. government securities obligations and agencies | \$ 136               | \$   | \$         | \$             | \$ | \$ 3,158 | \$ 3,294 | \$ 3,800   |
| Average interest rate                               | 4.63%                |      |            |                |    | 1.85%    | 1.97%    | 1.96%      |

|   | As of December 31, 2011 |      |            |                |    |          |          | Fair Value |
|---|-------------------------|------|------------|----------------|----|----------|----------|------------|
|   | 2012                    | 2013 | 2014       | Amortized Cost |    | Total    |          |            |
|   | 2015                    | 2016 | Thereafter | Total          |    |          |          |            |
| U.S. government securities obligations and agencies | \$ 171                  | \$   | \$         | \$             | \$ | \$ 3,157 | \$ 3,328 | \$ 3,801   |
| Average interest rate                               | 4.09%                   |      |            |                |    | 1.85%    | 1.97%    | 1.97%      |

United States government and agency securities are rated Aaa by Moody's Investors Service, Inc., and AA+ by Standard and Poor's Company.

**Equity and Commodity Price Risk**

Equity and commodity price risk is the potential for loss in fair value of investments in common stock, exchange-traded funds (ETF), and mutual funds from adverse changes in the prices of those instruments.

**Table of Contents**

The following table provides information about the composition of equity securities, non-hedging derivatives and other investments held in the Company's investment portfolio (in thousands):

|  | XXX,XXX<br>As of March 31, 2012<br>Fair Value | XXX,XXX<br>Percent | XXX,XXX<br>As of December 31, 2011<br>Fair Value | XXX,XXX<br>Percent |
|--|---|--------------------|--|--------------------|
| <b>Equity securities:</b>                |   |                    |  |                    |
| <b>Common stock:</b>                     |   |                    |  |                    |
| Metals and mining                        | \$ 34,460                                     | 35.4%              | \$ 38,816  | 40.5%              |
| Energy                                   | 7,203   | 7.4%               |  |                    |
| Other                                    | 2,145   | 2.2%               | 11,944   | 12.5%              |
| <b>Exchange-traded and mutual funds:</b> |   |                    |  |                    |
| Metals and mining                        | 15,174  | 15.6%              | 25,997   | 27.1%              |
| Agriculture                              | 19,811  | 20.3%              | 16,878   | 17.6%              |
| Indices                                  | 18,203  | 18.7%              | 1,710  | 1.8%               |
| Derivatives: non-hedging                 | 60  | 0.1%               | 123  | 0.1%               |
| Other investments (1)                    | 385   | 0.4%               | 371  | 0.4%               |
| <b>Total</b>                             | <b>\$ 97,441</b>                              | <b>100.0%</b>      | <b>\$ 95,839</b>                                 | <b>100.0%</b>      |

(1) Other investments represent physical metals that we hold in our trading portfolio.

A hypothetical decrease of 20% in the market prices of each of the equity securities, non-hedging derivatives, and other investments held at March 31, 2012, and December 31, 2011, would have resulted in decreases of \$19.5 million and \$19.2 million, respectively, in the fair value of the equity securities, non-hedging derivatives and other investment portfolio.

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures were effective as of March 31, 2012, to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

**Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

We are subject to litigation in the normal course of our business. As of March 31, 2012, we were not a party to any non-routine litigation which is expected by management to have a material effect on our results of operations, financial condition or liquidity.

---

**Table of Contents**

**Item 1A. Risk Factors**

In the opinion of management, other than the modification provided below to a risk factor that appeared in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, there have been no other material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors previously disclosed in Part I, Item 1A, Risk Factors, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

On April 17, 2012, Demotech, Inc. provided an update to guidance originally published in March 2010. Included in the update was a statement that Demotech will no longer provide full credit for the Mandatory Layer of the FHCF reinsurance coverage. As a result of this statement, the Company has modified the following risk factor that appeared in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The modification appears in bold.

*A downgrade in our Financial Stability Rating® may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition*

Financial Stability Ratings® are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. On an ongoing basis, rating agencies review the financial performance and condition of insurers and could downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital; a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating; **a change in the perceived adequacy of an insurer's reinsurance program**; an increase in the perceived risk of an insurer's investment portfolio; a reduced confidence in management or a host of other considerations that may or may not be under an insurer's control. The current insurance Financial Stability Rating® of UPCIC is from Demotech, Inc. The assigned rating is A. Because this rating is subject to continuous review, the retention of this rating cannot be assured. A downgrade in or withdrawal of this rating, or a decision by Demotech to require UPCIC's parent company to make a capital infusion into UPCIC to maintain its rating, may adversely affect our liquidity, operating results and financial condition.

**Item 6. Exhibits**

| Exhibit No. | Exhibit   |
|-------------|---|
| 31.1        | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                              |
| 31.2        | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                              |
| 32          | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**Table of Contents**

|              |   |
|--------------|---|
| 101.INS-XBRL | Instance Document                                 |
| 101.SCH-XBRL | Taxonomy Extension Schema Document                |
| 101.CAL-XBRL | Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB-XBRL | Taxonomy Extension Label Linkbase Document        |
| 101.PRE-XBRL | Taxonomy Extension Presentation Linkbase Document |

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to the Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**Table of Contents**

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNIVERSAL INSURANCE HOLDINGS, INC.

Date: May 9, 2012

/s/ Bradley I. Meier  
Bradley I. Meier, President and Chief Executive Officer

Date: May 9, 2012

/s/ George R. De Heer  
George R. De Heer, Chief Financial Officer (Principal Accounting Officer)