The Scotts Company

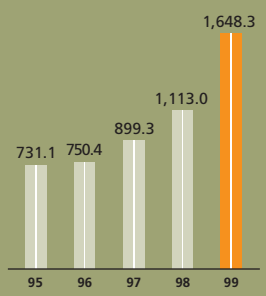
1999 Annual Report

Financial Highlights

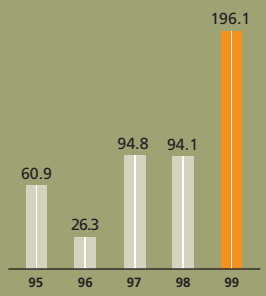
(in millions except per-share data)	1999	1998	1997	1996	1995
OPERATING RESULTS:					
Sales	**$1,648.3**	$1,113.0	$ 899.3	$ 750.4	$ 731.1
Earnings before interest, tax, depreciation and amortization (EBITDA)	**256.3**	131.9	125.2	55.6	86.6
Income from operations	**196.1**	94.1	94.8	26.3	60.9
Income (loss) before extraordinary items and accounting changes	**69.1**	37.0	39.5	(2.5)	22.4
Diluted earnings (loss) per common share	**2.08**	1.20	1.35	(0.65)	0.99
Diluted earnings per common share before extraordinary items	**2.27**	1.62*	1.35	0.36*	0.87*
Common shares used in diluted earnings (loss) per common share calculation	**30.5**	30.3	29.3	18.8	22.6
Net cash provided by operating activities	$ **78.2**	$ 71.0	$ 121.1	$ 82.3	$ 4.5
FINANCIAL POSITION:					
Investment in property, plant, and equipment	**66.7**	41.3	28.6	18.2	23.6
Total assets	**1,769.6**	1,035.2	787.6	731.7	809.0
Total debt	**950.0**	372.5	221.3	225.3	272.5
Total shareholders' equity	**443.3**	403.9	389.2	364.3	380.8
RATIOS:					
Operating margin	**11.9%**	8.5%	10.5%	3.5%	8.3%
EBITDA margin	**15.5%**	11.9%	13.9%	7.4%	11.8%
Interest coverage (EBITDA/interest)	**3.2**	4.1	5.0	2.2	3.5

*Excludes restructuring and other charges

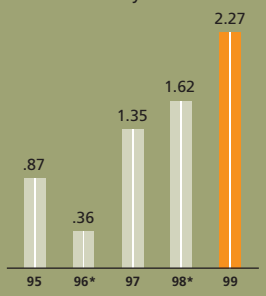
Sales
(in millions)



Income from Operations
(in millions)



Diluted Earnings per Common Share before Extraordinary Items



Invest In The Brands Consumers Buy

When investors choose The Scotts Company (NYSE:SMG) for their portfolios, they're making the same choice that millions of gardeners around the world make. They're investing in the power of Scotts' brands, brands that are number one in virtually every major segment of the growing lawn and garden market. Scotts' brands drive growth and create value – for the consumers who use them, and the shareholders who invest in them.

To Our Shareholders

The Scotts Company's brands, leaders in the world lawn and garden market, trade as the "SMG" brand on the New York Stock Exchange. The Exchange trading floor, an "investors' garden", is shown behind Scotts' Chairman, President, and Chief Executive Officer, ***Charles M. Berger.***

The Scotts Company and its brands have just completed a third consecutive year of record profitability and sales. Driven by double-digit sales gains in our core North American consumer businesses, and by better than expected first-year performances in new domestic and international businesses, we exceeded – again – the challenging growth targets we've set for this company.

Just as importantly, the continuing success of Scotts' aggressive efforts to grow the entire lawn and garden category, coupled with research that indicates the category is nowhere near fully penetrated, suggests there's still plenty of upside left for us, well into the future.

For fiscal 1999, net sales reached a record $1.65 billion, up 48 percent – or 11 percent on a pro forma basis – from fiscal 1998's strong performance. Net income before extraordinary items was a record $69.1 million, which produced record diluted earnings per share (EPS) of $2.27.

The $2.27 EPS total was inflated by a one-time benefit of 28 cents per share related to timing of the Ortho acquisition. I'll explain the details later in this letter, but a pro forma

EPS figure of $1.99 – still a record and 23 percent above last year's performance – presents a more accurate picture of Scotts' 1999 results.

To compare the last two years, you should also "back out" from 1998 results an extraordinary item for early extinguishment of debt, plus restructuring and other charges, for an adjusted 1998 EPS total of $1.62.

That may sound a bit complicated, but the apples-to-apples numbers aren't: Scotts' diluted earnings per share have grown by 23 percent in 1999, 20 percent in 1998, and well over 20 percent in the turnaround year of 1997.

That's an impressive record.

A Year of Accomplishments

We're proud of the gains Scotts has made over the last three years. Today, this company markets the leading consumer brands in every major lawn and garden category in North America. Those brands – Scotts®, Miracle-Gro®, Ortho®, and Roundup® – not only increased sales in 1999, but they increased their already number one market shares!

Today, The Scotts Company enjoys almost 50 percent of North America's consumer lawn and garden market. And we have a strategy to continue growing that market share, and the total market, well into the future.

Scotts, thanks to recent acquisitions, also enjoys more than a 20 percent share of the international consumer lawn and garden market. And again, we have a strategy to grow both that share and the market.

We're also proud that we achieved 1999's record performance in what some companies would consider an "investment" year.

Coming off record performances in 1997 and 1998, Scotts faced the challenges of maintaining sales and earnings momentum in 1999 and integrating two major businesses into the organization. In fiscal 1998 and 1999, a series of acquisitions established a new consumer pesticides business and significantly expanded our international consumer business.

During 1999, we not only met both challenges, but we also:

- established new Scotts North America and Scotts International headquarters organizations to oversee our expanding operations and markets, along with a new Scotts Corporate organization;
- reduced fall shipments of Roundup, to bring pre-season trade inventories to levels that are consistent with Scotts' other businesses and to reflect Scotts' emphasis on consumer pull marketing.

'…the organization and people we've put in place are remarkably strong and effective – capable of producing record performance despite 1999's significant challenges.'

- laid the groundwork for a new, more effective distribution system for our consumer brands – one that meets the needs of our retail partners and gives Scotts more control over its products in the marketplace; and
- streamlined the sales and distribution networks in our professional turf business.

Confirming Our Strengths

Scotts' strong performance in 1999 confirms:

- That our consumer marketing strategy, which generated a third consecutive year of sales and market share gains, is the key to Scotts' future. This strategy, we believe, will continue to generate significant growth in North America's lawn and garden market.
- That Scotts' strategy can generate the same kind of record-setting performance in its new pesticides business and Europe's consumer market, as we leverage proven strengths in brand building, consumer marketing, category management, Research & Development, and manufacturing technology.
- And that the organization and people we've put in place are remarkably strong and effective – capable of producing record performance despite 1999's significant challenges.

Let's look at how the company's business groups contributed to 1999's record performance.

Strong Year in Lawns, Gardens, and Growing Media

In total, the Consumer Lawns Business Group increased sales by 25 percent to $461.0 million.

In lawn fertilizers, alone, led by the Scotts Turf Builder® brand, we grew the category by 19 percent, increased Scotts' sales by 24 percent, and increased market share from an already strong 56 percent to 57 percent.

We've used the lawns business, our largest, to refine the Scotts marketing model. Sales responded well to increased marketing efforts, research-driven efforts that not only brought new people into the category, but encouraged existing do-it-yourself lawn care consumers to make additional product applications to their lawns.

The Consumer Gardens Business Group increased sales to the trade by 11 percent, reaching $147.4 million for the year.

In garden fertilizers, alone, led by Miracle-Gro, we grew the category by 12 percent and increased sales by approximately 11 percent, increasing our market share by 3 share points to 61 percent.

The flagship Miracle-Gro Plant Food responded well to increased advertising support, running later into the season than in previous

years. The group also benefited from successful introduction of several new products, including Miracle-Gro Fertilizer Spikes for trees and Miracle-Gro Bloom Booster.

Scotts' Consumer Growing Media Business Group sales increased 11 percent on a pro forma basis to $264.3 million for fiscal 1999.

In potting soils, alone, we grew the category by 18 percent, grew overall sales by 22 percent, and increased market share by 3 points, to 49 percent. I'm particularly pleased with this performance; potting soils have traditionally been a price-based commodity product. Capitalizing on the Miracle-Gro brand, we successfully traded consumers up and established a premium-priced – and more profitable – portion of this category.

The group, the only national marketer of growing media products, benefited from the trend among major retailers to establish national supply partnerships for these products. In the past, they had often been sourced locally.

The group is capitalizing on its Earthgro® and Hyponex® brands, too, leveraging them to improve profitability for both Scotts and retailers in non-premium segments of the category.

In lawn fertilizers, garden fertilizers, and potting soils, categories where we're number one in the market, we grew the categories, grew our own sales, and produced a second consecutive year of increased market share. What's more remarkable is that we accomplished this in categories where we had grown our share as much as four percentage points last year!

A Good Start in Pesticides

Our newest North American consumer business is the Consumer Ortho Business Group. The group was established when Scotts entered the pesticides category on September 30, 1998. We assumed exclusive marketing and agency rights to consumer Roundup herbicide products for the U.S. and most major international consumer lawn and garden markets. Early in fiscal 1999, we then acquired the Ortho pesticides business.

Roundup, North America's market share leader in non-selective herbicides, grew its market by 3 share points to 67 percent. Ortho, which markets selective herbicides, saw its market share increase 4 points to 65 percent.

Overall, Scotts' market share in pesticides grew by 1 point to 36 percent, an impressive performance for a business we acquired well into the selling season.

These gains were accomplished in a year when the group relocated to Scotts North America's headquarters in Marysville, Ohio; integrated its staff and support functions into the Scotts organization; and added new members to its associates team.

Scotts reports sales for the Ortho group's brand, which it owns, and reports a commission on Roundup, which it markets under an agency agreement.

In their first year, the Ortho brand enjoyed sales of $224.3 million, up 10 percent on a pro forma basis. A major advertising effort, which doubled prior year spending, drove the growth by helping consumers understand how brands such as Weed-B-Gon® and Bug-B-Gon® make gardening easier and more enjoyable.

For Roundup, Scotts' full-year commission was $30.3 million, reflecting our decision, as I mentioned earlier, to reduce fall 1999 Roundup shipments. We believe, on a normalized basis, Roundup sales for fiscal 1999 would have increased 8 percent to 9 percent.

Trade and marketing programs for the Ortho and Roundup brands were in place before Scotts established its Ortho business group. We expect to see further benefits of our brand power strategy in fiscal 2000, our first full year managing this business.

Earlier, I mentioned that Scotts' 1999 EPS total was inflated by a one-time benefit of 28 cents per share. We acquired the Ortho business at a point in the season where we captured a large part of the peak sales but avoided many normal pre-season costs.

In 2000, we'll incur a complete year of both revenues and costs for the Ortho group. These timing issues won't reduce anticipated sales growth in pesticides, but they will affect EPS growth. Because of this, as I suggested earlier, a pro forma 1999 EPS total of $1.99 is the appropriate benchmark to gauge our performance going forward.

Gains in International Markets

Acquisitions in fiscal 1998 and 1999 significantly expanded Scotts' presence in the United Kingdom and Europe. Today, we own leading brands in most major European consumer lawn and garden markets. These new brands, many of them under-marketed by their previous owners, represent an opportunity to apply Scotts' consumer marketing strategy in Europe's markets, where we believe they will generate the kind of category and sales growth we've enjoyed in North America.

In 1999, the International Business Group sales increased 9 percent on a pro forma basis to $391.9 million.

We're pleased with this performance, but in many respects, growing international sales wasn't our first priority in 1999. The biggest challenge was integrating the new businesses to assure future growth.

To accomplish that, we conducted Usage & Attitude studies and brand audits for our European brands, then concentrated on developing marketing plans for 2000 and beyond. We modestly increased advertising and promotion spending as a percentage

of sales in Europe, generating immediate positive results. To me, this points to future successes as we implement Scotts' consumer marketing model in foreign markets.

We also believe there are opportunities to generate savings and synergies as we integrate recent acquisitions into our International Business Group.

Changes in Professional

North American Professional Business Group sales totaled $159.4 million in 1999, down from $179.4 million in the prior year. The planned decrease, concentrated in the group's professional turf business, reflects Scotts' decision to shift from a direct sales force to a distribution model. The group's horticulture business, on the other hand, continued to grow, capitalizing on its broad product line and exciting opportunities in new categories such as branded plants.

With 1999's changes in place, Scotts has established an organization well suited to serve professional markets. This new, lower-cost business model should generate increased sales and profitability in future years.

A Great Year – and Great Prospects

In 1999, our three core North American consumer businesses – Lawns, Gardens, and Growing Media – continued their impressive sales and market share gains. The new Consumer Ortho Business Group, the expanded International group, and the restructured Professional group all made significant progress integrating new businesses and business models. Both the Ortho and International groups exceeded our expectations in terms of sales growth.

The result of our efforts was a third consecutive year of record profitability and sales.

I believe the year 2000 will see continued sales and profitability improvements for The Scotts Company. We're committed to meeting – again – the aggressive performance goals set for Scotts.

Another positive for fiscal 2000 is the October 1, 1999, conversion of Scotts' Class A Convertible Preferred Stock into approximately 10.1 million common shares, bringing the basic common shares outstanding total to approximately 28.4 million.

One of the lessons we've learned in our lawn and garden business is that the easier it is for consumers to understand a product, the more likely they are to buy it! And this conversion, which will simplify the reporting of The Scotts Company's financial results, is an important step in that direction for our Investor Relations efforts.

Due to the seasonality of the business, we have historically recognized a loss in our pre-season first and post-season fourth quarter.

Under accounting principles, Scotts is required to report per share financial performance on a different calculation method in loss versus profitable quarters. Because of the two methods, the company's annual diluted earnings per share total does not equal the sum of the individual quarters. Conversion of the Preferred Stock will greatly reduce the difference and improve calculation of Scotts' price-to-earnings ratio and market capitalization by investors, financial information services, and the news media.

Looking Ahead

We're targeting another year of net sales growth of 8 percent to 10 percent. Another year of operating margin improvement. And another year of 15 percent to 20 percent EPS growth.

We're convinced these targets are achievable, because – even with the impressive gains we've made in recent years – there's still significant room to grow in the North American consumer lawn and garden market, along with immense opportunities in Europe's consumer market.

There's still room to bring new consumers into the market, to increase the number of product applications existing consumers make, to extend our brands in new growing categories, and to develop exciting new products throughout our business.

There are also opportunities to leverage our leadership position with retailers, capitalizing on opportunities for category management, improved in-store merchandising, expanded use of in-store counselors, growing Internet presence, and other innovations to grow the popularity of gardening.

And, there's still room to capitalize on our industry-leading portfolio of brands, to use them to bring effective consumer marketing and brand power to the lawn and garden industry, not just in North America, but throughout the world. And to drive Scotts toward its first $2 billion year.

As The Scotts Company's 1999 performance proves, we have built an organization that responds very well to challenges, but most importantly an organization that understands, and delivers to, consumers and investors around the world.

Sincerely,

Charles M. Berger
Chairman, President, and Chief Executive Officer
December 23, 1999

This Annual Report profiles some of The Scotts Company's brands: familiar North American brands and equally powerful brands that lead their categories in Continental Europe, the United Kingdom, and other markets throughout the world. What is a brand? It's more than just a great product – it's a name that immediately communicates with consumers, telling them what to expect when they pick up that product. Today, Scotts offers gardeners and investors the world's most powerful portfolio of lawn and garden brands – brands that promise proven performance and results. Understand what that brand communicates and you can extend it in other areas of the business. Whether it's extending the Miracle-Gro brand to bring new profitability to the potting soil market, the Scotts brand to bring consumer confidence to the lawn service market, or the KB® brand to introduce a new line of "gardening essentials" in Europe's garden centers, The Scotts Company is capitalizing on the power of its brands. To grow its sales, to grow its categories, to grow its market share, and – ultimately – to grow value for its shareholders.

Scotts
Turf Builder

Roundup

Big G Gro

Weedol
Fast acting weedkiller

SMG

EverGreen

Nexa Lotte

KB
ALIETTE
EXPRESS

Miracle Gro

Scotts

Green and Still Growing

After more than 131 years, it's a brand that has earned consumers' trust. And, thanks to continuing investments in research, advertising, manufacturing, and distribution, it's stronger today than ever.

Brands come and go in today's consumer markets. "New and improved" products, plus our changing lifestyles and buying habits, are constantly altering the competitive landscape.

But at Scotts, the company's oldest brand – the one that helped found the company back in 1868 – is its fastest growing, leading Scotts to all-time record profitability and sales in each of the last three years.

The vitality – and the unprecedented growth – of the Scotts brand are marketing marvels.

A Tradition of Trust

The Scotts brand, and the products it supports, have earned the trust of consumers.

That trust goes back more than 131 years, when O.M. Scott founded what later became The Scotts Company. Back then, merchants used crude equipment to process seeds, which meant that farmers bought a lot of weed seeds along with the crop seed they needed. Scott, on the other hand, pioneered "clean seed" technology. Farmers who bought from him got their money's worth, putting their trust in Scotts!

In 1928, when it introduced Scotts Turf Builder, the first U.S. fertilizer developed to meet a lawn's unique needs, the company began building that same trust with homeowners.

Today, the Scotts brand graces a broad range of consumer and professional lawn and garden products. But its greatest strength is in the lawn fertilizer market, where products such as Scotts Turf Builder®, Lawn Pro®, GrubEx®, and others help homeowners enjoy lawns that are thick, healthy, and free of weeds and pests.

Investing for Growth

In 1996, a new pull marketing strategy opened the door to a new era of growth for the Scotts brand and the company's Consumer Lawns Business Group. Pull marketing requires reaching the consumer directly, to create strong demand that "pulls" products from factory to consumer. The first phase of that new strategy was research: extensive Usage & Attitude studies to understand how and why homeowners use lawn care products.

Using insights gained from that research, Scotts increased advertising support for the brand from $4 million in 1995 to $16 million in 1996, its first "pull" year – and to more than $26 million in 1999. However, it wasn't just the amount of money invested that spurred growth; it was the kind of advertising the company used.

The Scotts Difference™

Successful brands must deliver results. In lawn fertilizers, for example, Scotts' patented technology bonds nutrients into one particle (at right), assuring uniform feeding and great lawns. Many competitor products, such as the one at left, are simple blends that produce uneven feeding and can burn lawns.

Scotts' award-winning "Neighbor-to-Neighbor" commercials feature real people talking about their lawns. They're unscripted commercials, too – Scotts doesn't have to put words in homeowners' mouths when it comes to how much they enjoy a great Scotts lawn. Just as effective have been the brand's "Now's the Time" radio spots, localized to remind homeowners in a particular region that "This is the Weekend" to apply a particular Scotts product to their lawns.

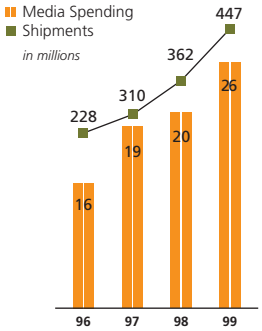
Sales figures confirm a strong correlation between increased advertising support and increased sales for Scotts' lawn care products. And since research indicates the lawn care market is nowhere near full penetration, there are significant opportunities to continue growing sales with increased advertising.

More Than Advertising

Investments to grow the Scotts brand go beyond just increased advertising. These include:

- Plant expansion and modernization, to increase lawn products' production capacity by 29 percent since 1997, and to enhance product quality and performance.

- Installation of new plastic packaging technology, to improve package appearance and durability: strong plusses with consumers and Scotts' retail partners alike.



The Power of Advertising

Since 1996, sales of Scotts' Consumer Lawns products have responded strongly to increased advertising. Research indicates substantial room for further growth in the category, so Scotts will increase media spending for Lawns again in fiscal year 2000.

- Implementation of new or expanded marketing efforts, including in-store product counselors, increased use of merchandisers, and improved product displays.

- Expanded communication efforts, including simplified product use instructions on packaging; the Scotts Training Institute, which educates retailers about the use of Scotts products; Lawn Care Magazine®, which reaches more than 10 million homeowners annually with how-to lawn care tips; extensive lawn care information on the Scotts Web site (www.scottscompany.com), which draws more than 1 million visitors each year; and others.

Leveraging That Trust

In 1997, Scotts leveraged the trust in the Scotts brand to accomplish one of the most difficult tasks in marketing: changing consumer behavior.

Traditionally, homeowners had worked on their lawns in the spring and summer months, but by fall, they had put their spreaders away.

Actually, though, fall is the best time to fertilize a lawn. It's when grass is recovering from the hot summer and strengthening its root system for the coming winter.

In 1997, Scotts launched the first major advertising support for its Winterizer fall fertilizer. The result: one of the most successful fall seasons ever. Since then, Winterizer, backed by additional advertising support, has continued to grow in popularity, with sales up an average of 44 percent annually in 1998 and 1999.

The Brand

The Scotts Company's oldest brand is its fastest growing, driving record sales and market share in the Consumer Lawns Business Group. Backed by years of R&D, the brand – with a strong 93 percent aided awareness level – has established a clear performance edge, promising healthier, greener, and more weed- and insect-free lawns. That reputation carries over to other categories, including specialty plant foods and professional horticulture and turf products.

The Market

Scotts' consumer lawn and garden products are marketed throughout North America and Australia. Professional turf and horticultural products are marketed worldwide under the Scotts brand.

The Story

The brand (and company) were born in 1868, serving agricultural markets. In 1907, Scotts entered consumer markets, offering grass seed for home lawns. In 1928, it introduced Scotts Turf Builder, the first lawn fertilizer. In 1947, it introduced the industry's first selective weed control and fertilizer combination. Since then, ongoing investment in advertising, R&D, and technology continue to strengthen the brand's leadership in lawns.

The Name for Great Lawns

Although Scotts has successfully extended its oldest brand into new categories, there are still sizeable opportunities to grow its core do-it-yourself lawn care business. One key to achieving that growth: using powerful advertising to expand product applications and to introduce Scotts' products to lawn care "do nothings."

Scotts is extending its oldest brand in other areas, too, including the $3.6 billion professional lawn service market, where Scotts LawnService™ is in the development phase. The trusted Scotts brand is an important part of a business model that's helping reduce marketing costs and customer turnover, improve customer satisfaction, and generate revenue-per-customer totals well above those of major competitors.

The company has also partnered with a major retailer and leading lawn equipment manufacturers to introduce Scotts-branded power mower and lawn tractor lines, for which the company receives licensing fees.

Core Market Growth

There are additional opportunities to capitalize on the Scotts brand in new categories, but the biggest gains are still in its core lawn fertilizer market.

Almost a third of all homeowners are still lawn care "do nothings", while even do-it-yourselfers make, on average, over two applications of Scotts products each year. That's well below the five applications recommended for a great lawn.

Demographic and economic trends are positive, too. As the Baby Boomer generation ages, it's reaching the stage of life where gardening is an important leisure activity. Another plus is the ease and affordability of lawn care. Most homeowners can "paint their lawns green" with Scotts products for less than $80 a year!

Supporting these trends, the 1998 - 1999 Lawn and Garden Trends survey of the National Gardening Association found that 1997 and 1998 represented "the first time in recent history that lawn and garden sales have seen a double-digit increase two years in a row."

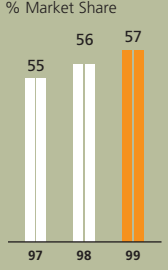
It's no coincidence that these two years coincide with Scotts' first two years of increased marketing and advertising support for lawn and garden products!

Still Growing

To maintain its growth, and to keep its products at the market's forefront, Scotts is developing multi-year "enhancement programs" for its major lawns products. Ongoing consumer research keeps Scotts in touch with homeowners, and new technologies, ingredients, packaging, and other improvements will regularly "relaunch" each product, to give its consumers the superior results they want – and continue to grow the unique trust the Scotts brand enjoys.

The Numbers

Aggressive marketing efforts not only increased sales, but grew the category by 19 percent and increased – for a third consecutive year – Scotts' market share to 57 percent.



Source: January-September Triad Market Share Data

The Enhancements

Completion of the shift to plastic packaging provided enhanced graphics and durability, plus ease of storage, for retailer and consumer alike. Completion of a $28.5 million plant expansion increased lawns products capacity by approximately 29 percent. Scotts also continued development of the Scotts LawnService professional lawn care service.

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Miracle-Gro

A Sure Bet

It's the most powerful brand in the market – a brand that instantly communicates trust and results. That makes Miracle-Gro a natural for successful brand extensions throughout the lawn and garden market!

For years, the potting soil category had enjoyed some of the highest volume – and lowest profitability – in the lawn and garden market. That's because most consumers thought soils were a commodity, just "dirt in a bag."

However, to grow stronger and healthier plants, real gardeners knew they needed Miracle-Gro Plant Food!

Was there a way, Scotts wondered, to bring the power of the Miracle-Gro brand to potting soils?

The answer: Miracle-Gro Potting Mix, a blend of organic ingredients enriched with Miracle-Gro Plant Food, to give plants a head start on growth. By 1999, just one year into full national distribution, the new premium-priced product had become the nation's fastest growing potting mix and the number one brand in the potting soil category.

For the 2000 gardening season, Scotts is introducing a new Miracle-Gro Garden Soil, replacing the commodity top soils used for outdoor flowers, vegetables, trees, shrubs, and evergreens. Extending the Miracle-Gro brand to these two categories – convenient, pre-mixed potting soils and garden soils – has begun transforming the growing media market.

For gardeners, it means better products that do more for their plants. For Scotts and its retail partners, it means a higher margin, more profitable business.

Of course, not just any brand could handle the assignment. Scotts chose a sure bet: Miracle-Gro, the most powerful brand in the business.

A 50-Year Bond With Gardeners

Miracle-Gro, and the powerful advertising behind it, has played a major role in the growth of the entire lawn and garden industry. Before Miracle-Gro was introduced in 1951, gardeners often had to buy large bags of agricultural fertilizers for their plants and shrubs. The trouble was, they weren't sure how much to use on their plants. Not surprisingly, gardening wasn't that popular back then!

But then came Miracle-Gro, a water-soluble plant food that was easy to use and promised guaranteed results. And all of a sudden, growing beautiful plants and flowers was easy.

Miracle-Gro has helped millions of people discover the pleasures of gardening.

Today, after nearly 50 years, the brand instantly communicates trust and results to gardeners. There's an emotional bond between it and its millions of consumers. As Miracle-Gro

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founder and Scotts Vice Chairman Horace Hagedorn puts it, "Miracle-Gro doesn't have customers – it has fans!"

How Powerful is Miracle-Gro?

In aided awareness tests, an astounding 99 percent of gardeners recognize the Miracle-Gro brand. In garden fertilizers it's followed by two other Scotts brands, Scotts and Miracid®. The nearest competitor plant food brand, which is number four in the category, has less than 40 percent recognition!

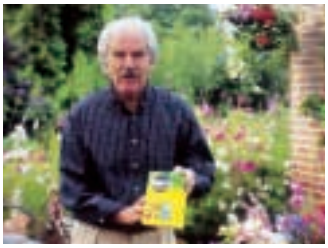
The brand has a British accent, too. Since the early 1990s, Miracle-Gro Plant Food has been marketed in the United Kingdom. Thanks to effective marketing support, the brand quickly established itself there as the leading water-soluble plant food – and grew the market significantly, too!

Extending the Brand

Over the years, Scotts has launched a number of successful Miracle-Gro brand extensions. During 1999, for example, it introduced Miracle-Gro Fertilizer Spikes for trees and Miracle-Gro Bloom Booster. Drive a spike into the ground and it provides an all-season feeding for your trees. Apply Bloom Booster and a plant produces larger blossoms and more flowers.

'Faces You Can Trust'

Miracle-Gro's North American advertising has long featured actor James Whitmore (top), telling gardeners how to grow healthier plants and shrubs with Miracle-Gro. In the United Kingdom, entertainment personality Des Lynan (bottom) adds a British accent to the proven advertising approach.



The Fertilizer Spikes won nearly 33 percent of the market in their first year, with additional sales and share growth anticipated in 2000. Bloom Booster achieved good penetration, too, establishing Miracle-Gro in the bloom-enhancing niche of the plant food market.

The Miracle-Gro brand also offers intriguing possibilities in Canada, where Scotts is intensifying efforts now that the Roundup and Green Cross® brands of the Consumer Ortho Business Group have expanded the company's presence there. Miracle-Gro, a category leader in Canada, could prove a powerful brand to introduce a broader array of lawn and garden products. The growing presence of U.S. retailers such as Home Depot and Wal-Mart in Canada is another plus for Miracle-Gro.

Understanding Brand Equity

Extending a brand like Miracle-Gro can be a sure bet – as long as you understand what it means to consumers and plan brand extensions carefully. To do that, Scotts has conducted extensive brand equity research, to determine what Miracle-Gro stands for in consumers' minds.

The Brand

Virtually every gardener knows Miracle-Gro. With a 99 percent aided awareness level, it's the industry's strongest brand. It's the essence of simplicity; gardeners know Miracle-Gro produces "miraculous results" that once only professionals could achieve. Gardeners trust the brand, creating opportunities to extend it in new categories. Scotts invests more than $10 million in advertising each year to strengthen the brand.

The Market

■ Miracle-Gro Plant Food is number one in the U.S., Canada, and the United Kingdom.
■ It's in tests in Australia and Holland, as Scotts investigates its "world brand" potential.

The Story

Miracle-Gro, one of the first water-soluble plant foods, was born in 1951, dedicated to the proposition that "you don't have to be an expert to create a beautiful garden." Scotts merged with Stern's Miracle-Gro Products, Inc., in 1995, joining America's leading brand in gardening with the leading name in lawn care. The Miracle-Gro line today includes a broad range of plant food and specialty products.

Completing the Cycle

A nursery uses Miracle-Gro professional products to grow (far left) stronger and healthier plants – plants that earn a premium price for the grower. The retailer (left) markets them as "branded" Miracle-Gro plants, again taking advantage of their brand recognition to earn a premium price. The Consumer? He just bought living proof that Miracle-Gro makes a difference. To keep that plant strong and healthy in his garden (right), there's only one choice: Miracle-Gro products.

The research indicates, for example, that Miracle-Gro's reputation for results and performance is strongest where it's associated with plant food products that grow healthier plants and shrubs. That's likely one reason 1999's new fertilizer spikes and Bloom Booster products were successful.

Looking Ahead

In 2000, Scotts' Consumer Gardens Business Group, which markets the consumer Miracle-Gro fertilizer line in North America, will leverage the brand's reputation for results in its new, "Every Other Week Makes Miracles" advertising. The ads feature Miracle-Gro fans sharing their success stories.

As the ads point out, applying Miracle-Gro as recommended, every two weeks, produces "miraculous results". This represents a significant growth opportunity, considering 75 percent of Miracle-Gro users apply the product only several times a season.

Also scheduled for introduction are two new products. One of them, Miracle-Gro Weed Prevent™, provides extended weed control. The other, Miracle-Gro Weed Prevent & Plant Food™, combines effective weed control and plant feeding. Both will be marketed in a new, patented, easy-to-use applicator originally developed by Scotts in the United Kingdom.

Scotts is also extending the Miracle-Gro brand to Scotts LawnService, a professional lawn care provider operating primarily in Midwestern markets. The service offers a Miracle-Gro landscape service, a special plant and shrub care program using branded Miracle-Gro products.

Green Opportunities

Given the Miracle-Gro brand's reputation, one exciting long-term opportunity is in "green goods," the bedding plants, shrubs, and trees that alone represent a $5 billion annual market. That's almost twice the size of the $2.9 billion lawn and garden consumables market Scotts now serves.

In 1999, Scotts partnered with a number of regional growers who have used Miracle-Gro professional products to raise branded plants. The plants were marketed in special containers that tell gardeners that they were grown with Miracle-Gro plant food and recommend continued use of the brand to keep those plants healthy and strong.

In tests where Scotts has established special in-store displays highlighting these select plants, along with other Miracle-Gro products, overall sales have increased by more than 200 percent!

Scotts intends to expand these tests during the 2000 growing season, working with innovative growers to take Miracle-Gro plants and flowers into leading retailers. If these tests continue to prove successful, the Miracle-Gro brand may open yet another new category for The Scotts Company!

A Bet That Pays Off

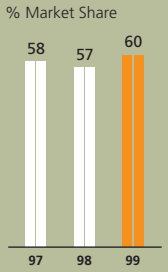
During 1999, the power of the Miracle-Gro brand paid off for Scotts, not just in new brand extensions, but also in the core Miracle-Gro garden product line. In all, the company's garden fertilizers market share grew by 3 points, hitting a strong 60 percent!

With its near-total awareness among gardeners, its reputation for results, and its proven extendibility, the Miracle-Gro brand – a sure bet – provides Scotts with immense opportunities for the future.

The Numbers

- Miracle-Gro Plant Food built its category-leading share to 60 percent in 1999, up 3 points.
- Brand extensions included Miracle-Gro Fertilizer Spikes for trees, with a first-year share of nearly 33 percent; Miracle-Gro Potting Mix, number one in its category after only two years; and Miracle-Gro Bloom Booster, with good first-year sales in the bloom-enhancing plant food niche.

Source: January-September Triad Market Share Data



The Enhancements

Product development efforts created new Fertilizer Spikes, for season-long tree feeding, and Bloom Booster, for bigger blossoms and more flowers. Improved weatherproof packages, including plastic pails and coated boxes, opened opportunities for more display space in the "green" goods section of outdoor lawn and garden centers.

WEED B GON

The Problem Solver

Ortho products like Weed-B-Gon and Bug-B-Gon, easy to understand and easy to use, help consumers quickly solve their weed and pest problems.

Just about everyone has some "pests" in their lawn or garden: bugs and weeds that seem to invade every year.

To control them, gardeners use pesticides: products formulated to quickly eliminate those pests. The question is, which pesticide should a homeowner use to solve a particular problem?

All too often, that's a difficult question to answer. There are dozens of different choices on store shelves, with names that sometimes sound like they came straight from a chemistry textbook!

It's little wonder that, when Scotts recently surveyed a group of homeowners, it found that a majority of the people who come into a lawn and garden department to solve a pest problem walk away empty-handed. They're confused about what various pesticides do and how you use them.

Scotts is confident that its brand power strategy can unleash the potential of the $1.4 billion pesticides category. One of the first challenges, though, is helping consumers understand how and when to apply these products. And that's just what the Consumer Ortho Business Group is doing.

Easy to Understand

If confusing products and product names are the problem, then Ortho and its popular "B-Gon" line – acquired by Scotts in January 1999 – are part of the solution.

"B-Gon" is the perfect name for a product: it instantly tells consumers exactly what it does. If you have weeds in your yard, use Weed-B-Gon®. If bugs are the problem, there's Bug-B-Gon®. There's also Brush-B-Gon® and Flea-B-Gon®.

During 1999, to support its strategy of simplifying the category, Ortho launched a major "problem/solution" advertising campaign for Weed-B-Gon and Bug-B-Gon. The campaign – backed by more than $10 million in direct media spending, more than double the amount spent in the previous year – features an animated homeowner named Pete.

'So That's What They Are...'

To help gardeners figure out just what those weeds and bugs in their gardens are, and what they need to do to control them, the Ortho group publishes its Problem Solver book, also available on CD-ROM. Gardeners can also find much of that information on the Ortho Web site (www.ortho.com).

His encounters with bugs and weeds help gardeners understand that there's a simple, easy-to-use answer to many of their pest problems.

Making the Product Easier to Use

Most homeowners don't like products they have to mix – especially when, like pesticides, proper concentrations are important.

That's why Ortho has introduced a number of its most popular products in a new Lock 'N Spray® yard care system. You simply attach a special nozzle to a hose, snap on an interchangeable product cartridge, and you're ready to spray away a lawn or garden pest problem. The patented system automatically adjusts dilution, and the leak-free, spill-proof cartridges are easy to remove and store for later use.

Ortho is also expanding the range of products offered in ready-to-use spray bottles. This simplifies the application of everything from Weed-B-Gon Weed Killer to Home Defense™ Indoor & Outdoor Insect Killer, products which eliminate many pests which invade a home or yard.

More for 2000

Scotts acquired the Ortho brand in January of 1999, too far into the season to make major changes to its retail programs and product line. In the coming year, it'll have an opportunity to implement more of Scotts'

The Brand

Ortho and its broad array of products, ranging from Weed-B-Gon Weed Killer to Home Defense Indoor & Outdoor Insect Killer, provide consumers with easy-to-use solutions to many home and garden pest problems. Ortho is the clear category leader in selective herbicides with an 88 percent aided awareness level and a strong second in insecticides.

The Market

The Ortho brand is marketed throughout the United States. The majority of products are in national distribution, but Ortho also offers a number of herbicides and insecticides marketed regionally, to address local pest control problems.

The Story

The brand dates back to 1907, when two California researchers developed a spray to control moths destroying coastal fruit crops. Acquired by California's Standard Oil Company in the early 1930s, Ortho grew into one of the largest U.S. lawn and garden brands. In 1992, it was sold to the Monsanto Company. Scotts acquired the Ortho business from Monsanto in January 1999.

consumer marketing strategies in its new pesticides business.

In 2000, the Ortho group will further increase advertising support behind its brands, again with the objective of helping consumers understand its products and the problems they solve. And, borrowing a page from the "Now's the Time" radio advertising used so successfully by Scotts' Consumer Lawns Business Group, Ortho will launch a new "Local Problems, Local Solutions" campaign. These commercials will highlight pest problems prevalent in a particular area, reminding consumers, for example, that, "Here in Chicago, it's the time to apply Ortho RosePride® to control aphids."

Another objective will be product line simplification and SKU reduction. The group will eliminate, where possible, slow-moving packages and products, focusing more on general-purpose pesticides such as Weed-B-Gon and Bug-B-Gon.

The Scotts Company's plans to field teams of in-store counselors at major retailers will also support Ortho's objective of simplifying the use of pesticides. Familiar with the entire Scotts product line, counselors will help consumers identify their pest problems – and learn which Ortho products they need, and how to use them. Supporting those counselors will be new, simplified displays for the Ortho line: displays designed to help consumers understand the "When?" and "How?" of pesticides use.

Ortho will also expand distribution and sales of its popular Problem Solver books for gardeners. These publications, long considered the most authoritative in the industry, will be available online through Amazon.com for the 2000 growing season. The information they offer will also be available on CD-ROM and through The Scotts Company's Web site (www.scottscompany.com).

A Great Start

The Consumer Ortho Business Group got off to a great start in its first year at Scotts. After several flat years under previous ownership, pro forma sales jumped 10 percent in fiscal 1999. Obviously, there's a lot of growth potential in this power brand – when it's strongly supported by effective consumer research and media advertising.

The Ortho group's performance was even more impressive when you realize that, during fiscal 1999, the group not only began implementing its new marketing strategy, but also relocated from California to the Scotts North America headquarters in Marysville, Ohio. The move should help the business group realize important synergies.

The Ortho brand's objective is to help consumers better understand how pesticide products solve their gardening problems. When Scotts accomplishes that, buying a spray bottle of Weed-B-Gon should become just as much a part of the regular lawn and garden care routine as buying a bag of Scotts Turf Builder or a box of Miracle-Gro!

No Mixing, No Mess

Ortho doesn't just make great products – it makes applying those products easier. The instructions for its new Lock 'N Spray system, for example, use "Pete", Ortho's popular advertising character. In three quick and easy steps, consumers can attach the applicator to their garden hoses and begin spraying away weeds in their lawns.

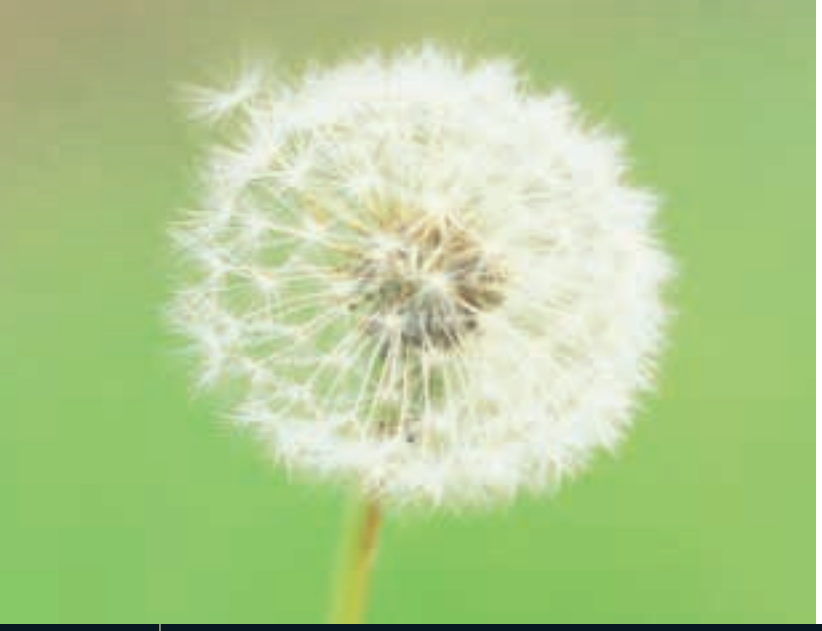
The Numbers

Ortho's selective herbicides line saw its market share increase by four points in 1999, reaching 65 percent. That's impressive for a business unit Scotts acquired well into the selling season, with retail and marketing programs essentially established.

Source: January-September Triad Market Share Data

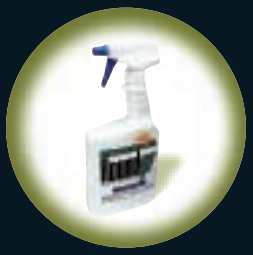
The Enhancements

Packaging improvements such as the new Lock 'N Spray application system simplified use and storage of several popular Ortho products, supporting efforts to grow the overall pesticides category. Scotts also worked aggressively (and successfully) to strengthen relationships with key retailers, to expand brand placement for the 2000 selling season.



Roundup®

A World Brand



It's a brand that speaks an international language, assuring gardeners everywhere that a few sprays of Roundup will remove unwanted weeds and grasses from their patios and gardens. And for Scotts, steward to Monsanto Company's consumer Roundup brand, it's the first world brand in its portfolio.

There's a lot of local color to gardens and gardening around the world, but there's one constant wherever you go. Whether it's in the backyard vegetable gardens of North America, or the formal flower gardens in the United Kingdom, gardeners everywhere have to cope with weeds!

To solve that problem, The Scotts Company offers consumers a broad range of pesticide products. Clearly, however, the most popular – and successful – is Roundup. On September 30, 1998, Scotts entered into an agreement with Monsanto, providing it exclusive marketing and agency rights to the Roundup brand in most major consumer lawn and garden markets in the world.

Roundup, introduced in 1970, is sold today in more than 100 countries around the world. It quickly kills all sorts of weeds and grasses, roots and all. If there's one brand in the Scotts portfolio you can call a world brand today, it's Roundup: a brand that says the same thing, effectiveness, in any language.

What's a World Brand?

Coca-Cola®, to cite an example, is a world brand. The familiar red and white label and the script logo mean refreshment almost anywhere in the world. In the automotive world, nameplates like Mercedes-Benz® and Rolls-Royce® are world brands. They stand for quality and craftsmanship on any road.

World brands speak an international language. The label may be in French, English, Japanese, or some exotic language, but the brand itself is more powerful than any words on the label.

Roundup is a world brand. When consumers see it, they know they can trust the product inside the bottle. Today, more consumers use Roundup than all other weed control products combined! Roundup quickly eliminates virtually every weed in their yards and gardens – more than 125 varieties, roots and all.

Roundup and Scotts

As part of its strategy to enter the pesticides market, the only major lawn and garden consumables category it hadn't previously served, The Scotts Company completed two major transactions with Monsanto. On September 30, 1998, Scotts acquired marketing rights to the

consumer Roundup brand and, in January of 1999, it purchased the assets of Monsanto's non-Roundup lawns and garden business, including the Ortho brand.

In Roundup, Scotts added the world's leading non-selective herbicide, a product that effectively controls virtually every weed. In the Ortho transaction, it acquired a broad line of selective products, developed to control specific weed and pest problems. Under the Roundup agreement, Scotts earns a commission based on earnings of consumer Roundup. Monsanto recognizes consumer Roundup sales on its books, retains ownership of the Roundup business and retains all rights to the brand in agricultural markets.

Opportunities to Increase Usage

One element in Scotts' strategy to increase Roundup consumer sales is to build awareness of its broad range of uses. Today, a lot of gardeners use the product for "cosmetic" applications such as eliminating weeds and grasses from patios, pathways, or sidewalks.

However, as its marketing messages explain, "Roundup kills more weeds in more places," including flower beds; edging around trees, shrubs, and ornamental plants; vegetable and herb gardens; and fence lines. It's also effective for brush and vine control.

How can Scotts help generate that increased usage? For one thing, the brand – like the entire category – will benefit from the company's efforts to popularize lawn and garden care in general. Scotts' in-store counselors, which will be in major retailers during the 2000 growing season, will help consumers understand how various weed and pest control products improve their lawns and gardens.

Just as importantly, Scotts has intensified the advertising support behind the Roundup brand. During 1999, for example, direct media spending rose to approximately $11 million, up from $7 million the previous year. In 2000, Scotts will again increase advertising support.

Package Simplification

Another element of the strategy is to offer consumers formulations and packages that simplify the use of Roundup and encourage the broader range of applications Scotts is targeting. There's a Roundup product to control weeds and grasses, and another to control brush such as poison ivy, poison oak, and other tough weeds.

To simplify product application, the popular Roundup Weed & Grass Killer is available in both concentrate and in ready-to-use packages including convenient, no-mix spray bottles. For weeds in tight spots, there's a special SURE SHOT™ foam formulation.

In 1999, Scotts also introduced a new Pull 'N Spray™ delivery system for Roundup Weed & Grass Killer. One pull of the package's special pump lever permits gardeners to apply the equivalent of 90 trigger sprays of

The Brand

The consumer Roundup brand, marketed by Scotts, is a world brand that says the same thing, effectiveness, to gardeners, in any market and in any language. No matter where it's marketed, Roundup works, quickly killing more than 125 weed varieties. Its performance has earned gardeners' trust – and, with a 93 percent aided awareness level, unquestioned market leadership.

The Market

Scotts is the exclusive agent for the marketing and distribution of consumer Roundup products in the U.S., Australia, Austria, The Benelux Countries, Canada, France, Germany, and the U.K.

The Story

The Roundup brand was developed by Monsanto Company researchers in 1970. Its effectiveness in controlling dozens of weed varieties has made it the market leader in non-selective herbicides in North America and other markets. On September 30, 1998, Scotts became Monsanto's exclusive agent for the consumer Roundup brand in major world markets.

Roundup without additional charging, eliminating hand fatigue.

The Best Gets Even Better

Strong brands don't rest on their laurels, and Roundup isn't. Improving its patented formula to enhance performance – by providing quicker control action and longer lasting results – is one key to maintaining leadership in the market. Today's Roundup, for example, is "rainfast" just two hours after application. No matter what the weather does, Roundup will control weeds!

Those improvements, plus increased brand-building advertising support, are designed to maintain and enhance the leadership of Roundup after its primary active ingredient comes off patent in September 2000.

It's an effective brand-building strategy. Look, for example, at Crest® Toothpaste, which remained a power brand even after competitive products copied its fluoride formulation. It's a strategy that has worked for Roundup in Europe, too. There, the brand has continued its strong sales growth, despite the fact that its key active ingredient is no longer covered by a patent.

A Complete Package

The first year for the Roundup product line at Scotts was a strong success. The brand responded well to the company's consumer marketing strategies, increasing its market share by 3 points to a powerful 67 percent! Commissions for the year were $30.3 million, which reflects a decision to reduce pre-season trade inventories to levels consistent with Scotts' other businesses and to reflect the company's emphasis on consumer pull marketing. This decision should generate consistent commissions growth going forward.

With Roundup in its portfolio, Scotts now offers retailers the leading brands in every major segment of the lawn and garden business, creating unmatched opportunities to take advantage of evolving buyer-seller partnerships such as category management.

For consumers, of course, it means that one company, Scotts, is the choice for their every lawn and garden need.

And for Scotts, it means the company can capitalize on the power of – and the experience gained from – its first world brand.

United Kingdom

In the U.K., gardeners call them weeds. To rid them, roots and all, gardeners use Roundup.

Germany

In Germany, they're called unkrauts. And gärtners still rely on Roundup to remove them.

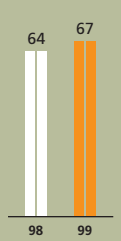
France

In France, weeds are mauvaises herbes – but here too, jardiniers rely on Roundup to protect the plants they love!

The Numbers

In North America, it's the leading non-selective herbicide, with 67 percent of the category – up 3 share points in 1999. It's also a leader in most of the international markets where it's sold. In fact, more consumers use the consumer Roundup brand to solve weed problems than all other weed control products combined.

Source: January-September Triad Market Share Data



The Enhancements

Packaging enhancements, such as introduction of a new Pull 'N Spray application system for the Roundup Weed & Grass Killer, simplified usage of this popular product. Advertising and product trial programs helped increase penetration in the U.S. market, where only half the households with weed problems use weed control products.

KB® Levington® Weedol® NexaLotte®

Pouring It On

Thanks to recent acquisitions, Scotts' portfolio now includes leading brands in Europe's growing lawn and garden market – strong brands, but brands with plenty of room to grow, with Scotts' care and feeding.

Can you name a lawn fertilizer that pioneered the category back in the 1920s? How about a plant food that's number one with consumers? Or a pesticide that holds a commanding market share?

If you're thinking Scotts Turf Builder, Miracle-Gro, and Ortho, you need to broaden your horizons!

Today, The Scotts Company is the world leader in consumer lawn and garden products. Its international brand portfolio includes best-sellers in virtually every category.

Including EverGreen®, the fertilizer that began a new era of lawn care in the U.K. more than 70 years ago; KB®, a power brand that offers exciting opportunities for extensions in France and elsewhere; and Weedol®, a pesticide that has long led the U.K. market!

These and other brands give Scotts a strong platform in Europe's $1.2 billion lawn and garden consumables market. The key to unlocking the potential: pouring on a liberal dose of the Scotts marketing model!

The European Opportunity

Scotts isn't new to international markets. For years, the company's broad array of professional horticulture products have been branded worldwide under the Scotts name. Beyond that, Miracle-Gro is a powerhouse in the United Kingdom.

However, Scotts' international brands portfolio grew sharply in 1998 and 1999, when three acquisitions (Levington Horticulture in the U.K., Rhône-Poulenc Jardin in France and Germany, and ASEF in The Netherlands) established the company as the world's leading consumer lawn and garden products marketer.

Scotts' objective is to grow the European market. The timing is good: the retail trade there is beginning to undergo the same consolidation it has in the U.S. Multinational competitors – including some leading U.S.-based firms – are emerging, and these retailers want to leverage supplier relationships across national borders. Scotts is their logical choice.

Powerful Local and Regional Brands

Scotts acquired most of its new European brands from chemical companies, which had focused on product quality, not brand building. Because of this, some people assumed Scotts' plan was to introduce powerful North American brands throughout

Europe. However, research conducted in 1999 determined that many of the acquired brands have strong aided awareness levels and can blossom, if they're given marketing and advertising support.

Sounds familiar, doesn't it? Brands with great underlying strengths, just waiting to grow.

Extending a Brand in France

Scotts markets an extensive line of KB lawn and garden products in France, Belgium, Holland, Italy, and Spain. The brand, with an 82 percent aided awareness level, has earned a high degree of consumer trust. Consumers believe KB "provides all the products you need," suggesting good brand extension opportunities.

The scope of the KB line also positions Scotts well as retailers' "one stop" supplier, opening significant category management opportunities.

During 1999, Scotts increased advertising support for the brand and successfully introduced a KB "gardening essentials" line in the high-profit garden center channel. KB had previously been sold only through mass merchants. Broader distribution better leverages its advertising support.

Applying Scotts' patented technology to improve KB's lawn fertilizer products is another opportunity to strengthen this brand.

With its high awareness, extensive product line, category management opportunities, access to Scotts' technology, and increased advertising support, the KB brand can grow throughout Europe.

Category Leaders in the U.K.

The Scotts Company became the leader in the U.K.'s large lawn and garden consumer markets in 1997, when it acquired full ownership of Miracle Garden Care. The 1998 acquisition of Levington Horticulture Ltd., plus the Roundup brand added later under the Monsanto transaction, strengthened Scotts' leadership, giving it approximately 31 percent of the market.

That leadership is built on category-leading brands such as EverGreen, the U.K.'s number one lawn fertilizer; Weedol, the leader in weed control; and Levington, the most popular growing media line. Other important brands include Miracle-Gro, the leader in water-soluble plant food; Roundup, a leading herbicide; and Shamrock™, strong in growing media.

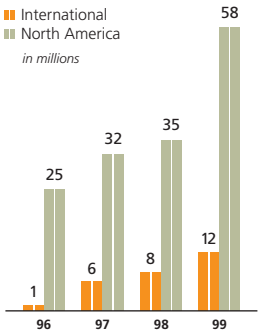
In all, Scotts – with a portfolio that includes 25 of the U.K.'s 30 leading lawn and garden brands – is five times the size of its nearest competitor there! It's the supplier of choice for retailers, and a natural for category management opportunities.

During 1999, Scotts' priority was integrating its U.K. businesses. Major steps included:

- Significant SKU reductions, to streamline the product line;
- Restructuring of the distribution network, to improve efficiency and reduce costs; and
- Integration of the acquisitions' sales forces, to more effectively market product lines.

Looking to 2000, the U.K. business unit will intensify efforts to implement Scotts' proven consumer marketing strategies. Significant increases in advertising are planned, including the first television support for the category-leading EverGreen lawn fertilizer brand.

Today, gardening is more popular than ever in the U.K. Scotts is committed to bringing even greater popularity – and greater enjoyment – to the pastime.



A Positive Trend

Increased advertising support for its brands, first in North America and now in Europe, is a key component in Scotts' proven strategy to grow sales, market share, and the entire category.

The Brand

Thanks to recent acquisitions, Scotts markets leading country and regional brands such as EverGreen® (lawn fertilizer), KB® (full product line), Weedol® (herbicide), Levington® (growing media), Nexa Lotte® (indoor insecticide), Celaflor® (outdoor pesticide), Fertiligène® (full product line), and others throughout the United Kingdom and Europe. In addition, Miracle-Gro® and Roundup® have established strong presences in a number of international markets.

The Market

For consumer products, it's primarily Europe, the world's second largest lawn and garden consumables market, the Pacific Rim, and Australia. For professional horticultural and turf products, the Scotts brand is marketed throughout the world.

The Story

Long a leader in international professional markets, Scotts has recently completed acquisitions (Miracle Garden Care in fiscal 1997, Levington Horticulture and Rhône-Poulenc Jardin in fiscal 1998, and ASEF in fiscal 1999) to position it as a leader in international consumer markets. In 1999, Scotts began implementing its proven consumer marketing strategy in Europe's lawn and garden markets.

Opportunities in Germany and Other Markets

In Germany, Scotts' strongest brands – Nexa Lotte, the leading household insecticide, and Celaflor, the number one outdoor pesticide – help give the company a solid base for growth in the lawn and garden market.

The challenge in Germany isn't to revitalize the market; it's to expand into new categories and establish Scotts as the clear market leader.

Today, Scotts – with 15 percent of the market – is slightly ahead of the number two competitor in Germany, the world's largest national lawn and garden market outside the U.S. Some 20 million of the nation's 37 million households enjoy gardening, creating a $300 million-plus market.

To grow, Scotts must build on its leadership in pesticides and enter new categories. The company, for example, has a limited presence in the lawn and garden fertilizer and growing media categories, which account for nearly 70 percent of the German market.

Research has found that the Celaflor brand offers good extendibility, so using it and Scotts' technology to enter the lawn fertilizer market is a near-term opportunity. Acquiring an existing lawn products brand is another.

Other growth initiatives include product line simplification, packaging improvements, and increased marketing and advertising investment.

In addition to Europe, Scotts markets its products in other world markets. In Australia, for example, the recently acquired Defender® line, the consumer Roundup brand, and plant food brands Osmocote® and Miracle-Gro give Scotts a complete range of lawn and garden products.

The World Leader

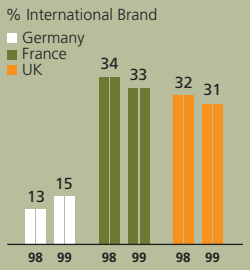
How big is the opportunity in Europe? There are approximately 60 million homeowners in the U.S. who garden, and the lawn and garden market there is nearly $3 billion annually for consumable lawn and garden products. There are 70 million homeowners in Europe who garden, but the market there is only $1.2 billion.

The possibilities are obvious: the market is under-developed, just as the U.S. was a few years ago. Scotts is confident that bringing its strategy to Europe – using extensive research to understand the market, effective advertising to energize it, and innovative relationships with retailers to help grow it – will generate exciting results.

If anything can unleash the potential of Europe, it's pouring on the Scotts model!

The Numbers

Scotts enjoyed market shares of 31 percent in the U.K., 33 percent in France, and 15 percent in Germany – Europe's three largest markets. In all, The Scotts Company's share of the total international lawn and garden consumables market exceeds 20 percent.



Source: ***Germany*** January - August: Scotts Estimates
France October - September: Scotts Estimates
UK January - September: HPR Data

The Enhancements

Brand audits and Usage & Attitude research provided a foundation for future consumer marketing efforts. Scotts also began identifying "cross-fertilization" opportunities – for example, adapting innovative European product application technology for a new North American Miracle-Gro Garden Weed Prevent line, and examining other opportunities where technology can improve performance and competitiveness of its new European product lines.

Talented People
In-Store Counselors
NYSE
Advertising
Consumer Helpline
R&D
Mfg. Technology
ERP
Give Back To Grow
Scotts Training Institute
Internet
The Ortho Problem Solver
Investor Relations
Lawn Care Magazine
Category Mgt.

Strong Roots

The Scotts organization, the 'SMG Brand' on the New York Stock Exchange, provides the resources, the strong roots, that nurture growth for its brands – and grow value for its shareholders.

Mention a brand like Ortho or Miracle-Gro, and many people think of the extensive advertising Scotts uses to support them.

Investing more than $80 million annually in direct media has been a major factor in the success of Scotts' and consumer Roundup brands. But the company, the "SMG Brand" (SMG is Scotts' New York Stock Exchange symbol), brings much more than advertising to the equation.

A product has to deliver results. Scotts, with "strong roots" ranging from the industry's largest R&D organization to the most advanced production technology, makes sure its products deliver those results, for gardeners and shareholders alike.

Start With Research

Scotts' R&D leadership permits the company to pull many "competitive levers," from reformulating a product to redesigning the equipment used to apply it.

Consider weed control in lawns. Scotts can produce seed varieties for better weed-resistance, develop new lawn spreader technology for improved product application, or reformulate the fertilizer with new and improved active ingredients.

Superior Manufacturing Technology

The scale of the company's operations and its use of patented technologies in key areas not only permit Scotts to deliver superior results, but they create important competitive advantages in the marketplace.

In lawn fertilizers, for example, most competitor products are blends – a collection of individual granules of major ingredients. Applying them can cause uneven feeding and burnt lawns.

Scotts' patented particle technology, on the other hand, bonds those nutrients together into one particle. When homeowners use Scotts Turf Builder, nutrients are distributed evenly – in the proper amounts – in every application. Scotts products really do produce better lawns!

To maintain its competitive edge and to keep up with growing sales, Scotts has invested more than

$28 million in new and improved manufacturing capacity since 1997.

Another investment is the new Enterprise Resource Planning (ERP) system, already "live" in several business groups. We believe, by the end of 2001, when all groups will use the new software, this state-of-the-art, real-time information system will improve Scotts' ability to manage its operations and respond to changing retailer and customer needs. It will also bring all business groups – including recent acquisitions – onto the same information platform.

Leadership With Retailers

Throughout the world, the retail industry is consolidating. Increasingly concerned about national and even international supply relationships, retailers are partnering with a select group of suppliers to serve their entire market territory. Scotts, with leading brands in every major segment of the business, is a natural to play that lead supplier role in consumer lawn and garden products.

Scotts is also the logical choice to partner in evolving retailer-manufacturer relationships such as category management, where retailer and supplier work together to maximize a store department's performance. As category manager, Scotts can use its research findings to identify the ideal product mix for a particular store, increasing sales and profits.

The need for closer relations with retailers also led Scotts to create its Scotts North America sales organization. Established in 1999, it supplements individual business groups' sales efforts, representing the entire Scotts product line.

Scotts' efforts are helping retailers increase the popularity of gardening. Each year, the Scotts Training Institute hosts hundreds of retailers, helping them learn more about gardening – and how the Scotts product line can satisfy their customers' needs!

Scotts Training Institute

Also supporting retailers' efforts are teams of Scotts in-store product counselors, gardening pros who – on busy weekends – work in lawn and garden departments to help educate consumers on growing better lawns and gardens.

Talking With Consumers

Scotts has invested millions of dollars in consumer research. The findings permit its business groups to develop new and improved products to meet consumer needs – and then track product sales in the marketplace.

That research also helps Scotts craft its advertising messages – messages designed to drive consumers into retailers' stores demanding the

company's products. Scotts believes so strongly in its "pull" marketing strategy that 75 cents out of every dollar invested in lawn and garden advertising in the U.S. is for a Scotts product!

In most consumers' eyes, Scotts defines gardening. But research and advertising are only two of the ways Scotts communicates. There's also the toll-free Consumer Helpline (800-543-TURF), which received more than 750,000 calls last year, and Scotts' Internet site, www.scottscompany.com, which was visited in 1999 by more than 1 million gardeners. Each gardener spent nearly 20 minutes per visit, learning everything from when to plant a new lawn to which

The Brand

It's "SMG" on The New York Stock Exchange – "S" for Scotts, and "MG" for Miracle-Gro – representing 1995's merger of two great companies. For gardeners, it's the brand behind the brands they trust. For retailers, an opportunity to partner with the company that markets and supplies leaders in virtually every category. And for shareholders, it's an investment in the world's leading lawn and garden brands.

The Market

■ Primary markets for company products and services are North America, the United Kingdom, France, Germany, and The Benelux Countries which account for more than 90 percent of the world's lawn and garden consumable sales.

The Story

Scotts was founded in 1868. The 1995 merger with Miracle-Gro combined Scotts' manufacturing and R&D expertise with Miracle-Gro's marketing leadership. A later series of acquisitions took the company into new categories such as pesticides and new consumer markets such as Continental Europe. Today, The Scotts Company is the world leader in consumable lawn and garden products.

Scotts professional products will produce the healthiest plants in their greenhouses.

Scotts' Lawn Care Magazine, mailed to more than 10 million homeowners, blends helpful "how to" stories with information on Scotts products. The popular Ortho Problem Solver book, now also available on CD-ROM, is yet another tool to help consumers understand pest control in gardening.

SMG's Customers

Of course, homeowners and retailers aren't Scotts' only "customers." Its shareholders, institutional and individual, are another important audience. Each year, Scotts' executives tell the company's story to dozens of audiences, ranging from large conferences of individual investors and brokers to one-on-one meetings with portfolio managers and financial analysts. The Scotts Investor Relations Web site (www.smgnyse.com) also includes extensive financial data and information.

Scotts believes in branding in the Investor Relations area, too. Its common stock, traded under the SMG symbol, is listed on The New York Stock Exchange, the greatest brand in the financial world.

Giving Back

Another important role the Scotts organization plays is supporting programs that grow the enjoyment, not just the business, of gardening. The company is a Founding Sponsor of The National Garden at the United States Botanic Garden in Washington, D.C., which is scheduled to open in 2001. It also sponsored the Philadelphia Flower Show and numerous other

GIVE BACK TO GROW™

events during 1999. The Philadelphia show, which dates back to 1829, provides an international showcase for horticulture and a model for community garden programs around the world.

Scotts conducts its outreach efforts under its "Give Back To Grow™" program. The guiding philosophy applies equally to a business or a person: you can't just take from the earth. Whether it's a fertilizer to replenish the soil, or a volunteer effort to rebuild the community, we all have to give back to keep things growing.

And to Keep Scotts Growing

Scotts, the company behind the brands, identifies opportunities in the worldwide marketplace, develops new products to capitalize on those opportunities, leverages the power of its brands to take those new products to market, and then supports those products with the industry's most effective marketing, advertising, and trade relations.

Another key to the Scotts organization is the team of talented, dedicated people – people with the experience, the skills, and the commitment to make the SMG brand successful.

It's the company's roots – roots that help SMG grow bigger and better blossoms every year and achieve the Scotts mission, "to continually strengthen Scotts' position as the world's foremost marketer of branded products and services for lawn and garden, while meeting challenging profit and return on investment growth goals."

The Numbers

Since 1996, when Scotts began implementing its consumer marketing strategy:

- Sales have grown from $750.4 million to nearly $1.65 billion.
- Annual earnings per share growth has exceeded 20 percent.
- Major lawn and garden categories have grown significantly.
- Market shares for leading Scotts brands have consistently increased. Today, Scotts has nearly 50 percent of North America's consumer lawn and garden market and more than 20 percent of the world market.

The Enhancements

Few tools are as powerful as the Internet to help gardeners understand when and how to use lawn and garden products. Scotts' site (www.scottscompany.com), significantly enhanced during 1999, provides everything from helpful hints to e-mail answers to specific lawn and garden questions. Watch a Scotts ad, then learn more about the product on the Internet, and then walk into a retailer ready to buy!

Leadership Team

The Scotts Company is led by a team of talented senior executives with extensive marketing, brand building, international business, human resources, and operational experience. They're supported by more than 3,900 dedicated associates in North America, Europe, and throughout the world.

Charles M. Berger

Berger, The Scotts Company's Chairman, President, and Chief Executive Officer, joined the company in 1996. His objective: implement a strategy of effective marketing, advertising, and brand power in the consumer lawn and garden market – a strategy that has led Scotts to three consecutive years of record sales and earnings. Under Berger, the company's brands, number one in virtually every major lawn and garden category, have enjoyed unprecedented market share gains.

He has also overseen a number of strategic acquisitions through which Scotts has extended its reach into new categories (such as pesticides) and new geographies (including all major Western European markets).

Berger is well suited for his role at Scotts. He joined the company after a 32-year career at H.J. Heinz Company. There, he served as Chairman and CEO of Heinz India Pvt. Ltd., and as Chairman, President, and CEO of Weight Watchers International. Earlier at Heinz, Berger served as Product Manager for the famous Heinz Ketchup line. He began his career with Procter & Gamble.

James Hagedorn

Hagedorn, President, Scotts North America, is responsible for driving profitability and growth in Scotts' North American consumer and professional businesses. Under his leadership, the Lawns, Gardens, Growing Media, and Ortho groups have not only achieved record consumer sales and market shares, but are increasingly coordinating sales and operational efforts to maximize performance. Hagedorn has also strengthened the company's relationships with leading North American retailers.

In the Professional area, Hagedorn has implemented a new, lower-cost business model to enhance performance and profitability.

Scotts' Executive Committee

*Scotts' Chairman, President, and Chief Executive Officer **Charles M. Berger** (seated, far right) and his leadership team are pictured at the new Scotts Worldwide headquarters in Columbus, Ohio. Seated next to Berger is **James Hagedorn**, President, Scotts North America; followed by **Jean H. Mordo**, Group Executive Vice President, International; and **David D. Harrison**, Executive Vice President and Chief Financial Officer. Standing from left to right are **Hadia Lefavre**, Senior Vice President, Human Resources Worldwide; and **G. Robert Lucas**, Executive Vice President, General Counsel and Secretary.*

He began his career in the industry at Miracle-Gro, where he played a major role in that company's growth, in building Miracle-Gro into the most powerful brand in the industry, and in the Scotts/Miracle-Gro merger.

Jean H. Mordo

Mordo, Group Executive Vice President, International, is responsible for implementing the company's consumer marketing and brand building strategy in its expanded International Business Group, which he heads.

Mordo joined Scotts in 1997 as Chief Financial Officer. In that role, he led development of the company's international business strategy and the negotiations that acquired leading European consumer lawn and garden brands. He was also instrumental in efforts to upgrade the company's Information Technology, implement its new Enterprise Resource Planning (ERP) systems, and enhance its reporting and planning structure.

Prior to joining Scotts, Mordo held a series of executive positions at United Technologies, most recently Senior Vice President and Chief Financial Officer for its Pratt & Whitney division.

David D. Harrison

Harrison, Executive Vice President and Chief Financial Officer, oversees the company's Finance, Treasury, Tax, Audit, Accounting, Investor Relations, and Information Systems functions.

Harrison joined Scotts in 1999. He previously served as Chief Financial Officer and Executive Vice President of Coltec Industries, a $1.5 billion diversified manufacturing company which enjoyed strong sales and earnings growth during his tenure there. Prior to his position at Coltec, he held various domestic and international management positions with a number of leading companies, including General Electric and Borg-Warner.

G. Robert Lucas

Lucas, Executive Vice President, General Counsel and Secretary, has played an important role in the acquisitions that have strengthened Scotts in the North American marketplace and established it in Europe's consumer markets. His promotion to Executive Vice President early in 1999 brought with it increased responsibilities for oversight of Scotts' environmental, health, and safety programs.

In his role as Secretary of Scotts, he is responsible for maintaining a worldwide corporate structure and works closely with the Board of Directors and various of its committees.

He joined Scotts in 1997 as Senior Vice President, General Counsel and Secretary. Prior to joining Scotts, he was a Partner with Vorys, Sater, Seymour and Pease, a leading law firm headquartered in Central Ohio.

Hadia Lefavre

Lefavre, Senior Vice President, Human Resources Worldwide, is responsible for leading the Human Resources (H.R.) aspects of integrating Scotts' domestic and international operations.

Her extensive international business experience, familiarity with various cultures and languages, and H.R. expertise give her a unique perspective on that assignment.

Lefavre joined Scotts in 1999. She had previously served as Senior Vice President, Human Resources Worldwide for Rhône-Poulenc Rorer, Inc. Prior to that, she held a series of H.R. positions at leading companies such as Bull, a computer company based in Paris, France, Compaq Computer, and Regie Renault in France.

Directors and Officers

Directors

James B Beard, Ph.D.
President and Chief Scientist
International Sports Turf Institute, Inc.
Member of Audit Committee

Charles M. Berger
Chairman, President, and
Chief Executive Officer,
The Scotts Company
Member of Finance Committee

Joseph P. Flannery
Chairman, President, and
Chief Executive Officer,
Uniroyal Holding, Inc.
Chairman of Compensation &
Organization Committee

Horace Hagedorn
Vice Chairman,
The Scotts Company

James Hagedorn
President, Scotts North America,
The Scotts Company
Member of both the Nominating & Board
Governance Committee and the Finance
Committee

Albert E. Harris
President (retired),
EDBH, Inc.
Member of both the Nominating &
Board Governance Committee and the
Compensation & Organization Committee

John Kenlon
Senior Vice President,
Consumer Gardens Business Group,
The Scotts Company

Karen G. Mills
President,
MMP Group, Inc.
Chairman of Nominating &
Board Governance Committee
and Member of Finance Committee

Patrick J. Norton
Previously President, Chief Executive
Officer and Director,
Barefoot, Inc.
Member of Audit Committee

John M. Sullivan
Chairman, President and Chief
Executive Officer (retired),
Prince Holdings, Inc.
Member of Compensation &
Organization Committee

L. Jack Van Fossen
President,
Nessoff Corporation
Chairman of Audit Committee

John Walker, Ph.D.
Chairman,
Advent International plc
Chairman of Finance Committee and Member
of Compensation & Organization Committee

Executive Officers

Charles M. Berger
Chairman, President,
and Chief Executive Officer
Joined Scotts in 1996
Present office since 1996

James Hagedorn
President, Scotts North America
Joined Scotts in 1995
Present office since 1998

Jean H. Mordo
Group Executive Vice President,
International
Joined Scotts in 1997
Present office since 1999

David D. Harrison
Executive Vice President
and Chief Financial Officer
Joined Scotts in 1999
Present office since 1999

Michael P. Kelty, Ph.D.
Executive Vice President,
Technology and Operations,
Scotts North America
Joined Scotts in 1979
Present office since 1999

G. Robert Lucas
Executive Vice President,
General Counsel and Secretary
Joined Scotts in 1997
Present office since 1999

Laurens J.M. de Kort
Senior Vice President,
Zone 4, International
Joined Scotts in 1994
Present office since 1999

William A. Dittman
Senior Vice President,
Consumer Growing Media
Business Group
Joined Scotts in 1995
Present office since 1998

Michel J. Farkouh
Senior Vice President,
Zone 3, International
Joined Scotts in 1999
Present office since 1999

John Kenlon
Senior Vice President,
Consumer Gardens Business Group
Joined Scotts in 1995
Present office since 1999

Nick G. Kirkbride
Senior Vice President,
Zone 1, International
Joined Scotts in 1998
Present office since 1999

Hadia Lefavre
Senior Vice President,
Human Resources Worldwide
Joined Scotts in 1999
Present office since 1999

Joseph M. Petite
Senior Vice President,
Business Process Development
Joined Scotts in 1988
Present office since 1998

William R. Radon
Senior Vice President,
Information Technology
Joined Scotts in 1998
Present office since 1998

Christian Ringuet
Senior Vice President,
Zone 2, International
Joined Scotts in 1998
Present office since 1998

James L. Rogula
Senior Vice President,
Consumer Ortho Business Group
Joined Scotts in 1995
Present office since 1998

L. Robert Stohler
Senior Vice President,
Consumer Lawns Business Group
Joined Scotts in 1995
Present office since 1998

Scott C. Todd
Senior Vice President,
Professional Business Group
Joined Scotts in 1994
Present office since 1999

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Financial Results

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Selected Financial Data
Five Year Summary

For the fiscal year ended September 30, (In millions except per share amounts)	1999(4)	1998(3)	1997(2)	1996	1995(1)
Operating Results:					
Sales	$1,648.3	$1,113.0	$899.3	$750.4	$731.1
Gross profit	$ 659.2	$ 398.0	$325.7	$238.0	$232.3
Income from operations(5)	$ 196.1	$ 94.1	$ 94.8	$ 26.3	$ 60.9
Income (loss) before extraordinary items	$ 69.1	$ 37.0	$ 39.5	$ (2.5)	$ 22.4
Income (loss) applicable to common shareholders	$ 53.5	$ 26.5	$ 29.7	$ (12.3)	$ 18.8
Depreciation and amortization	$ 60.2	$ 37.8	$ 30.4	$ 29.3	$ 25.7
Financial Position:					
Working capital(6)	$ 274.8	$ 135.3	$146.5	$181.1	$227.0
Investments in property, plant and equipment	$ 66.7	$ 41.3	$ 28.6	$ 18.2	$ 23.6
Property, plant and equipment, net	$ 259.4	$ 197.0	$146.1	$139.5	$148.8
Total assets	$1,769.6	$1,035.2	$787.6	$731.7	$809.0
Total debt	$ 950.0	$ 372.5	$221.3	$225.3	$272.5
Total shareholders' equity	$ 443.3	$ 403.9	$389.2	$364.3	$380.8
Cash Flows:					
Cash flows from operating activities	$ 78.2	$ 71.0	$121.1	$ 82.3	$ 4.5
Cash flows from investing activities	$ (571.6)	$ (192.1)	$ (72.5)	$ (17.4)	$ (6.7)
Cash flows from financing activities	$ 513.9	$ 118.4	$ (46.2)	$ (61.1)	$ (2.7)
Ratios:					
Operating margin	11.9%	8.5%	10.5%	3.5%	8.3%
Current ratio	1.7	1.6	2.1	2.6	2.8
Total debt to total book capitalization	68.2%	48.0%	36.2%	38.2%	41.7%
Return on average shareholders' equity	14.9%	9.2%	10.5%	(0.7)%	8.2%
Per Share Data:					
Basic earnings (loss) per common share before extraordinary items	$ 3.25	$ 1.46	$ 1.60	$ (0.65)	$ 1.01
Basic earnings (loss) per common share	$ 2.93	$ 1.42	$ 1.60	$ (0.65)	$ 0.99
Diluted earnings (loss) per common share before extraordinary items	$ 2.27	$ 1.22	$ 1.35	$ (0.65)	$ 0.99
Diluted earnings (loss) per common share	$ 2.08	$ 1.20	$ 1.35	$ (0.65)	$ 0.99
Shareholders' equity	$ 14.10	$ 12.82	$12.19	$11.44	$11.92
Price to diluted earnings per share, end of period	16.6	25.5	19.4	nm	22.4
Stock price at year-end	$ 34.63	$ 30.63	$26.25	$19.25	$22.13
Stock price range — High	$ 47.63	$ 41.38	$30.56	$21.88	$23.88
Low	$ 26.63	$ 26.25	$17.75	$16.13	$14.75
Other:					
EBITDA(7)	$ 256.3	$ 131.9	$125.2	$ 55.6	$ 86.6
EBITDA margin	15.5%	11.9%	13.9%	7.4%	11.8%
Interest coverage (EBITDA/interest expense)	3.2	4.1	5.0	2.2	3.5
Average common shares outstanding	18.3	18.7	18.6	18.8	18.7
Common shares used in diluted earnings (loss) per common share calculation	30.5	30.3	29.3	18.8	22.6
Preferred stock dividends	$ 9.7	$ 9.8	$ 9.8	$ 9.8	$ 3.6

Note: Prior year presentations have been changed to conform to fiscal 1999 presentation; these changes did not impact net income.

(1) Includes Scotts Miracle-Gro Products, Inc. from May 1995.

(2) Includes Miracle Holdings Limited (nka The Scotts Company (UK) Ltd.) from January 1997.

(3) Includes Levington Group Limited (nka The Scotts Company (UK) Ltd.) from December 1997 and EarthGro, Inc. from February 1998.

(4) Includes Rhône-Poulenc Jardin (nka Scotts France SAS) from October 1998, Asef Holdings BV from December 1998 and the non-Roundup (''Ortho'') business from January 1999.

(5) Operating income for fiscal 1998 and 1996 includes $20.4 million and $17.7 million of restructuring and other charges, respectively.

(6) Working capital is defined as total current assets less total current liabilities.

(7) EBITDA is defined as income from operations, plus depreciation and amortization. We believe that EBITDA provides additional information for determining our ability to meet debt service requirements. EBITDA does not represent and should not be considered as an alternative to net income or cash flow from operations as determined by generally accepted accounting principles, and EBITDA does not necessarily indicate whether cash flow will be sufficient to meet cash requirements.

nm Not meaningful

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Scotts is a leading manufacturer and marketer of consumer branded products for lawn and garden care, professional turf care and professional horticulture businesses in the United States and Europe. Our operations are divided into three business segments: North American Consumer, Professional and International. The North American Consumer segment includes the Lawns, Gardens, Growing Media and Ortho business groups.

As a leading consumer branded lawn and garden company, we focus on our consumer marketing efforts, including advertising and consumer research, to create demand to pull product through the retail distribution channels. During fiscal 1999, we spent $189.0 million on advertising and promotional activities, which is a significant increase over fiscal 1998 spending levels. We have applied this consumer marketing focus over the past several years, and we believe that Scotts continues to receive a significant return on these increased marketing expenditures. For example, sales in our Consumer Lawns business group increased 24.9% from fiscal 1998 to fiscal 1999, after having increased 12.9% from fiscal 1997 to fiscal 1998. We believe that this dramatic sales growth resulted primarily from our increased consumer-oriented marketing efforts. We expect that we will continue to focus our marketing efforts toward the consumer and to increase consumer marketing expenditures in the future to drive market share and sales growth.

Scotts' sales are seasonal in nature and are susceptible to global weather conditions, primarily in North America and Europe. For instance, periods of wet weather can slow fertilizer sales but can create increased demand for pesticides. Periods of dry, hot weather can have the opposite effect on fertilizer and pesticide sales. We believe that our recent acquisitions diversify both our product line risk and geographic risk to weather conditions.

On September 30, 1998, Scotts entered into a long-term marketing agreement with Monsanto Company for its consumer Roundup® herbicide products. Under the marketing agreement, Scotts and Monsanto will jointly develop global consumer and trade-marketing programs for Roundup® and Scotts has assumed responsibility for sales support, merchandising, distribution, logistics and certain administrative functions. In addition, in January 1999 Scotts purchased from Monsanto the assets of its worldwide consumer lawn and garden businesses, exclusive of the Roundup® business, for $300 million plus an amount for normalized working capital. These transactions with Monsanto further our strategic objective of significantly enhancing our position in the pesticides segment of the consumer lawn and garden category. These businesses make up the Ortho business group within the North American Consumer segment.

We believe that these transactions provide us with several strategic benefits including immediate market penetration, geographic expansion, brand leveraging opportunities and the achievement of substantial cost savings. With the Ortho acquisition, we are currently a leader by market share in all five segments of the consumer lawn and garden category: lawn fertilizer, garden fertilizer, growing media, grass seeds and pesticides. We believe that we are now positioned as the only national company with a complete offering of consumer products.

The addition of strong pesticide brands completes our product portfolio of powerful branded consumer lawn and garden products that should provide Scotts with brand leveraging opportunities for revenue growth. For example, our strengthened market position should create category management opportunities to enhance shelf positioning, consumer communication, trade incentives and trade programs. In addition, significant synergies have been and should continue to be realized from the combined businesses, including reductions in general and administrative, sales, distribution, purchasing, research and development and corporate overhead costs. We have redirected, and expect to continue to redirect, a portion of these cost savings into increased consumer marketing spending to support the Ortho® brand.

Over the past several years, we have made several other acquisitions to strengthen our global market position in the lawn and garden category. In October 1998, we purchased Rhône-Poulenc Jardin, a leading European lawn and garden business, from Rhône-Poulenc for approximately $170 million. This acquisition provides a significant addition to our existing European platform and strengthens our foothold in the continental European consumer lawn and garden market. Through this acquisition, we have established a strong presence in France, Germany, Austria and the Benelux countries. This acquisition may also mitigate, to a certain extent, our susceptibility to weather conditions by expanding the regions in which we operate.

In December 1998, we acquired Asef Holdings B.V., a privately-held Netherlands-based lawn and garden products company. In February 1998, we acquired EarthGro, Inc., a Northeastern U.S. growing media producer. In December 1997, we acquired Levington Group Limited,

a leading producer of consumer and professional lawn fertilizer and growing media in the United Kingdom. In January 1997, we acquired the approximate two-thirds interest in Miracle Holdings Limited which the Company did not already own. Miracle Holdings owns Miracle Garden Care Limited, a manufacturer and distributor of lawn and garden products in the United Kingdom. These acquisitions are consistent with our stated objective of becoming the world's foremost branded lawn and garden company.

The following discussion and analysis of our consolidated results of operations and financial position should be read in conjunction with our Consolidated Financial Statements included elsewhere in this report. Dollars are in millions except per share data.

Results of Operations

The following table sets forth the components of income and expense as a percentage of sales for the three years ended September 30, 1999:

	Fiscal Year Ended September 30,		
	1999	1998	1997
Sales	100.0%	100.0%	100.0%
Cost of sales	60.0	64.2	63.8
Gross profit	40.0	35.8	36.2
Commission earned from agency agreement	1.8	—	—
Advertising and promotion	11.5	9.4	9.3
Selling, general and administrative	17.1	15.2	14.6
Amortization of goodwill and other intangibles	1.5	1.2	1.1
Restructuring and other charges	—	1.4	—
Other (income) expense, net	(0.2)	0.1	0.6
Income from operations	11.9	8.5	10.5
Interest expense	4.8	2.9	2.8
Income before income taxes	7.1	5.6	7.7
Income taxes	2.9	2.2	3.3
Income before extraordinary items	4.2	3.4	4.4
Extraordinary loss on extinguishment of debt	0.4	0.1	—
Net income	3.8	3.3	4.4
Preferred stock dividends	0.6	0.9	1.1
Income applicable to common shareholders	3.2%	2.4%	3.3%

The following table sets forth sales by business segment for the three years ended September 30, 1999 ($ in millions):

	1999	1998	1997
North American Consumer:			
Lawns	$ 461.0	$ 369.1	$ 309.6
Gardens	147.4	133.0	127.0
Growing Media	264.3	231.6	182.6
Ortho	224.3	—	—
Total	1,097.0	733.7	619.2
Professional	159.4	179.4	165.5
International	391.9	199.9	114.6
Consolidated	$1,648.3	$1,113.0	$ 899.3

Fiscal 1999 Compared to Fiscal 1998

Sales for fiscal 1999 were $1.65 billion, an increase of 48.1% over fiscal 1998 sales of $1.1 billion. On a pro forma basis, assuming that the Ortho, Rhône-Poulenc Jardin, Levington and EarthGro acquisitions had occurred on October 1, 1997, pro forma sales for fiscal 1999 were $1.68 billion, an 11% increase over fiscal 1998 pro forma sales of $1.5 billion. As discussed below, the increase in sales on a pro forma basis was primarily driven by exceptional growth in the Consumer Lawns business group and strong revenue growth within the Consumer Gardens and Growing Media business groups.

North American Consumer segment sales were $1.1 billion in fiscal 1999, an increase of nearly 50% over fiscal 1998 sales of $734 million and an increase of 16% over fiscal 1998 on a pro forma basis. Sales in the Consumer Lawns business group within this segment were $461.0 million in fiscal 1999, a 25% increase over fiscal 1998 sales of $369.1 million. The continued dramatic revenue growth in the Consumer Lawns business group is being driven by increases in consumer-oriented marketing efforts such as advertising, consumer research and packaging improvements, which have increased category growth and market share. Sales in the Consumer Gardens business group increased 11% to $147.4 million in fiscal 1999 due to several successful new product introductions and the extension of the advertising season for All-Purpose Miracle Gro®. Sales in the Growing Media business group increased 14% to $264.3 million, or 11% on a pro forma basis. Significantly higher levels of advertising and promotional spending drove this revenue growth which resulted in increased sales for value-added potting soils in particular. Sales in the Ortho business group were $224.3 million in fiscal 1999 which is an increase of 10% on a pro forma basis.

Professional segment sales were $159.4 million in fiscal 1999, a decrease of 11% from fiscal 1998. The Professional segment consists of two businesses: the ProTurf® business which provides turf care products to golf courses, athletic fields, and related facilities; and the Horticulture business which provides plant care products to professional nurseries and growers. The decrease in fiscal 1999 sales in this segment was reflected in the ProTurf® business, which changed its distribution model earlier in the year, electing to market and deliver products through distributors rather than directly to customers. Short-term interruptions associated with this change and the discontinuance of certain commodity products resulted in lower sales volumes in fiscal 1999.

International segment sales increased to $391.9 million in fiscal 1999 compared to $199.9 million in fiscal 1998, primarily the result of the Rhône-Poulenc Jardin and Asef acquisitions in fiscal 1999. The increase in sales on a pro forma basis was 9% which was primarily due to revenue growth in the European Professional and Rhône-Poulenc Jardin businesses, partially offset by sales declines in the U.K. consumer business caused by supply chain interruptions resulting from the integration of the recently acquired businesses. Excluding the effects of foreign currency translation, pro forma sales in fiscal 1999 would have been 10% higher than fiscal 1998.

Selling price changes did not have a material impact on Scotts' results of operations for fiscal 1999.

Gross profit increased to $659.2 million in fiscal 1999 compared to $398.0 million in fiscal 1998. On a pro forma basis, gross profit in fiscal 1999 was $671.1 million, or 40% of sales, compared to $569.2 million in fiscal 1998, or 38% of sales. The increase in gross profit as a percentage of sales was driven by improved raw material costs and improved manufacturing efficiencies from higher volumes in fiscal 1999. Fiscal 1998 gross profit also reflected the following charges: restructuring and other charges of $2.9 million as discussed below; start-up costs of $1.4 million associated with the upgrade of certain domestic manufacturing facilities; demolition costs of $1.4 million associated with the removal of certain old manufacturing facilities; unplanned production outsourcing costs of $2.8 million; the loss of a composting contract of $1.0 million; and unfavorable inventory adjustments of $0.8 million.

The ''commission earned from agency agreement'' in fiscal 1999 of $30.3 million was generated from our marketing agreement with Monsanto for exclusive international marketing and agency rights to Monsanto's consumer Roundup® herbicide products. The commission earned under the agreement is based on EBIT (as defined by the agreement) generated annually, net of an annual fixed contribution payment, by the global Roundup® business.

Advertising and promotion expenses for fiscal 1999 were $189.0 million, an increase of $84.6 million over fiscal 1998 advertising and promotion expenses of $104.4 million. The recently acquired Ortho and Rhône-Poulenc Jardin businesses contributed $30.7 million and $20.5 million, respectively, to this increase. The remaining increase reflects continued emphasis on building consumer demand through consumer-oriented marketing efforts, and is highlighted by 28%, 26% and 64% increases in advertising and promotional spending in the Consumer Lawns, Consumer Gardens and Consumer Growing Media businesses, respectively. As a percentage of sales, advertising and promotion expenses increased to 11% in fiscal 1999 from 9% in fiscal 1998.

Selling, general and administrative expenses were $281.2 million in fiscal 1999, an increase of $111.3 million over fiscal 1998 selling, general and administrative expenses of $169.9 million. The recently acquired Ortho and Rhône-Poulenc Jardin businesses contributed $30.2 million and $37.3 million, respectively, to this increase. The significant components of the remaining $43.8 million increase in selling, general and administrative expenses are: additional information systems expenses of $0.5 million for year 2000 remediation and $5.6 million for enterprise system implementation efforts; increased bad debt expenses of $4.6 million, primarily resulting from the bankruptcy of Hechinger; increased marketing, selling and administrative costs within the Consumer Lawns, Consumer Gardens, and Consumer Growing Media businesses of $8.7 million to support higher sales volumes; costs of $2.5 million associated with changes in distribution arrangements in France; costs to integrate the Ortho business of $8.4 million; increased research and development spending of $6.9 million, largely in support of the acquired Ortho business; and increased legal and environmental charges of $2.7 million, primarily for costs associated with the environmental matter at our Marysville site.

Amortization of goodwill and other intangibles increased to $25.4 million in fiscal 1999 compared to $12.9 million in fiscal 1998 due to additional intangibles resulting from the Ortho, Rhône-Poulenc Jardin and Asef acquisitions.

Restructuring and other charges in fiscal 1999 were $1.4 million, which represents severance costs associated with the change in distribution methods within the ProTurf® business of the Professional segment. In connection with this restructuring, approximately 60 in-house sales associates were terminated in fiscal 1999. Approximately $1.1 million of severance payments have been made to these former associates during fiscal 1999; the remaining $0.3 million is expected to be paid in fiscal 2000. Restructuring and other charges in fiscal 1998 were $20.4 million, $15.4 million of which is identified separately within operating expenses, $2.9 million of which is included in cost of sales and $2.1 million of which is included in selling, general and administrative expenses. See ''Fiscal 1998 Compared to Fiscal 1997'' below for further discussion of these restructuring and other charges.

Other income/expense for fiscal 1999 was income of $3.6 million compared to $1.3 million of expense for fiscal 1998. Other income in fiscal 1999 represents royalties received under license agreements for the use of some of our trademarks. Other expenses in fiscal 1998 represent losses on the sale of fixed assets and foreign currency, partially offset by royalty income described above. Legal and environmental provisions of $5.4 million and $2.7 million for fiscal 1999 and 1998, respectively, have been reclassified from other income/expense to selling, general and administrative expenses.

Income from operations for fiscal 1999 was $196.1 million compared to $94.1 million for fiscal 1998, primarily due to operating income realized from the Ortho and Rhône-Poulenc Jardin businesses and significant improvements in the Consumer Lawns and Growing Media businesses, partially offset by increased selling, general and administrative and amortization expenses described above.

Interest expense for fiscal 1999 was $79.1 million, an increase of $46.9 million over fiscal 1998 interest expense of $32.2 million. The increase in interest expense was due to increased borrowings to fund the Ortho, Rhône-Poulenc Jardin and Asef acquisitions and higher working capital levels to support the growth of the businesses.

Income tax expense for fiscal 1999 was $47.9 million compared to $24.9 million in fiscal 1998. Our effective tax rate was 41.0% in fiscal 1999 compared to 40.3% in fiscal 1998. The increase in the effective tax rate was primarily due to a reduction in foreign dividends remitted which provided excess foreign tax credits in fiscal 1998.

As discussed below in ''Liquidity and Capital Resources'', in conjunction with the Ortho acquisition, in January 1999 we completed an offering of $330 million of 8⅝% Senior Subordinated Notes due 2009. The net proceeds from this offering, together with borrowings under our bank facility, were used to fund the Ortho acquisition and repurchase our outstanding $100 million 9⅞% Senior Subordinated Notes due August 2004. We recorded an extraordinary loss on the extinguishment of the 9⅞% notes of $9.3 million, including a call premium of $7.2 million and the write-off of unamortized issuance costs and discounts of $2.1 million.

We reported net income of $63.2 million for fiscal 1999, or $2.08 per share on a diluted basis, compared to $36.3 million for fiscal 1998, or $1.20 per share on a diluted basis. Excluding the impact of the extraordinary loss discussed above, earnings per share for fiscal 1999 were $2.27 on a diluted basis. Excluding the impact of restructuring and other charges taken in fiscal 1998 as well as an extraordinary loss on early extinguishment of debt, earnings per share for fiscal 1998 were $1.62 on a diluted basis. The significant increase in diluted earnings per share reflects the tremendous revenue growth being experienced by many of our consumer businesses, the commission earned under the Roundup® marketing agreement and the accretion of the Ortho and Rhône-Poulenc Jardin businesses to earnings.

Fiscal 1998 Compared To Fiscal 1997

Sales in fiscal 1998 were $1.1 billion, an increase of 23.8% over fiscal 1997 sales of $899.3 million. On a pro forma basis, assuming that the Levington and EarthGro acquisitions had occurred on October 1, 1996, fiscal 1998 sales would have been $1.1 billion, an increase of $100.1 million, or 9.7%, over fiscal 1997 pro forma sales of $1.0 billion. The increase in these pro forma sales was driven primarily by significant increases in sales in the Consumer Lawns business group and the Professional segment as discussed below.

North American Consumer segment sales were $733.7 million in fiscal 1998, an increase of $114.5 million, or 18.5%, over fiscal 1997 sales of $619.2 million. Sales in the Consumer Lawns business group within this segment increased $59.5 million, or 19.2%, from fiscal 1997 to fiscal 1998, reflecting significant volume growth year to year in our Turf Builder® line of products driven by increased consumer-oriented marketing efforts. Sales in the Consumer Gardens and Consumer Growing Media business groups increased $6.0 million, or 4.7%, and $49.0 million, or 26.8%, respectively, from fiscal 1997 to fiscal 1998. The increase in the Consumer Growing Media business group was primarily the result of the EarthGro acquisition made earlier in fiscal 1998. The increase in sales for the Consumer Gardens business group was driven primarily by strong volume, particularly in the Osmocote® and Miracle-Gro® product lines, which we believe was due to increased advertising. Increases were also due to the introduction of certain new products. On a pro forma basis, including the EarthGro acquisition, sales in the Consumer Growing Media business group increased 4.4% from fiscal 1997 to fiscal 1998. More importantly, we made a strategic decision to emphasize sales of higher margin, value-added products and to deemphasize sales of lower margin landscape products. Selling price changes did not

have a material impact in the North American Consumer segment in fiscal 1998.

Professional segment sales were $179.4 million in fiscal 1998, an increase of $13.9 million, or 8.4%, over fiscal 1997 sales of $165.5 million. This increase in sales was primarily reflected in the ProTurf® business and resulted from increased volumes as a result of emphasizing more technological support for customers and new product introductions.

International segment sales were $199.9 million in fiscal 1998, an increase of $85.3 million, or 74.4%, over fiscal 1997 sales of $114.6 million. After considering the Levington acquisition, on a pro forma basis, sales in the International segment increased 11.4% from fiscal 1997 to fiscal 1998, primarily in the European professional business.

Gross profit increased to $398.0 million in fiscal 1998, an increase of 22.2% over fiscal 1997 gross profit of $325.7 million. As a percentage of sales, gross profit was 35.7% of sales for fiscal 1998, compared to 36.2% of sales for fiscal 1997. Fiscal 1998 gross profit reflects a charge of $2.9 million, or 0.3% of fiscal 1998 sales, for restructuring and other charges as discussed below. Also impacting fiscal 1998 gross margins were start-up costs of $1.1 million associated with the upgrade of certain domestic manufacturing facilities, demolition costs of $1.4 million associated with the removal of certain old manufacturing facilities, unplanned production outsourcing costs of $2.7 million, the loss of a composting contract of $0.6 million and unfavorable inventory adjustments of $0.8 million. The aggregate impact of these items, approximately $8.0 million, was offset by favorable raw material pricing of approximately $8.0 million.

Advertising and promotion expenses in fiscal 1998 were $104.4 million, an increase of $20.5 million, or 24.4%, over fiscal 1997 advertising and promotion expenses of $83.9 million. On a pro forma basis, including the Levington and EarthGro acquisitions, advertising and promotion expenses increased 17.3% from fiscal 1997 to fiscal 1998. This increase reflects continued emphasis on building consumer demand through consumer-oriented marketing efforts, and is highlighted by 18.5% and 58.9% increases in advertising and promotion expenses in the Consumer Lawns business group and International segment (excluding the Levington acquisition), respectively. As a percentage of sales, advertising and promotion increased slightly to 9.4%, compared to 9.3% for the prior year.

Selling, general and administrative expenses in fiscal 1998 were $167.2 million, an increase of $36.7 million, or 28.1%, over selling, general and administrative expenses in fiscal 1997 of $130.5 million. As a percentage of sales, selling, general and administrative expenses were 15.0% for fiscal 1998, compared to 14.5% for fiscal 1997. On a pro forma basis, including the Levington and EarthGro acquisitions, selling, general and administration expenses increased 13.1% from fiscal 1997 to fiscal 1998. The increase in selling, general and administrative expenses was due to several factors: the assumption of selling, marketing, research and development and administrative functions related to acquired businesses; information systems expenses of $1.9 million for Year 2000 compliance and $1.2 million for the enterprise system implementation efforts, as well as an increase in information systems spending to support the new initiatives and additional businesses; a $2.1 million charge for costs to integrate the acquired Levington business as discussed below; and increased legal and environmental charges of $1.6 million, primarily for additions to the reserve for environmental matters.

Amortization of goodwill and other intangibles increased to $12.9 million in fiscal 1998, compared to $10.2 million in fiscal 1997, as a result of the Levington and EarthGro acquisitions during the year.

Restructuring and other charges in fiscal 1998 were $20.4 million, $15.4 million of which is identified separately within operating expenses, $2.9 million of which is included in cost of sales and $2.1 million of which is included in selling, general and administrative expenses. These charges were primarily associated with three restructuring activities: (1) the consolidation of our two U.K. operations into one lower-cost business; (2) the closure of nine composting operations in the U.S. that collect yard and compost waste for certain municipalities; and (3) the sale or closure of certain other U.S. plants or businesses.

The charge for consolidation of our U.K. operations was $6.0 million and consisted of:

- $0.9 million to write-off the remaining carrying value of certain property and equipment. In connection with the integration of the Miracle Garden Care and Levington businesses, management elected to move certain production lines from a Miracle Garden Care facility in Howden to a Levington facility in Bramford. As a result, certain production equipment at the Howden facility will no longer be utilized. In addition, certain computer hardware and software equipment previously used by the Miracle Garden Care business

would no longer be utilized as a result of electing to use acquired information systems of the Levington business. We ceased utilization of the production and computer equipment in the fourth quarter of 1998. The assets written-off had nominal value and were scrapped or abandoned.

- $2.1 million to write-off packaging materials rendered obsolete as a result of new packaging design and to provide for costs incurred in 1998 to relaunch products under a single branding strategy. The charges associated with these actions were $0.8 million and $1.3 million, respectively.
- $1.4 million of severance costs associated with the termination of 25 employees made redundant by the integration of the two U.K. businesses. As of September 30, 1998, six employees had been terminated. The remaining employees were terminated in fiscal 1999. All severance costs accrued at September 30, 1998, have been paid (except for an adjustment of $0.3 million for over accrual).
- $0.6 million write-off of inventory rendered obsolete by the integration activities and $0.8 million costs incurred in fiscal 1998 for other integration-related costs.

The charge for closure of nine of our composting operations was $9.3 million and consisted of:

- $4.5 million for costs to be incurred under contractual commitments for which no future revenues will be realized. These costs are associated with the final processing of remaining compost materials, as required, through the end of the operating contract with the applicable municipality but after the time which revenue-producing activities cease. Six of the composting sites have operating contracts that ended in fiscal 1999 for which $2.9 million was accrued; the operating contracts for the three remaining sites will expire in fiscal 2000 for which $1.6 million was accrued.
- $3.2 million to write-down to estimated fair value certain machinery and equipment in accordance with SFAS No. 121 for assets held for use. Depreciation continues to be recognized during the revenue-producing periods. Fixed assets at facilities that have ceased operations have been abandoned or scrapped.
- $1.1 million to write-off inventory which must be disposed of as a result of closing the various composting sites. Such inventory must be removed from the applicable sites and has only nominal value.
- $0.5 million for remaining lease obligations after revenue-producing activities cease on certain machinery and equipment at the sites.

The composting facilities being closed as part of these restructuring initiatives incurred losses of approximately $3.0 million and $2.0 million during fiscal 1998 and fiscal 1997, respectively, which were included in our consolidated results of operations for those years.

The charge for sale or closure of certain other U.S. plants or businesses was $5.1 million and consisted of:

- $4.5 million to write-down to estimated net realizable value the assets associated with our AgrEvo pesticides business acquired in fiscal 1998. We elected to divest these assets in order to avoid potential trade conflicts associated with our purchase of the Ortho business and the signing of the marketing agreement for consumer Roundup® products. The AgrEvo business incurred an operating loss of $0.8 million in 1998 and $0.5 million in 1999 before being sold in February 1999.
- $0.6 million to write-off and close a single growing media production facility that was deemed to be redundant after the purchase of the EarthGro business in February 1998. The closure of the facility was completed in September 1998.

Other expenses for fiscal 1998 were $4.0 million, compared to $6.3 million in fiscal 1997. The decrease was primarily due to a reduction in charges provided for the disposal of assets and an increase in royalty income from licensing arrangements for some of our brand names, partially offset by increased foreign currency losses and legal and environmental provisions.

During fiscal 1997, we recorded charges of $6.0 million to write-down certain long-lived assets to their estimated fair value. The components of these charges were as follows:

- A charge of $2.2 million to write-down the carrying value of our peat harvesting facility in Lafayette, New Jersey. Operations at this facility were discontinued at the order of the Philadelphia District of the U.S. Army Corps of Engineers in July 1990. While proceedings with the government are on-going, we do not expect to resume operations at this site. The charge reduced the carrying amount for this facility to its estimated fair value based on appraisal.

- A charge of $1.6 million to write-off the carrying value of certain paper packaging equipment that was rendered obsolete by management's decision to convert to plastic packaging. The equipment was considered to have only nominal value and has subsequently been abandoned or scrapped.
- A charge of $0.9 million to write-down the carrying value of our water-soluble fertilizer plant in Allentown, Pennsylvania. In fiscal 1997, management determined that the production capacity at this plant was unnecessary after completing the merger with Miracle-Gro in fiscal 1995. The Allentown facility was sold in July 1997.
- A charge of $0.7 million to write-off certain spreader molding equipment that was considered obsolete. In fiscal 1997, management elected to upgrade the production line at its spreader manufacturing facility in Carlsbad, California. In connection with this change, certain production equipment was unusable and was scrapped.
- A charge of $0.6 million to write-off software costs that had been deferred under an enterprise-wide applications systems implementation project. In fiscal 1997, management elected to change the software platform that would be used for this project. Costs that had been deferred while configuring and installing the previous software were determined to have no future benefit and were written-off.

Income from operations for fiscal 1998 was $94.1 million, compared to $94.8 million for fiscal 1997. Excluding the restructuring and other charges of $20.4 million discussed above, income from operations in fiscal 1998 was $114.5 million, or 10.3% of sales, which was just slightly below income from operations as a percentage of sales for fiscal 1997 of 10.5%.

Interest expense for fiscal 1998 was $32.2 million, an increase of 27.8% over fiscal 1997 interest expense of $25.2 million. The increase in interest expense was due to increased borrowings to fund the Levington, EarthGro and Miracle Garden acquisitions, partially offset by lower average debt levels excluding the acquisition borrowings.

Income tax expense was $24.9 million for fiscal 1998, a 17.3% decrease from income tax expense for fiscal 1997. Our effective tax rate decreased to 40.3% in fiscal 1998 from 43.2% in fiscal 1997 as a result of favorable tax planning strategies.

In February 1998, we secured a new revolving credit facility to replace our then existing credit facility. Write-off of deferred financing costs associated with the then existing credit facility resulted in an extraordinary loss, net of income taxes, on the early extinguishment of debt of $0.7 million.

We reported net income of $36.3 million for fiscal 1998, or $1.20 per common share on a diluted basis, compared to net income of $39.5 million for fiscal 1997, or $1.35 per common share on a diluted basis. Excluding the impact of the restructuring and other charges and extraordinary loss discussed above, we earned net income of $1.62 per share on a diluted basis, a 20% increase over fiscal 1997. This increase reflects the impact of strong sales volumes during fiscal 1998 as discussed above.

Liquidity and Capital Resources

Cash provided by operating activities was $78.2 million, $71.0 million and $121.1 million in fiscal 1999, 1998 and 1997, respectively. The decrease in cash provided from operations for fiscal 1999 and fiscal 1998 compared to fiscal 1997 was primarily due to increased working capital levels in fiscal 1999 and fiscal 1998 to support increased sales revenues. The fiscal 1997 improvement compared to fiscal 1996 was driven by higher earnings and improved working capital management. The seasonal nature of our sales results in a significant increase in working capital (primarily accounts receivable and inventory) during the first half of the fiscal year, with the third quarter being a significant cash collection period.

Cash used in investing activities was $571.6 million, $192.1 million and $72.5 million in fiscal 1999, 1998 and 1997, respectively. The increase in cash used in investing activities in fiscal 1999 and fiscal 1998 was due to the cost of businesses acquired during those years and increases in capital expenditures to install our new enterprise-wide applications information system (see discussion below) and to upgrade some of our manufacturing facilities to more technologically advanced production capabilities. Our new credit facilities restrict annual capital investments to $70.0 million.

Financing activities generated cash of $513.9 million and $118.4 million in fiscal 1999 and 1998, respectively, and used cash of $46.2 million in fiscal 1997. Cash generated in fiscal 1999 was generally used to fund our acquisitions during fiscal 1999, to repay our then existing credit facility and Senior Subordinated Notes, and to fund increased working capital levels. Cash generated in fiscal

1998 was generally provided by our credit facilities in order to provide funds for the acquisitions during the year. The lower level of debt repayment in fiscal 1997 reflects the usage of higher operating cash flows to support the additional investment in Miracle Garden and higher net capital investments.

Total debt as of September 30, 1999 was $950.0 million compared to $372.5 million at September 30, 1998. The increase in debt year to year was primarily due to borrowings to fund the Ortho, Rhône-Poulenc Jardin and Asef acquisitions and higher working capital levels to support the growth of the business.

Shareholders' equity as of September 30, 1999 was $443.3 million, a $39.4 million increase compared to September 30, 1998. This increase was primarily attributable to net income of $63.2 million, offset by convertible preferred stock dividends of $9.7 million and net treasury stock purchases of $10.0 million.

The primary sources of our liquidity are funds generated by operations and borrowings under our credit facilities. On December 4, 1998, we and most of our subsidiaries entered into new credit facilities which provide for borrowings in the aggregate principal amount of $1.025 billion and consist of term loan facilities in the aggregate amount of $525 million and a revolving credit facility in the amount of $500 million.

We funded the Rhône-Poulenc Jardin and Asef acquisitions with borrowings under the new credit facilities. Proceeds from the private debt offering of the 8⅝% Senior Subordinated Notes and borrowings under the new credit facilities were used to fund the Ortho acquisition and to repurchase our then outstanding 9⅞% Senior Subordinated Notes.

Capital expenditures were $66.7 million in fiscal 1999. We estimate that capital expenditures will approximate $70 million in fiscal 2000 and 2001 and $60 million to $70 million for each of the next several years. Included in these estimates are amounts to be spent on our information systems initiative in fiscal 2000 and fiscal 2001.

In July 1998, our Board of Directors of authorized the repurchase of up to $100 million of our common shares on the open market or in privately negotiated transactions on or prior to September 30, 2001. As of September 30, 1999, 494,195 common shares, or $16.7 million, have been repurchased under the new repurchase program limit. The timing and amount of any purchases under the new repurchase program will be at our discretion and will depend upon market conditions and our operating performance and liquidity. Any repurchase will also be subject to the covenants contained in our new credit facilities as well as our other debt instruments. The repurchased shares will be held in treasury and will thereafter be used for the exercise of employee stock options and for other valid corporate purposes. We anticipate that all repurchases will be made in the open market or in privately negotiated transactions, and that Hagedorn Partnership, L.P. will sell its pro rata share (41%) of such repurchased shares in the open market.

Gains and losses on foreign currency transaction hedges are recognized in income and offset the foreign exchange gains and losses on the underlying transactions. Gains and losses on foreign currency firm commitment hedges are deferred and included in the basis of the transactions underlying the commitments.

In our opinion, cash flows from operations and capital resources will be sufficient to meet debt service and working capital needs during fiscal 2000 and thereafter for the foreseeable future. However, we cannot ensure that our business groups will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or at all, or that future borrowings will be available under the new credit facilities in amounts sufficient to pay indebtedness or fund other liquidity needs. Actual results of operations will depend on numerous factors, many of which are beyond our control. We cannot ensure that we will be able to refinance any indebtedness, including the new credit facilities, on commercially reasonable terms, or at all.

Environmental Matters

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking action aimed at ensuring compliance with, such laws and regulations. We are involved in several environmental related legal actions with various governmental agencies. While it is difficult to quantify the potential financial impact of actions involving environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established reserves, should not have a material adverse effect on our financial position; however, there can be no assurance that the resolution of these matters will not materially

affect our future quarterly or annual operating results. Additional information on environmental matters affecting us is provided in Note 15 to our Consolidated Financial Statements and in our Annual Report on Form 10-K under ''ITEM 1. BUSINESS — Environmental and Regulatory Considerations'' and ''ITEM 3. LEGAL PROCEEDINGS.''

Year 2000 Readiness

GENERAL

We may be impacted by the inability of our computer software applications and other business systems (e.g., embedded microchips) to properly identify the Year 2000 due to a commonly used programming convention of using only two digits to identify a year. Unless modified or replaced, these systems could fail or create erroneous results when referencing the Year 2000.

Management has assessed the extent and impact of this issue and has implemented a readiness program to mitigate the possibility of business interruption or other risks. The readiness program includes all of our operations. Management believes that all significant business systems are compliant. Progress is being made on a limited number of open items, primarily relating to contingency planning, that will be completed before year-end.

We have established a Year 2000 Program Office to oversee the readiness program. The Program Office functions include regular communication with Year 2000 project managers and site visits to our various businesses to monitor remediation efforts and verify progress toward stated compliance goals. The Program Office reports to senior management, who in turn reports regularly to Scotts' Board of Directors regarding our progress toward Year 2000 readiness.

INFORMATION TECHNOLOGY SYSTEMS

Currently, computer operations at our Marysville, Ohio North American headquarters support all U.S. business groups with the exception of the Republic Tool (spreaders) manufacturing operations. Our foreign operations generally do not electronically interface with the U.S. headquarters.

The North American headquarters mainframe operations consist primarily of internally developed systems that have been remediated. Other domestic and international operations utilize commercial packaged software which has been upgraded or replaced. Remediation of North American headquarters mainframe applications, which was our most complex and costly effort, was completed in April 1999.

Personal computers are being made Year 2000 compliant by systematic upgrade through lease renewals and as part of the implementation of a company-wide enterprise resource planning project. Many other hardware/software upgrades have been executed under ongoing maintenance and support agreements with vendors. Testing of upgrades is being performed internally.

In support of our long-range strategic plans, an enterprise-wide application systems project is under way to link all business groups. This enterprise-wide system is being implemented in stages starting in July 1999. The primary software provider for the enterprise-wide system has represented that its software is Year 2000 compliant. Our Year 2000 compliance efforts are concentrated on the currently existing systems to ensure there is adequate information systems support until implementation of the enterprise-wide system is completed.

NON-INFORMATION TECHNOLOGY SYSTEMS

Non-information technology systems, consisting mainly of equipment and machinery operating and control systems, telecommunication systems, building air management systems, security and fire control systems, electrical and natural gas systems, have been assessed by each business group with advice from the suppliers of these systems/services. Upgrades or replacements have been made as necessary.

THIRD PARTY SUPPLIERS

We rely on third party suppliers for finished goods, raw materials, water, other utilities, transportation and a variety of other key services. Interruption of supplier operation due to Year 2000 issues could affect our operations. We continue to evaluate the status of suppliers' efforts through confirmation and follow-up procedures, including selected site assessments, to determine contingency planning where necessary.

STATE OF READINESS

Each business group has completed an internal inventory and assessment to identify information technology and non-information technology systems that are susceptible to system failure or processing errors as a result of Year 2000 issues.

The headquarters mainframe remediation project is complete, including testing. The upgrade or replacement and testing of information technology systems at other

North American operations is substantially complete. Non-information technology efforts were performed concurrently and replacement and testing are substantially complete. Site visits have been conducted by the Program Office to verify year-to-date progress against plans.

Year 2000 readiness plans are being executed within the International segment. Upgrades of packaged software for the primary systems are complete. Site visits have been conducted by the Program Office to verify year-to-date progress against plans.

A confirmation process with respect to third party suppliers continues. Additionally, site visits were conducted with critical suppliers as necessary, to determine whether alternative sources are needed.

COSTS

We have been tracking incremental Year 2000 costs which exclude the costs of internally dedicated resources. The current estimate of incremental costs for the Year 2000 efforts (excluding those related to the enterprise-wide resource planning project) is approximately $5.7 million. Of this amount, $4.8 million has been incurred through September 30, 1999. These costs, with the exception of relatively small capital expenditures, are being expensed as incurred and are being funded through operating cash flows or from borrowings under our credit facility. A summary of the cost components follows ($ in millions):

Location	Fiscal 1999 (Actual)	Fiscal 2000 (Estimate)	Total
Headquarters mainframe	$3.0	$0.0	$3.0
Other U. S. operations	0.8	0.5	1.3
International operations	1.0	0.4	1.4
Total	$4.8	$0.9	$5.7

RISKS

Our principal business risks relating to completion of Year 2000 efforts are:

- Reliance on key business partners to not have disruption in their ability to provide goods and services as a result of Year 2000 issues.
- Unforeseen issues arising in connection with recent and future acquisitions/business partnerships.
- Forecasting unreliability due to customers' departures from expected buying patterns.
- The ability to continue to focus on Year 2000 issues by internal and external resources.

Because our Year 2000 readiness is dependent upon key business partners also being Year 2000 ready, there can be no guarantee that our efforts will prevent a material adverse impact on our results of operations, financial condition and cash flows. The possible consequences to us of our key business partners' inability to provide goods and services as a result of Year 2000 issue include temporary plant closings; delays in delivery of finished products; delays in receipt of key raw materials, containers and packaging supplies; invoice and collection errors; and inventory and supply obsolescence. We believe that our readiness efforts with critical partners, which include confirmation, site visits and contingency planning, should reduce the likelihood of such disruptions.

We cannot identify all possible worst-case scenarios; however, the most reasonable worst-case scenario would be the failure of utilities and/or transportation systems that are critical to our operations and that could not quickly be replaced by other suppliers or through internal resources. In these situations, operations at the affected facility or facilities would be interrupted with adverse effects on our financial results. We are developing contingency plans; however, these plans do not contemplate extended disruptions by third-party suppliers of products or services to Scotts.

CONTINGENCY PLANS

A formal contingency planning process continues. We will continue to assess where alternative courses of action are needed as the information technology and non-information technology readiness plans are executed. Plans are in place to alleviate internal issues and minimize customer impact of the most likely and critical potential risks. Due to the nature of contingency planning, assessment and planning efforts will continue through the end of 1999.

ONGOING PROCESS

Our readiness program is an ongoing process and the estimates of costs and completion dates for various components of the program described above are subject to change.

Enterprise Resource Planning

In July 1998, we announced a project designed to bring our information system resources in line with our current strategic objectives. The project will include the redesign of many key business processes in connection with the installation of new software on a world-wide basis over the course of the next several fiscal years. We anticipate that the North American businesses will be

operating under the new information systems by the end of fiscal 2000. Our international businesses should be operational within the next two years thereafter. We estimate that the project will cost $53.2 million, approximately 75% of which will be capitalized over a period of four to eight years. SAP has been selected as the primary software provider for this project.

Euro

A new currency called the ''euro'' has been introduced in certain Economic and Monetary Union countries. During 2002, all EMU countries are expected to be operating with the euro as their single currency. Uncertainty exists as to the effects the euro currency will have on the marketplace. We are still assessing the impact the EMU formation and euro implementation will have on our internal systems and the sale of our products. We expect to take appropriate actions based on the results of this assessment. We have not yet determined the cost related to addressing this issue and there can be no assurance that this issue and its related costs will not have a materially adverse effect on our business, operating results and financial condition.

Management's Outlook

Fiscal 1999 was a very significant year for Scotts, as we reported record sales of $1.65 billion, achieved market share growth in every one of our major U. S. categories, and established a number one market share position in most of the significant lawn and garden categories across the world. The strategic acquisitions during fiscal 1999, most notably the Ortho and Rhône-Poulenc Jardin businesses, were critical in providing us with dominant market positions in the pesticides category as well as continental European lawn and garden markets. The year's performance reflected the successful continuation of our primary growth drivers: to emphasize consumer-oriented marketing efforts to pull demand through its distribution channels, and to make strategic acquisitions to increase market share in global markets and within segments of the lawn and garden category.

Looking forward to fiscal 2000, the timing of the Ortho acquisition in fiscal 1999 must be considered. Because the Ortho business was acquired in January 1999, fiscal 1999 earnings did not reflect the loss that is traditionally incurred by the Ortho business during the October through December period, as well as the amortization of goodwill and interest charges associated with the acquisition. Management estimates that this one-time benefit was approximately 28 cents per share, which, when subtracted from fiscal 1999 reported earnings per share, more accurately reflects Scotts' current year performance.

Looking forward, we maintain the following broad tenets to our strategic plan:

(1) Promote and capitalize on the strengths of the Scotts®, Miracle-Gro®, Hyponex® and Ortho® industry-leading brands, as well as our portfolio of powerful brands in our international markets. This involves a commitment to investors and retail partners that we will support these brands through advertising and promotion unequaled in the lawn and garden consumables market. In the Professional categories, it signifies a commitment to customers to provide value as an integral element in their long-term success;

(2) Commit to continuously study and improve knowledge of the market, the consumer and the competition;

(3) Simplify product lines and business processes, to focus on those that deliver value, evaluate marginal ones and eliminate those that lack future prospects; and

(4) Achieve world leadership in operations, leveraging technology and know-how to deliver outstanding customer service and quality.

As part of our ongoing strategic plans, management has established challenging, but realistic, financial goals, including:

(1) Sales growth of 6% to 8% in core businesses;

(2) An aggregate operating margin improvement of at least 2% over the next four years; and

(3) Minimum compounded annual earnings per share growth of 15% to 20%.

Forward-Looking Statements

We have has made and will make ''forward-looking statements'' within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in this Annual Report, our Form 10-K and in other contexts relating to future growth and profitability targets and strategies designed to increase total shareholder value. Forward-looking statements also include, but are not limited to, information regarding our future economic and financial condition, the plans and objectives of our management and our assumptions regarding our performance and these plans and objectives.

The Private Securities Litigation Reform Act of 1995 provides a ''safe harbor'' for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the forward-looking statements. We desire to take advantage of the ''safe harbor'' provisions of the Act.

The forward-looking statements that we make in this Annual Report, in our Form 10-K and in other contexts represent challenging goals for our company, and the achievement of these goals is subject to a variety of risks and assumptions and numerous factors beyond our control. Important factors that could cause actual results to differ materially from the forward-looking statements we make are set forth below. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by the following cautionary statements.

Adverse weather conditions could adversely impact financial results.

Weather conditions in North America and Europe have a significant impact on the timing of sales in the spring selling season and overall annual sales. Periods of wet weather can slow fertilizer sales, while periods of dry, hot weather can decrease pesticide sales. In addition, an abnormally cold spring throughout North America and/or Europe could adversely affect both fertilizer and pesticides sales and therefore our financial results.

Our historical seasonality could impair our ability to make interest payments on indebtedness.

Because our products are used primarily in the spring and summer, our business is highly seasonal. For the past two fiscal years, approximately 70% to 75% of our sales have occurred in the second and third fiscal quarters combined. Our working capital needs and our borrowings peak near the end of our first fiscal quarter because we are generating fewer revenues while incurring expenditures in preparation for the spring selling season. If cash on hand is insufficient to cover interest payments due on our indebtedness at a time when we are unable to draw on our credit facilities, this seasonality could adversely affect our ability to make interest payments as required by our indebtedness. Adverse weather conditions could heighten this risk.

Public perceptions that the products we produce and market are not safe could adversely affect us.

We manufacture and market a number of complex chemical products, such as fertilizers, herbicides and pesticides, bearing one of our brands. On occasion, customers allege that some of these products fail to perform up to expectations or cause damage or injury to individuals or property. Public perception that our products are not safe, whether justified or not, could impair our reputation, damage our brand names and materially adversely affect our business.

Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations.

Our substantial indebtedness could:

- make it more difficult for us to satisfy our obligations;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures, research and development costs and other general corporate requirements;
- require us to dedicate a substantial portion of cash flow from operations to payments on our indebtedness, which would reduce the cash flow available to fund working capital, capital expenditures, research and development efforts and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional funds.

If we fail to comply with any of the financial or other restrictive covenants of our indebtedness, our indebtedness could become due and payable in full prior to its stated due date. We cannot be sure that our lenders would waive a default or that we could pay the indebtedness in full if it were accelerated.

To service our indebtedness, we will require a significant amount of cash, which we may not be able to generate.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures and research and development efforts will depend on

our ability to generate cash in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure that our business will generate sufficient cash flow from operations or that currently anticipated cost savings and operating improvements will be realized on schedule or at all. We also cannot assure that future borrowings will be available to us under our credit facility in amounts sufficient to enable us to pay our indebtedness or to fund other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before maturity. We cannot assure that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

We might not be able to integrate our recent acquisitions into our business operations successfully.

We have made several substantial acquisitions in the past four years. The acquisition of the Ortho business represents the largest acquisition we have ever made. The success of any completed acquisition depends, and the success of the Ortho acquisition will depend, on our ability to effectively integrate the acquired business. We believe that our recent acquisitions provide us with significant cost saving opportunities. However, if we are not able to successfully integrate Ortho, Rhône-Poulenc Jardin or our other acquired businesses, we will not be able to maximize such cost saving opportunities. Rather, the failure to integrate these acquired businesses, because of difficulties in the assimilation of operations and products, the diversion of management's attention from other business concerns, the loss of key employees or other factors, could materially adversely affect our financial results.

Because of the concentration of our sales to a small number of retail customers, the loss of one or more of our top customers could adversely affect our financial results.

Our top 10 North American retail customers together accounted for approximately 52% of our fiscal 1999 sales and 41% of our outstanding accounts receivable as of September 30, 1999. Our top three customers, Home Depot, Wal*Mart and Kmart represented approximately 17%, 12% and 9% of our fiscal 1999 sales. These customers hold significant positions in the retail lawn and garden market. The loss of, or reduction in orders from, Home Depot, Wal*Mart, Kmart or any other significant customer could have a material adverse effect on our business and our financial results, as could customer disputes regarding shipments, fees, merchandise condition or related matters. Our inability to collect accounts receivable from any of these customers could also have a material adverse affect.

If Monsanto were to terminate the marketing agreement for consumer Roundup® products, we would lose a substantial source of future earnings.

If we were to commit a serious default under the marketing agreement with Monsanto for consumer Roundup® products, Monsanto may have the right to terminate the agreement. If Monsanto were to terminate the marketing agreement rightfully, we would not be entitled to any termination fee, and we would lose all, or a significant portion, of the significant source of earnings we believe the marketing agreement provides. Monsanto may also terminate the marketing agreement within a given region, including North America, without paying us a termination fee if sales to consumers in that region decline:

- Over a cumulative three year fiscal year period; or
- By more than 5% for each of two consecutive fiscal years. Monsanto may not terminate the marketing agreement, however, if we can demonstrate that the sales decline was caused by a severe decline of general economic conditions or a severe decline in the lawn and garden market in the region rather than by our failure to perform our duties under the agreement.

The expiration of patents relating to Roundup® and the Scotts Turf Builder® line of products could substantially increase our competition in the United States.

Glyphosate, the active ingredient in Roundup®, is covered by a patent in the United States that expires in September 2000. Sales in the United States may decline as a result of increased competition after the U.S. patent expires. Any decline in sales would adversely affect our net commission under the marketing agreement for consumer Roundup® products and, therefore, our financial results. A sales decline could also trigger Monsanto's regional termination right under the marketing agreement.

Our methylene-urea product composition patent, which covers Scotts Turf Builder®, Scotts Turf Builder® with Plus 2™ with Weed Control and Scotts Turf Builder® with Halts® Crabgrass Preventer, is due to expire in July 2001 and could also result in increased competition. Any decline in sales of Turf Builder® products after the expiration of the methylene-urea product composition patent could adversely affect our financial results.

The interests of the former Miracle-Gro shareholders could conflict with those of our other shareholders.

The former shareholders of Stern's Miracle-Gro Products, Inc., through Hagedorn Partnership, L.P., beneficially own approximately 41% of the outstanding common shares of Scotts on a fully diluted basis. The former Miracle-Gro shareholders have sufficient voting power to significantly control the election of directors and the approval of other actions requiring the approval of our shareholders. The interests of the former Miracle-Gro shareholders could conflict with those of our other shareholders.

Compliance with environmental and other public health regulations could increase our cost of doing business.

Local, state, federal and foreign laws and regulations relating to environmental matters affect us in several ways. All products containing pesticides must be registered with the United States Environmental Protection Agency and, in many cases, similar state and/or foreign agencies before they can be sold. The inability to obtain or the cancellation of any registration could have an adverse effect on us. The severity of the effect would depend on which products were involved, whether another product could be substituted and whether competitors were similarly affected. We attempt to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals. We may not always be able to avoid or minimize these risks.

The Food Quality Protection Act, enacted by the U.S. Congress in August 1996, establishes a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under this Act, the U.S. Environmental Protection Agency is evaluating the cumulative risks from dietary and non-dietary exposures to pesticides. The pesticides in our products, which are also used on foods, will be evaluated by the U.S. Environmental Protection Agency as part of this non-dietary exposure risk assessment. It is possible that the U.S. Environmental Protection Agency may decide that a pesticide we use in our products, would be limited or made unavailable. We cannot predict the outcome or the severity of the effect of the U.S. Environmental Protection Agency's evaluation. We believe that we should be able to obtain substitute ingredients if selected pesticides are limited or made unavailable, but there can be no assurance that we will be able to do so for all products.

Regulations regarding the use of some pesticide and fertilizer products may include requirements that only certified or professional users apply the product or that the products be used only in specified locations. Users may be required to post notices on properties to which products have been or will be applied and may be required to notify individuals in the vicinity that products will be applied in the future. The use of some ingredients has been banned. Even if we are able to comply with all such regulations and obtain all necessary registrations, we cannot assure that our products, particularly pesticide products, will not cause injury to the environment or to people under all circumstances. The costs of compliance, remediation or products liability have adversely affected operating results in the past and could materially affect future quarterly or annual operating results.

The harvesting of peat for our growing media business has come under increasing regulatory and environmental scrutiny. In the United States, state regulations frequently require us to limit our harvesting and to restore the property to its intended use. In some locations we have been required to create water retention ponds to control the sediment content of discharged water. In the United Kingdom, our peat extraction efforts are also the subject of legislation. Since 1990, we have been involved in litigation with the Philadelphia District of the U.S. Army Corps of Engineers involving our peat harvesting operations at Hyponex's Lafayette, New Jersey facility. The Corps of Engineers is seeking a permanent injunction against harvesting and civil penalties in an unspecified amount.

In addition to the regulations already described, local, state, federal, and foreign agencies regulate the disposal, handling and storage of waste, air and water discharges from our facilities. In June 1997, the Ohio Environmental Protection Agency gave us formal notice of an enforcement action concerning our old, decommissioned wastewater treatment plants that had once operated at our Marysville facility. The Ohio EPA action alleges surface water violations relating to possible historical sediment contamination, inadequate treatment capabilities at our existing and currently permitted wastewater treatment plants and the need for corrective action under the Resource Conservation Recovery Act. We are continuing to meet with the Ohio EPA and the Ohio Attorney General's office to negotiate an amicable resolution of these issues. We are currently unable to predict the ultimate outcome of this matter.

During fiscal 1999, we made approximately $1.1 million in environmental capital expenditures and $5.9 million in other environmental expenses, compared with

approximately $0.7 million in environmental capital expenditures and $3.1 million in other environmental expenses in fiscal 1998. Management anticipates that environmental capital expenditures and other environmental expenses for fiscal 2000 will not differ significantly from those incurred in fiscal 1999. If we are required to significantly increase our actual environmental capital expenditures and other environmental expenses, it could adversely affect our financial results.

Our failure, or the failure of our suppliers or customers, to address information technology issues related to the Year 2000 could adversely affect our operations.

Like other business entities, we must address the inability of our computer software applications and other business systems to properly identify the year 2000 due to a commonly used programming convention of using only two digits to identify a year. Unless modified or replaced, these systems could fail or create erroneous results when referencing the year 2000.

We rely on third party suppliers for finished goods, raw materials, water, other utilities, transportation and a variety of other key services. If one or more of our suppliers fail to address the year 2000 problem adequately, their operations could be interrupted. This interruption, in turn, could adversely affect our operations. In addition, the failure of our retailer customers adequately to address the year 2000 problem could adversely affect our financial results.

The implementation of the euro currency in some European countries between 1999 and 2002 could adversely affect us.

In January 1999, the ''euro'' was introduced in some Economic and Monetary Union countries and by 2002, all EMU countries are expected to be operating with the euro as their single currency. Uncertainty exists as to the effects the euro currency will have on the marketplace. Additionally, the European Commission has not yet defined and finalized all of the rules and regulations with regard to the euro currency. We are still assessing the impact the EMU formation and euro implementation will have on our internal systems and the sale of our products. We expect to take appropriate actions based on the results of our assessment. However, we have not yet determined the cost related to addressing this issue and there can be no assurance that this issue and its related costs will not have a materially adverse effect on us or our operating results and financial condition.

Our significant international operations make us more susceptible to fluctuations in currency exchange rates and to the costs of international regulation.

We currently operate manufacturing, sales and service facilities outside of North America, particularly in the United Kingdom, Germany and France.

Our international operations have increased with the acquisitions of Levington, Miracle Garden, Ortho and Rhône-Poulenc Jardin and with the marketing agreement for consumer Roundup® products. In fiscal 1999, international sales accounted for approximately 24% of our total sales. Accordingly, we are subject to risks associated with operations in foreign countries, including:

- fluctuations in currency exchange rates;
- limitations on the conversion of foreign currencies into U.S. dollars;
- limitations on the remittance of dividends and other payments by foreign subsidiaries;
- additional costs of compliance with local regulations; and
- historically, higher rates of inflation than in the United States.

The costs related to our international operations could adversely affect our operations and financial results in the future.

Quantitative and Qualitative Disclosures About Market Risk

As part of our ongoing business, we are exposed to certain market risks, including fluctuations in interest rates, foreign currency exchange rates and commodity prices. We use derivative financial and other instruments, where appropriate, to manage these risks. We do not enter into transactions designed to mitigate our market risks for trading or speculative purposes.

Interest Rate Risk

We have various debt instruments outstanding at September 30, 1999, that are impacted by changes in interest rates. As a means of managing our interest rate risk on these debt instruments, we have entered into the following interest rate swap agreements to effectively convert certain variable rate debt obligations to fixed rates:

- A 20 million British Pounds Sterling notional amount swap to convert variable-rate debt obligations denominated in British Pounds Sterling to a fixed rate. The exchange rate used to convert British Pounds Sterling to U.S. dollars at September 30, 1999, was $1.65:1 Pound Sterling.
- Four interest rate swaps with a total notional amount of $105.0 million which are used to hedge certain variable-rate obligations under our credit facility. The credit facility requires that we enter into hedge agreements to the extent necessary to provide that at least 50% of the aggregate principal amount of the 8⅝% Senior Subordinated Notes due 2009 and term loan facilities is subject to a fixed rate.

The following table summarizes information about our derivative financial instruments and debt instruments that are sensitive to changes in interest rates as of September 30, 1999. For debt instruments, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents expected cash flows based on notional amounts and weighted-average interest rates by contractual maturity dates. Weighted-average variable rates are based on implied forward rates in the yield curve at September 30, 1999. The information is presented in U.S. dollars (in millions):

	Expected Maturity Date							Fair
	2000	2001	2002	2003	2004	Thereafter	Total	Value
Long-term debt:								
Fixed rate debt						$330.0	$330.0	$316.0
Average rate						8.625%	8.625%	
Variable rate debt	$26.2	$33.3	$44.3	$48.4	$48.4	$372.7	$573.3	$573.3
Average rate	6.77%	6.74%	6.71%	6.70%	6.70%	8.28%	7.73%	
Interest rate derivatives:								
Interest rate swap on GBP LIBOR	$ (0.4)	$ (0.1)	$ (0.1)				$ (0.6)	$ (0.5)
Average rate	7.62%	7.62%	7.62%				7.62%	
Interest rate swaps on USD LIBOR	$ 0.9	$ 1.4	$ 1.1	$ 0.6	$ 0.2		$ 4.2	$ 3.3
Average rate	5.10%	5.10%	5.11%	5.16%	5.18%		5.11%	

Other Market Risks

Our market risk associated with foreign currency rates is not considered to be material. Through fiscal 1999, we had only minor amounts of transactions that were denominated in foreign currencies. We are subject to market risk from fluctuating market prices of certain raw materials, including urea and other chemicals and paper and plastic products. Our objectives surrounding the procurement of these materials are to ensure continuous supply and to minimize costs. We seek to achieve these objectives through negotiation of contracts with favorable terms directly with vendors. We do not enter into forward contracts or other market instruments as a means of achieving our objectives or minimizing our risk exposures on these materials.

Consolidated Statements of Operations

For the fiscal years ended September 30, 1999, 1998 and 1997 (in millions except per share amounts)	1999	1998	1997
Sales	$1,648.3	$1,113.0	$899.3
Cost of sales	989.1	715.0	573.6
Gross profit	659.2	398.0	325.7
Commission earned from agency agreement	30.3	—	—
Operating expenses:			
Advertising and promotion	189.0	104.4	83.9
Selling, general and administrative	281.2	169.9	131.6
Amortization of goodwill and other intangibles	25.4	12.9	10.2
Restructuring and other charges	1.4	15.4	—
Other (income) expense, net	(3.6)	1.3	5.2
Income from operations	196.1	94.1	94.8
Interest expense	79.1	32.2	25.2
Income before income taxes	117.0	61.9	69.6
Income taxes	47.9	24.9	30.1
Income before extraordinary item	69.1	37.0	39.5
Extraordinary loss on early extinguishment of debt, net of income tax benefit	5.9	0.7	—
Net income	63.2	36.3	39.5
Preferred stock dividends	9.7	9.8	9.8
Income applicable to common shareholders	$ 53.5	$ 26.5	$ 29.7
Basic earnings per share:			
Before extraordinary loss	$ 3.25	$ 1.46	$ 1.60
Extraordinary loss, net of tax	(0.32)	(0.04)	—
	$ 2.93	$ 1.42	$ 1.60
Diluted earnings per share:			
Before extraordinary loss	$ 2.27	$ 1.22	$ 1.35
Extraordinary loss, net of tax	(0.19)	(0.02)	—
	$ 2.08	$ 1.20	$ 1.35
Common shares used in basic earnings per share calculation	18.3	18.7	18.6
Common shares and potential common shares used in diluted earnings per share calculation	30.5	30.3	29.3

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the fiscal years ended September 30, 1999, 1998 and 1997 (in millions)	1999	1998	1997
Cash flows from operating activities			
Net income	$ 63.2	$ 36.3	$39.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	29.0	21.6	16.6
Amortization	31.2	16.2	13.8
Extraordinary loss	5.9	0.7	—
Restructuring and other charges	—	19.3	—
Loss on sale of fixed assets	1.8	2.3	5.6
Deferred income taxes	0.5	(2.4)	(1.5)
Changes in assets and liabilities, net of acquired businesses:			
Accounts receivable	23.7	(8.6)	18.3
Inventories	(21.6)	(5.7)	17.3
Prepaid and other current assets	(25.2)	(2.1)	0.4
Accounts payable	10.7	8.8	1.1
Accrued taxes and liabilities	(10.2)	(14.4)	12.7
Other assets	(35.9)	0.3	1.3
Other liabilities	1.7	2.3	(0.1)
Other, net	3.4	(3.6)	(3.9)
Net cash provided by operating activities	78.2	71.0	121.1
Cash flows from investing activities			
Investment in property, plant and equipment	(66.7)	(41.3)	(28.6)
Proceeds from sale of equipment	1.5	0.6	2.7
Investments in acquired businesses, net of cash acquired	(506.2)	(151.4)	(46.6)
Other, net	(0.2)	—	—
Net cash used in investing activities	(571.6)	(192.1)	(72.5)
Cash flows from financing activities			
Net borrowings under revolving and bank lines of credit	65.3	140.0	(37.3)
Gross borrowings under term loans	525.0	—	—
Gross repayments under term loans	(3.0)	—	—
Repayment of outstanding balance on previous credit facility	(241.0)	—	—
Issuance of 8⅝% senior subordinated notes	330.0	—	—
Extinguishment of 9⅞% senior subordinated notes	(107.1)	—	—
Settlement of interest rate locks	(12.9)	—	—
Financing and issuance fees	(24.1)	—	—
Dividends on Class A Convertible Preferred Stock	(12.1)	(7.3)	(9.8)
Repurchase of treasury shares	(10.0)	(15.3)	—
Cash received from exercise of stock options	3.8	1.7	1.5
Other, net	—	(0.7)	(0.6)
Net cash provided by (used in) financing activities	513.9	118.4	(46.2)
Effect of exchange rate changes on cash	(0.8)	0.3	—
Net increase (decrease) in cash	19.7	(2.4)	2.4
Cash and cash equivalents, beginning of period	10.6	13.0	10.6
Cash and cash equivalents, end of period	$ 30.3	$ 10.6	$13.0

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

September 30, 1999 and 1998 (in millions)	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	$ 30.3	$ 10.6
Accounts receivable, less allowance for uncollectible accounts of $16.4 in 1999 and $6.3 in 1998	201.4	146.6
Inventories, net	313.2	177.7
Current deferred tax asset	29.3	20.8
Prepaid and other assets	67.5	11.5
Total current assets	641.7	367.2
Property, plant and equipment, net	259.4	197.0
Intangible assets, net	794.1	435.1
Other assets	74.4	35.9
Total assets	$1,769.6	$1,035.2
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	$ 56.4	$ 13.3
Accounts payable	133.5	77.8
Accrued liabilities	157.7	124.9
Accrued taxes	19.3	15.9
Total current liabilities	366.9	231.9
Long-term debt	893.6	359.2
Other liabilities	65.8	40.2
Total liabilities	1,326.3	631.3
Commitments and contingencies		
Shareholders' equity:		
Class A Convertible Preferred Stock, no par value	173.9	177.3
Common shares, no par value per share, $.01 stated value per share, 21.3 shares issued in 1999, 21.1 shares issued in 1998	0.2	0.2
Capital in excess of par value	213.9	208.9
Retained earnings	130.1	76.6
Treasury stock, 2.9 shares in 1999 and 2.8 shares in 1998, at cost	(61.9)	(55.9)
Accumulated other comprehensive income	(12.9)	(3.2)
Total shareholders' equity	443.3	403.9
Total liabilities and shareholders' equity	$1,769.6	$1,035.2

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

For the fiscal years ended September 30, 1999, 1998 and 1997 (in millions)	Class A Convertible Preferred Stock		Common Shares		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income		Total
	Shares	Amount	Shares	Amount			Shares	Amount	Minimum Pension Liability Adjustment	Foreign Currency Translation	
Balance, September 30, 1996	0.2	$177.3	21.1	$0.2	$207.6	$ 20.4	(2.5)	$(43.4)	$ 0.0	2.2	$364.3
Net income						39.5					39.5
Foreign currency translation										(6.5)	(6.5)
Comprehensive income											33.0
Issuance of common shares held in treasury					0.2		0.1	1.5			1.7
Preferred Stock dividends						(9.8)					(9.8)
Balance, September 30, 1997	0.2	$177.3	21.1	$0.2	$207.8	$ 50.1	(2.4)	$(41.9)	$ 0.0	$(4.3)	$389.2
Net income						36.3					36.3
Foreign currency translation										1.3	1.3
Minimum pension liability									(0.2)(a)		(0.2)
Comprehensive income											37.4
Issuance of common shares held in treasury					1.1		0.1	1.7			2.8
Purchase of common shares							(0.5)	(15.7)			(15.7)
Preferred Stock dividends						(9.8)					(9.8)
Balance, September 30, 1998	0.2	$177.3	21.1	$0.2	$208.9	$ 76.6	(2.8)	$(55.9)	$(0.2)	$(3.0)	$403.9
Net income						63.2					63.2
Foreign currency translation										(5.7)	(5.7)
Minimum pension liability									(4.0)(a)		(4.0)
Comprehensive income											53.5
Issuance of common shares held in treasury					1.6		0.2	4.0			5.6
Purchase of common shares							(0.3)	(10.0)			(10.0)
Preferred Stock dividends						(9.7)					(9.7)
Conversion of Preferred Stock		(3.4)	0.2		3.4						—
Balance, September 30, 1999	0.2	$173.9	21.3	$0.2	$213.9	$130.1	(2.9)	$(61.9)	$(4.2)	$(8.7)	$443.3

(a) Net of tax benefits of $2.9 million and $0.1 million for fiscal 1999 and 1998, respectively.

See Notes to Consolidated Financial Statements.

Note 1 Summary of Significant Accounting Policies

Nature of Operations

The Scotts Company is engaged in the manufacture and sale of lawn care and garden products. The Company's major customers include mass merchandisers, home improvement centers, large hardware chains, independent hardware stores, nurseries, garden centers, food and drug stores, golf courses, professional sports stadiums, lawn and landscape service companies, commercial nurseries and greenhouses, and specialty crop growers. The Company's products are sold in the United States, Canada, the European Union, the Caribbean, South America, Southeast Asia, the Middle East, Africa, Australia, New Zealand, Mexico, Japan, and several Latin American Countries.

Organization and Basis of Presentation

The consolidated financial statements include the accounts of The Scotts Company and its subsidiaries (collectively, the ''Company''). All material intercompany transactions have been eliminated.

Revenue Recognition

Revenue is recognized when products are shipped and when title and risk of loss transfer to the customer. For certain large multi-location customers, products may be shipped to third-party warehousing locations. Revenue is not recognized until the customer places orders against that inventory and acknowledges in writing ownership of the goods. Provisions for estimated returns and allowances are recorded at the time of shipment.

Research and Development

All costs associated with research and development are charged to expense as incurred. Expense for fiscal 1999, 1998 and 1997 was $21.7 million, $14.8 million and $10.0 million, respectively.

Advertising and Promotion

The Company advertises its branded products through national and regional media, and through cooperative advertising programs with retailers. Retailers are also offered pre-season stocking and in-store promotional allowances. Certain products are also promoted with direct consumer rebate programs. Advertising and promotion costs (including allowances and rebates) incurred during the year are expensed ratably to interim periods in relation to revenues. All advertising and promotions costs, except for production costs, are expensed within the fiscal year in which such costs are incurred. Production costs for advertising programs are deferred until the period in which the advertising is first aired.

Earnings per Common Share

Basic earnings per common share is based on the weighted-average number of common shares outstanding each period. Diluted earnings per common share is based on the weighted-average number of common shares and dilutive potential common shares (stock options, convertible preferred stock and warrants) outstanding each period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. The most significant of these estimates are related to the allowance for doubtful accounts, inventory valuation reserves, expected useful lives assigned to property, plant and equipment and goodwill and other intangible assets, legal and environmental accruals, post-retirement benefits, promotional and consumer rebate liabilities, income taxes and contingencies. Although these estimates are based on management's best knowledge of current events and actions which the Company may undertake in the future, actual results ultimately may differ from the estimates.

Inventories

Inventories are principally stated at the lower of cost or market, determined by the FIFO method; however, certain growing media inventories are accounted for by the LIFO method. At September 30, 1999 and 1998, approximately 8% and 12% of inventories, respectively, are valued at the lower of LIFO cost or market. Inventories include the cost of raw materials, labor and manufacturing overhead. The Company makes provisions for obsolete or slow-moving inventories as necessary to properly reflect inventory value.

Long-Lived Assets

Property, plant and equipment, including significant improvements, are stated at cost. Expenditures for maintenance and repairs are charged to operating expenses as incurred. When properties are retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the

accounts with the resulting gain or loss being reflected in results of operations.

Depletion of applicable land is computed on the units-of-production method. Depreciation of other property, plant and equipment is provided on the straight-line method and is based on the estimated useful economic lives of the assets as follows:

Land improvements	10-25 years
Buildings	10-40 years
Machinery and equipment	3-15 years
Furniture and fixtures	6-10 years
Software	3-8 years

Interest is capitalized on all significant capital projects. The Company capitalized $1.8 million and $0.8 million of interest costs during fiscal 1999 and 1998, respectively.

Goodwill arising from business acquisitions is amortized over its useful life, which is generally 40 years, on a straight-line basis. Intangible assets include patents and trademarks which are valued at acquisition through independent appraisals. Debt issuance costs are being amortized over the terms of the various agreements. Patents and trademarks are being amortized on a straight-line basis over periods varying from 7 to 40 years. Accumulated amortization at September 30, 1999 and 1998 was $96.2 million and $71.7 million, respectively.

Management assesses the recoverability of property and equipment, goodwill, trademarks and other intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its future undiscounted cash flows. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value.

Internal Use Software

In July of fiscal 1998, the Company announced an initiative designed to enhance its information system resources. The project includes re-design of certain key business processes and the installation of new software on a world-wide basis over the next several years. SAP has been chosen as the primary software provider for this project. The Company is accounting for the costs of the project in accordance with Statement of Position 98-1, ''Accounting for the Costs of Computer Software Developed or Obtained for Internal Use''. Accordingly, costs other than reengineering are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or the post-implementation/operation stage. All reengineering costs are expensed as incurred.

Cash and Cash Equivalents

The Company considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents.

Foreign Exchange Instruments

Gains and losses on foreign currency transaction hedges are recognized in income and offset the foreign exchange gains and losses on the underlying transactions. Gains and losses on foreign currency firm commitment hedges are deferred and included in the basis of the transactions underlying the commitments.

All assets and liabilities in the balance sheets of foreign subsidiaries whose functional currency is other than the U.S. dollar are translated into U.S. dollar equivalents at year-end exchange rates. Translation gains and losses are accumulated as a separate component of other comprehensive income and included in shareholders' equity. Income and expense items are translated at average monthly exchange rates. Foreign currency transaction gains and losses are included in the determination of net income.

Environmental Costs

The Company recognizes environmental liabilities when conditions requiring remediation are identified. The Company determines its liability on a site by site basis and records a liability at the time when it is probable and can be reasonably estimated. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. Environmental liabilities are not discounted or reduced for possible recoveries from insurance carriers.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to fiscal 1999 classifications.

Note 2 Detail of Certain Financial Statement Accounts

(in millions)	1999	1998
Inventories, net:		
Finished goods	$206.4	$121.0
Raw materials	106.5	55.8
FIFO cost	312.9	176.8
LIFO reserve	0.3	0.9
Total	$313.2	$177.7

Inventory balances are shown net of provisions for slow moving and obsolete inventory of $30.5 million and $12.0 million as of September 30, 1999 and 1998, respectively.

(in millions)	1999	1998
Property, plant and equipment, net:		
Land and improvements	$ 41.4	$ 41.1
Buildings	88.2	70.9
Machinery and equipment	213.7	169.7
Furniture and fixtures	19.8	17.0
Software	32.6	3.7
Construction in progress	26.3	28.8
Less: accumulated depreciation	(162.6)	(134.2)
Total	$259.4	$197.0

(in millions)	1999	1998
Intangible assets, net:		
Goodwill	$508.6	$268.1
Trademarks	207.9	144.0
Other	77.6	23.0
Total	$794.1	$435.1

(in millions)	1999	1998
Accrued liabilities:		
Payroll and other compensation accruals	$ 42.5	$ 20.4
Advertising and promotional accruals	56.4	26.5
Other	58.8	78.0
Total	$157.7	$124.9

(in millions)	1999	1998
Other non-current liabilities:		
Accrued pension and postretirement liabilities	$ 50.4	$ 26.0
Environmental reserves	11.5	6.2
Other	3.9	8.0
Total	$ 65.8	$ 40.2

Note 3 Agency Agreement

Effective September 30, 1998, the Company entered into an agreement with Monsanto Company (''Monsanto'') for exclusive international marketing and agency rights to Monsanto's consumer Roundup® herbicide products. In connection with the agreement, the Company paid a $32.0 million deferred marketing fee that is being amortized over 20 years. The agreement covers most major consumer lawn and garden markets in the world, including the U.S., Canada, Germany, France, other parts of continental Europe, and Australia.

The agreement provides for the Company to earn a commission based on the EBIT (as defined by the agreement) generated annually by the global consumer Roundup® business. The Company records its estimated commission based upon the actual EBIT of the Roundup® business for the periods presented, net of annual fixed contribution payments to Monsanto.

Note 4 Restructuring and Other Charges

1999 Charges

During fiscal 1999, the Company recorded $1.4 million of restructuring charges associated with management's decision to reorganize the North American Professional Business Group to strengthen distribution and technical sales support, integrate brand management across market segments and reduce annual operating expenses. These charges represent costs to sever approximately 60 in-house sales associates that were terminated in fiscal 1999. Approximately $1.1 million of severance payments were made to these former associates during fiscal 1999; the remaining $0.3 million is expected to be paid in fiscal 2000.

1998 Charges

During fiscal 1998, the Company recorded $20.4 million of restructuring and other charges, $15.4 million of which is identified separately within operating expenses, $2.9 million of which is included in cost of sales and $2.1 million of which is included in selling, general and administrative expenses. These charges were primarily associated with three restructuring activities: (1) the consolidation of the Company's two U.K. operations into one lower-cost business; (2) the closure of nine composting operations in the U.S. that collect yard and compost waste for certain municipalities; and (3) the sale or closure of certain other U.S. plants and businesses. Most of these restructuring efforts were completed during fiscal 1999, except as noted otherwise below.

Consolidation of UK Operations

In connection with management's decision in the second quarter of fiscal 1998 to consolidate the Company's two U.K. operations (Miracle Garden Care and Levington,

into The Scotts Company (UK) Ltd.), the Company recorded charges of $6.0 million which consisted of:

1. $0.9 million to write-off the remaining carrying value of certain property and equipment. In connection with the integration of the U.K. businesses, management elected to move certain production lines from a Miracle Garden care facility in Howden to the newly acquired Levington facility in Bramford. As a result, certain production equipment at the Howden facility will no longer be utilized. In addition, certain computer hardware and software equipment previously used by the Miracle Garden Care business will no longer be utilized as a result of electing to use acquired information systems of the Levington business. The Company ceased utilization of the production and computer equipment in the fourth quarter of fiscal 1998. The assets written-off had nominal value and were scrapped or abandoned.
2. $2.1 million to write-off packaging materials rendered obsolete as a result of new packaging design and to provide for costs incurred in 1998 to relaunch products under a single, integrated branding strategy. The charges associated with these actions were $0.8 million and $1.3 million, respectively.
3. $1.4 million of severance costs associated with the termination of 25 employees of the Company's Miracle Garden Care operation that were made redundant by the integration of the two U.K. businesses. As of September 30, 1998, six employees had been terminated. The remaining employees were terminated in fiscal 1999. All severance costs accrued at September 30, 1998, have been paid (except for an adjustment of $0.3 million for overaccrual).
4. $0.6 million to write-off inventory rendered obsolete by the integration activities and $0.8 million for costs incurred in fiscal 1998 for other integration-related costs.

Closure of Compost Sites

In connection with management's decision in the fourth quarter of fiscal 1998 to close nine composting sites, the Company recorded charges of $9.3 million which consisted of:

1. $4.5 million for costs to be incurred under contractual commitments for which no future revenues will be realized. These costs are associated with the final processing of remaining compost materials, as required, through the end of the operating contract with the applicable municipality but after the time when revenue-producing activities cease. Six of the composting sites have operating contracts that ended in fiscal 1999 for which $2.9 million was accrued; the operating contracts for the three remaining sites will expire in fiscal 2000 for which $1.6 million was accrued.
2. $3.2 million to write-down to estimated fair value certain machinery and equipment in accordance with SFAS No. 121 for assets held for use. Depreciation will continue to be recognized during revenue-producing periods. Fixed assets at facilities that have ceased operations have been abandoned or scrapped.
3. $1.1 million to write-off inventory which must be disposed of as a result of closing the various composting sites. Such inventory must be removed from the applicable sites and has only nominal value.
4. $0.5 million for remaining lease obligations after revenue-producing activities cease on certain machinery and equipment at the sites.

The composting facilities being closed as part of these restructuring initiatives recorded losses included in the Company's consolidated results of operations of approximately $3.0 and $2.0 for the fiscal years ended September 30, 1998 and 1997, respectively.

Sale and Closure of Certain U.S. Plants and Businesses:

The charge for sale or closure of certain other U.S. plants or businesses was $5.1 million and consisted of:

1. $4.5 million to write-down to net realizable value the assets associated with the Company's AgrEvo pesticides business. The Company elected to divest these assets in order to avoid potential trade conflicts associated with the Company's purchase of the Ortho business and the signing of the Roundup® marketing agreement. The AgrEvo business incurred an operating loss of $0.8 million in fiscal 1998 and $0.5 million in fiscal 1999 before being sold in February 1999.
2. $0.6 million to write-off and close a single Growing Media production facility in New York that was deemed to be redundant after the purchase of the EarthGro business in February 1998. The closure of this facility was completed in September 1998.

The following is a rollforward of the Company's 1998 restructuring charges:

			Fiscal 1998 Activity			Fiscal 1999 Activity		
(in millions)	Type	Classification	Charge	Payments	Balance	Payments	Adjustments	Balance
Consolidation of UK operations								
Property and equipment demolition	Cash	Restructuring	$0.2	$ —	$0.2	$(0.2)	$ —	—
Product relaunch costs	Cash	SG&A	1.3	(0.4)	0.9	(0.9)	—	—
Severance costs	Cash	Restructuring	1.4	(0.3)	1.1	(0.8)	(0.3)	—
Other integration costs	Cash	SG&A	0.8	(0.4)	0.4	(0.4)	—	—
			3.7					
Property and equipment write-offs	Non-cash	Restructuring	0.9					
Obsolete packaging write-offs	Non-cash	Cost of sales	0.8					
Other inventory write-offs	Non-cash	Cost of sales	0.6					
			2.3					
Closure of compost sites								
Costs under contractual commitments	Cash	Restructuring	4.5	—	4.5	(4.1)	—	0.4
Lease obligations	Cash	Restructuring	0.5	—	0.5	—	—	0.5
			5.0					
Property and equipment write-offs	Non-cash	Restructuring	3.2					
Inventory write-offs	Non-cash	Cost of sales	1.1					
			4.3					
Other businesses/plants								
Sale of AgrEvo business	Non-cash	Restructuring	4.5					
Property and equipment write-offs	Non-cash	Restructuring	0.2					
Inventory write-offs	Non-cash	Cost of sales	0.4					
			$5.1					

During fiscal 1999, the restructuring reserve established to integrate the U.K. businesses was reduced by $0.3 for overestimates of severance costs. The reserves remaining at September 30, 1999, associated with the closure of certain compost sites are expected to be paid in fiscal 2000.

Note 5 *Acquisitions*

In January 1999, the Company acquired the assets of Monsanto's consumer lawn and garden businesses, exclusive of the Roundup® business (''Ortho''), for approximately $300 million, subject to adjustment based on working capital as of the closing date and as defined in the purchase agreement. Based on the estimate of working capital received from Monsanto, the Company made an additional payment of $39.9 million at the closing date. The Company has subsequently provided Monsanto with its estimate of working capital, which would result in a substantial reduction in the total purchase price. Monsanto has subsequently provided the Company with a revised assessment of working capital which would increase the final purchase price. The Company and Monsanto have resolved many of the items in dispute and are currently in negotiations to resolve the remaining disputed items.

In October 1998, the Company acquired Rhône-Poulenc Jardin, continental Europe's largest consumer lawn and garden products company. Management's initial estimate of the purchase price for Rhône-Poulenc Jardin was $216 million, however subsequent adjustments for reductions in acquired working capital have resulted in a final purchase price of approximately $170 million.

In February 1998, the Company acquired all the shares of EarthGro, Inc. (''EarthGro''), a regional growing media company located in Glastonbury, Connecticut, for approximately $47.0 million, including deal costs and refinancing of certain assumed debt.

In December 1997, the Company acquired all the shares of Levington Group Limited (''Levington''), a leading producer of consumer and professional lawn fertilizer and growing media in the United Kingdom, for

approximately $94.0 million, including deal costs and refinancing of certain assumed debt.

During fiscal 1999 and 1998, the Company also invested in or acquired other entities consistent with its long-term strategic plan. These investments include Asef Holdings BV, Scotts LawnService, Sanford Scientific, Inc. and certain intangible assets acquired in Ireland.

Each of the above acquisitions was made in exchange for cash or notes due to seller and was accounted for under the purchase method of accounting. Accordingly, the purchase prices have been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Intangible assets associated with the purchase of Rhône-Poulenc Jardin, EarthGro and Levington were $137.3 million, $23.3 million and $62.8 million, respectively. Final determination of the purchase price of the Ortho business, as well as the allocation of the purchase price to the net assets acquired, is not complete as of September 30, 1999. The excess of the estimated purchase price over the value of tangible assets acquired is currently recorded as an intangible asset and is being amortized over a period of 35 years. Intangible assets associated with the other acquisitions described above are approximately $37.0 million on a combined basis.

The following unaudited pro forma results of operations give effect to the Ortho, Rhône-Poulenc Jardin, EarthGro and Levington acquisitions and the Roundup® marketing agreement as if they had occurred on October 1, 1997.

(in millions)	1999	1998
Net sales	$1,681.3	$1,513.8
Income before extraordinary loss	60.7	46.4
Net income	54.8	45.7
Basic earnings per share:		
Before extraordinary loss	$ 2.79	$ 1.96
After extraordinary loss	2.47	1.92
Diluted earnings per share:		
Before extraordinary loss	$ 1.99	$ 1.53
After extraordinary loss	1.80	1.51

The pro forma information provided does not purport to be indicative of actual results of operations if the Ortho, Rhône-Poulenc Jardin, EarthGro and Levington acquisitions and the Roundup® marketing agreement had occurred as of October 1, 1997, and is not intended to be indicative of future results or trends.

Note 6 *Retirement Plans*

In September 1997, in conjunction with the decision to offer a new defined contribution retirement savings plan to domestic Company associates, management decided to suspend benefits under its Scotts and Sierra defined benefit pension plans. The suspension of benefits under the defined benefit plans was accounted for as a curtailment under SFAS No. 88 (''Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits''). The gain resulting from the curtailment of the qualified plans, as well as the curtailment of the non-qualified plan discussed below, was less than $0.1 million.

The curtailed pension plans covered substantially all full-time U.S. associates who had completed one year of eligible service and reached the age of 21. The benefits under these plans are based on years of service and the associates' average final compensation for the Scotts plan employees and for Sierra salaried employees and on stated amounts for Sierra hourly employees. The Company's funding policy, consistent with statutory requirements and tax considerations, is based on actuarial computations using the Projected Unit Credit method.

The following table sets forth the changes in the projected benefit obligations for the curtailed pension plans for fiscal 1999 and 1998:

(in millions)	1999	1998
Beginning balance	$56.9	$49.9
Service cost	—	—
Interest cost	4.2	3.6
Actuarial losses	1.2	6.2
Benefits paid	(3.3)	(2.8)
Ending balance	$59.0	$56.9

The following table sets forth the changes in the fair value of the net assets of the curtailed pension plans for fiscal 1999 and 1998:

(in millions)	1999	1998
Beginning balance	$58.0	$53.9
Actual return on plan assets	2.1	6.3
Employer contributions	—	0.6
Benefits paid	(3.3)	(2.8)
Ending Balance	$56.8	$58.0

The following table sets forth the plans' funded status and the related amounts recognized in the Consolidated Balance Sheets:

(in millions)	September 30, 1999	1998
Actuarial present value of projected benefit obligations:		
Vested benefits	$(58.6)	$(49.3)
Nonvested benefits	(0.4)	(7.6)
	(59.0)	(56.9)
Plan assets at fair value, primarily corporate bonds, U.S. Government bonds and cash equivalents	56.8	58.0
Plan assets (less) greater than projected benefit obligations	(2.2)	1.1
Unrecognized losses	6.9	3.7
Prepaid pension costs	$ 4.7	$ 4.8
Prepaid benefit costs	$ —	$ 4.8
Accrued benefit liability	(2.2)	—
Accumulated other comprehensive income	6.9	—
Prepaid pension costs	$ 4.7	$ 4.8

Pension cost includes the following components:

(in millions)	Fiscal Year Ended September 30, 1999	1998	1997
Service cost	$ —	$ —	$1.9
Interest cost	4.2	3.6	4.1
Expected return on plan assets	(4.5)	(3.7)	(7.0)
Net amortization and deferral	0.4	—	2.8
Net pension cost	$0.1	$(0.1)	$1.8

The weighted-average settlement rate used in determining the actuarial present value of the projected benefit obligation was 7.75% and 6.75% as of September 30, 1999 and 1998, respectively. Future compensation was assumed to increase 4% annually for fiscal 1997. The expected long-term rate of return on plan assets was 8.0% and 7.0% for fiscal 1999 and 1998, respectively.

The Company also sponsors the following pension plans associated with the international businesses it has acquired: Scotts Europe BV, The Scotts Company (UK) Ltd., Miracle Garden Care, Scotts France SAS, Scotts Celaflor GmbH (Germany) and Scotts Celaflor HG (Austria). These plans generally cover all associates of the respective businesses and retirement benefits are generally based on years of service and compensation levels. The pension plans for Scotts Europe BV, The Scotts Company UK and Miracle Garden Care are funded plans. The remaining international pension plans are not funded by separately held plan assets.

The following table sets forth the changes in the projected benefit obligations for the international plans on a combined basis for fiscal 1999 and 1998:

(in millions)	1999	1998
Beginning balance	$61.7	$47.0
Service cost	2.8	2.9
Interest cost	3.6	3.2
Participant contributions	0.5	0.3
Actuarial (gains) losses	7.6	(0.2)
Benefits paid	(3.0)	(1.2)
Ending balance	$73.2	$52.0

The following table sets forth the changes in the fair value of the net assets of the international plans on a combined basis for fiscal 1999 and 1998:

(in millions)	1999	1998
Beginning balance	$49.1	$49.2
Return on plan assets	10.3	1.4
Employer contributions	2.7	1.2
Participant contributions	0.6	0.3
Benefits paid	(2.8)	(1.2)
Ending balance	$59.9	$50.9

The following table sets forth the funded status and net amount recognized in the Consolidated Balance Sheets for the Company's international plans on a combined basis at September 30, 1999 and 1998:

(in millions)	September 30, 1999	1998
Projected benefit obligations	(73.2)	(52.0)
Plan assets at fair value	59.9	50.9
Projected benefit obligations in excess of plan assets	(13.3)	(1.1)
Unrecognized items	(0.5)	(0.3)
Accrued benefit costs	$(13.8)	$ (1.4)

(in millions)	September 30, 1999	1998
Plans with benefit obligations in excess of plan assets:		
Aggregate projected benefit obligations	$33.7	$20.0
Aggregate fair value of plan assets	20.0	17.4
Plans with plan assets in excess of benefit obligations:		
Aggregate projected benefit obligations	$39.5	$32.0
Aggregate fair value of plan assets	39.9	33.5

Pension costs for the international plans on a combined basis consisted of the following components for fiscal 1999 and 1998:

(in millions)	Fiscal Year Ended September 30, 1999	1998
Service cost	$ 3.2	$ 2.8
Interest cost	3.6	3.1
Expected return on plan assets	(3.7)	0.4
Net amortization	0.3	(3.2)
Net pension cost	$ 3.4	$ 3.1

The range of actuarial assumptions used for the various international plans for the years presented were:

Settlement rates	4.5% - 6.3%
Compensation increases	2.0% - 4.0%
Rates of return on plan assets	4.0% - 8.0%

At September 30, 1997, the Company also curtailed its non-qualified supplemental pension plan which provides for incremental pension payments from the Company so that total pension payments equal amounts that would have been payable from the Company's pension plans if it were not for limitations imposed by income tax regulations.

The following table sets forth the changes in the projected benefit obligations for the non-qualified plan for fiscal 1999 and 1998:

(in millions)	1999	1998
Beginning balance	$1.8	$1.5
Service cost	—	—
Interest cost	0.1	0.1
Actuarial losses	0.1	0.3
Benefits paid	(0.1)	(0.1)
Ending balance	$1.9	$1.8

The following table sets forth the funded status of the non-qualified plan at September 30, 1999 and 1998:

(in millions)	1999	1998
Actuarial present value of benefit obligations:		
Vested benefits	$(1.8)	$(1.6)
Nonvested benefits	(0.1)	(0.2)
Projected benefit obligations	(1.9)	(1.8)
Plan assets at fair value	—	—
Plan assets less than projected benefit obligations	(1.9)	(1.8)
Unrecognized losses	0.4	0.3
Net pension liability	$(1.5)	$(1.5)
Accrued benefit liability	$(1.9)	$(1.8)
Accumulated other comprehensive income	0.4	0.3
Net pension liability	$(1.5)	$(1.5)

Pension expense for the plan was $0.2 million, $0.1 million and $0.2 million in fiscal 1999, 1998 and 1997, respectively, consisting primarily of interest costs on the projected benefit obligations.

The actuarial assumptions used for the non-qualified supplemental pension plan were the same as those used for the curtailed qualified plans as described above.

Note 7 *Associate Benefits*

The Company provides comprehensive major medical benefits to certain of its retired associates and their dependents. Substantially all of the Company's domestic associates become eligible for these benefits if they retire at age 55 or older with more than ten years of service. The plan requires certain minimum contributions from retired associates and includes provisions to limit the overall cost increases the Company is required to cover. The Company funds its portion of retiree medical benefits on a pay-as-you-go basis.

Prior to October 1, 1993, the Company effected several changes in plan provisions, primarily related to current and ultimate levels of retiree and dependent contributions. Retirees as of October 1, 1993 are entitled to benefits existing prior to these plan changes. These plan changes resulted in a reduction in unrecognized prior service cost, which is being amortized over future years.

The following table sets forth the changes in the accumulated post retirement benefit obligation for the retiree medical plan for fiscal 1999 and 1998:

(in millions)	1999	1998
Beginning balance	$15.2	$13.6
Service cost	0.4	0.4
Interest cost	1.1	1.0
Contribution by participants	0.2	0.2
Actuarial loss	0.1	0.9
Benefits paid	(1.2)	(0.9)
Ending balance	$15.8	$15.2

The following table sets forth the changes in the fair value of the assets of the retiree medical plan for fiscal 1999 and 1998:

(in millions)	1999	1998
Beginning balance	$—	$—
Company contributions	0.9	0.7
Contributions by participants	0.3	0.2
Benefits paid	(1.2)	(0.9)
	$—	$—

The following table sets forth the retiree medical plan status reconciled to the amounts included in the Consolidated Balance Sheets, as of September 30, 1999 and 1998.

(in millions)	1999	1998
Accumulated postretirement benefit obligation:		
Retirees	$ 8.9	$ 7.3
Fully eligible active plan participants	0.5	0.4
Other active plan participants	6.4	7.4
Total accumulated postretirement benefit obligation	15.8	15.1
Unrecognized prior service costs	5.0	5.0
Unrecognized net gains	5.6	5.9
Accrued postretirement liability	$26.4	$26.0

Net periodic postretirement benefit cost includes the following components:

(in millions)	Fiscal Year Ended September 30, 1999	1998	1997
Service cost	$0.4	$0.4	$0.3
Interest cost	1.1	1.0	1.1
Net amortization	(1.0)	(1.3)	(1.2)
Net periodic postretirement benefit cost	$0.5	$0.1	$0.2

The discount rates used in determining the accumulated postretirement benefit obligation were 7.5% and 6.75% in fiscal 1999 and 1998, respectively. For measurement purposes, annual rates of increase in per capita cost of covered retiree medical benefits assumed for fiscal 1999 and 1998 were 7.25% and 7.75% respectively. The rate was assumed to decrease gradually to 5.5% through the year 2003 and remain at that level thereafter. A 1% increase in the health care cost trend rate assumptions would increase the accumulated postretirement benefit obligation (APBO) as of September 30, 1999 and 1998 by $0.5 million and $0.7 million, respectively. A 1% increase or decrease in the same rate would not have a material effect on service or interest costs.

Effective January 1, 1998, the Scotts, Hyponex and Sierra defined contribution profit sharing and 401(k) plans were merged and the surviving plan was expanded and amended to serve as the sole, active retirement savings plan for substantially all U.S. employees. Full-time employees may participate in the plan on the first day of the month after being hired. Temporary employees may participate after working at least 1,000 hours in their first twelve months of employment and after reaching the age of 21. The plan allows participants to contribute up to 15% of their compensation in the form of pre-tax or post-tax contributions. The Company provides a matching contribution equivalent to 100% of participants' initial 3% contribution and 50% of the participants' remaining contribution up to 5%. Participants are immediately vested in employee contributions, the Company's matching contributions and the investment return on those monies. The Company also provides a 2% automatic base contribution to employees' accounts regardless of whether employees are active in the plan. Participants become vested in the Company's 2% base contribution after three years of service. The Company recorded charges of $8.4 million and $4.7 million under the new plan in fiscal 1999 and 1998, respectively. Under the terminated profit sharing and 401(k) plans, the Company recorded charges of $2.3 million in fiscal 1997.

The Company is self-insured for certain health benefits up to $0.2 million per occurrence per individual. The cost of such benefits is recognized as expense in the period the claim is incurred. This cost was $11.0 million, $8.6 million and $7.9 million in fiscal 1999, 1998 and 1997, respectively. The Company is self-insured for State of Ohio workers compensation up to $0.5 million per claim. Claims in excess of stated limits of liability and claims for workers compensation outside of the State of Ohio are insured with commercial carriers.

Note 8 *Debt*

(in millions)	September 30, 1999	1998
Revolving loans under credit facility	$ 64.2	$253.5
Term loans under credit facility	509.0	—
Senior subordinated notes	318.0	99.5
Notes due to sellers	37.0	5.6
Foreign bank borrowings and term loans	17.6	9.0
Capital lease obligations and other	4.2	4.9
	950.0	372.5
Less current portions	56.4	13.3
	$893.6	$359.2

Maturities of short and long-term debt, including capital leases for the next five fiscal years and thereafter are as follows:

(in millions)	Capital Leases	Other Debt
2000	$ 1.5	$ 54.6
2001	1.2	44.5
2002	0.1	57.0
2003	—	58.1
2004	—	48.4
Thereafter	—	702.7
	$ 2.8	$965.3
Less: amounts representing interest	(0.2)	(17.9)
	$ 2.6	$947.4

On December 4, 1998, Scotts and certain of its subsidiaries entered into a new credit facility which provides for borrowings in the aggregate principal amount of $1.025 billion and consists of term loan facilities in the aggregate amount of $525 million and a revolving credit facility in the amount of $500 million. Proceeds from borrowings under the new credit facility of approximately $241.0 million were used to repay amounts outstanding under the then existing credit facility. The Company recorded a $0.4 million

extraordinary loss, net of tax, in connection with the retirement of the previous facility.

In February 1998, the Company had entered into a credit facility to replace its then existing credit facility, which resulted in an extraordinary loss of $0.7 million, net of tax, for the write-off of unamortized deferred financing costs. The term loan facilities consist of three tranches.

The Tranche A Term Loan Facility consists of three sub-tranches of French Francs, German Deutschemarks and British Pounds Sterling in an aggregate principal amount of $265 million which are to be repaid quarterly over a 6½ year period. The Tranche B Term Loan Facility is a 7½ year term loan facility in an aggregate principal amount of $140 million, which is to be repaid in nominal quarterly installments for the first 6½ years and in substantial quarterly installments in the final year. The Tranche C Term Loan Facility is a 8½ year term loan facility in an aggregate principal amount of $120 million, which is to be repaid in nominal quarterly installments for the first 7½ years and in substantial quarterly installments in the final year.

The revolving credit facility provides for borrowings up to $500 million, which are available on a revolving basis over a term of 6½ years. A portion of the revolving credit facility not to exceed $100 million is available for the issuance of letters of credit. A portion of the facility not to exceed $225 million is available for borrowings in optional currencies, including German Deutschemarks, British Pounds Sterling, French Francs, Belgian Francs, Italian Lira and other specified currencies, provided that the outstanding revolving loans in optional currencies other than British Pounds Sterling does not exceed $120 million. The outstanding principal amount of all revolving credit loans may not exceed $150 million for at least 30 consecutive days during any calendar year.

Interest rates and commitment fees pursuant to the new credit facility vary according to the Company's leverage ratios and also within tranches. The weighted-average interest rate on the Company's variable rate borrowings at September 30, 1999 was 7.68%. In addition, the new credit facility requires that the Company enter into hedge agreements to the extent necessary to provide that at least 50% of the aggregate principal amount of the 8⅝% Senior Subordinated Notes due 2009 and term loan facilities is subject to a fixed interest rate. Financial covenants include minimum net worth, interest coverage and net leverage ratios. Other covenants include limitations on indebtedness, liens, mergers, consolidations, liquidations and dissolutions, sale of assets, leases, dividends, capital expenditures, and investments, among others. The Company and all of its domestic subsidiaries pledged substantially all of their personal, real and intellectual property assets as collateral on the borrowings under the credit facility. The Company and its subsidiaries also pledged the stock in foreign subsidiaries that borrow under the credit facility.

Approximately $12.6 million of financing costs associated with the new credit facility have been deferred as of September 30, 1999 and are being amortized over a period of approximately 7 years.

In January 1999, the Company completed an offering of $330 million of 8⅝% Senior Subordinated Notes (''the Notes'') due 2009. The net proceeds from the offering, together with borrowings under the Company's credit facility, were used to fund the Ortho acquisition and to repurchase approximately 97% of Scotts $100.0 million outstanding 9⅞% Senior Subordinated Notes due August 2004. The Company recorded an extraordinary loss before tax on the extinguishment of the 9 7/8% notes of approximately $9.3 million, including a call premium of $7.2 million and the write-off of unamortized issuance costs and discounts of $2.1 million. Approximately $11.4 million of issuance costs associated with the Notes have been deferred as of September 30, 1999 and are being amortized over the term of the Notes.

In August 1999, the Company repurchased the remaining $2.9 million of the 9⅞% Senior Subordinated Notes, resulting in an extraordinary loss, net of tax, of $0.1 million.

The Company entered into two interest rate locks in fiscal 1998 to hedge its anticipated interest rate exposure on the Notes offering. The total amount paid under the interest rate locks of $12.9 million has been recorded as a reduction of the Notes' carrying value and is being amortized over the life of the Notes as interest expense.

In conjunction with the acquisitions of Rhône-Poulenc Jardin and Sanford Scientific, notes were issued for certain portions of the total purchase price that are to be paid in annual installments over a four-year period.

The present value of remaining note payments is $32.2 million and $4.8 million, respectively. The Company is imputing interest on the non-interest bearing notes using an interest rate prevalent for similar instruments at the time of acquisition.

The foreign term loans of $6.0 million issued on December 12, 1997, have an 8-year term and bear interest at 1% below LIBOR. The loans are denominated in Pounds Sterling and can be redeemed, on demand, by the note holder. The foreign bank borrowings of $11.6 million at September 30, 1999, represent lines of credit for foreign operations and are denominated in French Francs, Australian Dollars and Dutch Gilders.

Note 9 *Shareholders' Equity*

(in millions)	1999	1998
Stock		
Class A Convertible Preferred Stock, no par value:		
Authorized	0.2 shares	0.2 shares
Issued	0.2 shares	0.2 shares
Common shares, no par value		
Authorized	50.0 shares	50.0 shares
Issued	21.3 shares	21.1 shares

Class A Convertible Preferred Stock (''Preferred Shares'') with a face amount of $195.0 million was issued in conjunction with the 1995 Miracle-Gro merger transactions. These Preferred Shares had a 5% dividend yield and were convertible upon shareholder demand into common shares at any time and at Scotts' option after May 2000 at $19.00 per common share. Additionally, warrants to purchase 3.0 million common shares of Scotts were issued as part of the purchase price. The warrants are exercisable upon shareholder demand for 1.0 million common shares at $21.00 per share, 1.0 million common shares at $25.00 per share and 1.0 million common shares at $29.00 per share. The exercise term for the warrants expires September 2003. The fair value of the warrants at issuance has been included in capital in excess of par value in the Company's Consolidated Balance Sheets.

In October 1999, all of the then outstanding Preferred Shares were converted into 10.1 million common shares. In exchange for the early conversion, Scotts paid the holders of the Preferred Shares $6.4 million. The amount represents the dividends on the Preferred Shares that otherwise would have been payable through May 2000, the month during which the Preferred Shares could first be redeemed by Scotts. In addition, Scotts agreed to accelerate the termination of many of the standstill provisions in the Miracle-Gro merger agreement that would otherwise have terminated in May 2000. These standstill provisions include the provisions related to the Board of Directors and voting restrictions, as well as restrictions on transfer. Therefore, the former shareholders of Stern's Miracle-Gro Products, Inc., including Hagedorn Partnership, L.P., may vote their common shares freely in the election of directors and generally on all matters brought before Scotts' shareholders. Following the conversion and the termination of the standstill provisions described above, the former shareholders of Miracle-Gro own approximately 41% of Scotts' outstanding common shares and have the ability to significantly control the election of directors and approval of other actions requiring the approval of Scotts' shareholders. In fiscal 1999, certain of the Preferred Shares were converted into 0.2 million common shares at the holders' option.

Under The Scotts Company 1992 Long Term Incentive Plan (the ''1992 Plan''), stock options, stock appreciation rights and performance share awards were granted to officers and other key employees of the Company. The 1992 Plan also provided for the grant of stock options to non-employee directors of the Company. The maximum number of common shares that may be issued upon the exercise of options granted under the Plan is 1.7 million, plus the number of shares surrendered to exercise options (other than director options) granted under the 1992 Plan, up to a maximum of 1.0 million surrendered shares. Vesting periods under the 1992 Plan vary and are determined by the Compensation and Organization Committee of the Company's Board of Directors.

Under The Scotts Company 1996 Stock Option Plan (the ''1996 Plan''), stock options may be granted to officers, other key employees and non-employee directors of the Company. The maximum number of common shares that may be issued under the 1996 Plan is 5.5 million. Vesting periods under the 1996 Plan vary and are determined by the Compensation and Organization Committee of the Company's Board of Directors.

Aggregate stock option activity consists of the following:

	Fiscal year ended September 30,					
	1999		1998		1997	
(in millions)	Number of Shares	Wtd. Avg. Price	Number of Shares	Wtd. Avg. Price	Number of Shares	Wtd. Avg. Price
Beginning balance	3.8	$20.70	2.6	$18.35	1.6	$16.73
Options granted	1.4	35.70	1.4	29.43	1.1	20.18
Options exercised	(0.2)	16.51	(0.1)	16.60	(0.1)	12.72
Options canceled	(0.1)	30.94	(0.1)	29.63	0.0	19.27
Ending balance	4.9	26.33	3.8	20.70	2.6	18.35
Exercisable at September 30	1.9	19.77	1.8	18.17	1.5	17.30

The following summarizes certain information pertaining to stock options outstanding and exercisable at September 30, 1999:

	Options Outstanding			Options Exercisable	
(in millions)					
Range of Exercise Prices	Number of Options	Wtd. Avg. Remaining Life	Wtd. Avg. Exercise Price	Wtd. Avg. Number of Options	Exercise Price
$9.90	0.1	2.05	$ 9.90	0.1	$ 9.90
$15.00-$20.00	1.7	6.01	17.82	1.2	17.12
$20.00-$25.00	0.4	6.79	21.32	0.3	21.01
$25.00-$30.00	0.7	8.18	27.08	0.1	26.64
$30.00-$35.00	1.0	9.03	31.77	0.2	32.67
$35.00-$40.00	0.9	9.81	35.96	—	—
$40.00-$46.38	0.1	9.85	42.11	—	—
	4.9		$26.33	1.9	$19.77

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, ''Accounting for Stock-Based Compensation,'' which changes the measurement, recognition and disclosure standards for stock-based compensation. The Company, as allowable, has adopted SFAS No. 123 for disclosure purposes only.

The fair value of each option granted has been estimated on the grant date using the Black-Scholes option-pricing model based on the following assumptions for those granted in fiscal 1999, 1998 and 1997: (1) expected market-price volatility of 24.44%, 23.23% and 22.48%, respectively; (2) risk-free interest rates of 6.0%, 4.3% and 6.6%, respectively; and (3) expected life of options of 6 years. The estimated weighted-average fair value per share of options granted during fiscal 1999, 1998 and 1997 was $13.64, $9.28 and $8.00, respectively.

Had compensation expense been recognized for fiscal 1999, 1998 and 1997 in accordance with provisions of SFAS No. 123, the Company would have recorded net income and earnings per share as follows:

(in millions)	1999	1998	1997
Net income used in per share calculation	$55.3	$31.3	$37.3
Earnings per share:			
Basic	$ 2.50	$ 1.15	$ 1.48
Diluted	$ 1.82	$ 1.03	$ 1.27

The pro forma amounts shown above are not necessarily representative of the impact on net income in future years as additional option grants may be made each year.

In fiscal 1998, the Company sold 0.3 million put options which give the holder the option to sell the Company's common shares to the Company at a strike price of $35.32. The options could only be exercised on their expiration date in May 1999 and expired unused. The premium received on the sale of the put options was considered additional paid-in capital. The put options did not impact the Company's earnings per share calculation during fiscal 1999 since they would have been anti-dilutive. The impact of the put options on the fiscal 1998 earnings per share calculation was less than $0.01 per share.

Note 10 *Earnings Per Common Share*

The following table presents information necessary to calculate basic and diluted earnings per common share.

(in millions)	Year Ended September 30, 1999	1998	1997
Basic earnings per common share:			
Net income before extraordinary loss	$ 69.1	$ 37.0	$ 39.5
Net income	63.2	36.3	39.5
Class A Convertible Preferred Stock dividend	(9.7)	(9.8)	(9.8)
Income available to common shareholders	53.5	26.5	29.7
Weighted-average common shares outstanding during the period	18.3	18.7	18.6
Basic earnings per common share			
Before extraordinary item	$ 3.25	$ 1.46	$ 1.60
After extraordinary item	$ 2.93	$ 1.42	$ 1.60
Diluted earnings per common share:			
Net income used in diluted earnings per common share calculation	$ 63.2	$ 36.3	$ 39.5
Weighted-average common shares outstanding during the period	18.3	18.7	18.6
Potential common shares:			
Assuming conversion of Class A Convertible Preferred Stock	10.2	10.3	10.3
Assuming exercise of options	1.0	0.7	0.3
Assuming exercise of warrants	1.0	0.6	0.1
Weighted-average number of common shares outstanding and dilutive potential common shares	30.5	30.3	29.3
Diluted earnings per common share			
Before extraordinary item	$ 2.27	$ 1.22	$ 1.35
After extraordinary item	$ 2.08	$ 1.20	$ 1.35

Basic earnings per common share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares and dilutive potential common shares (stock options, Class A Convertible Preferred Stock and warrants) outstanding during each period.

Note 11 *Income Taxes*

The provision for income taxes, net of tax benefits associated with the 1999 and 1998 extraordinary losses of $4.1 million and $0.5 million, respectively, consists of the following:

(in millions)	Year Ended September 30, 1999	1998	1997
Currently payable:			
Federal	$ 34.5	$ 22.1	$ 21.6
State	4.4	3.9	3.4
Foreign	4.4	2.7	6.6
Deferred:			
Federal	0.5	(4.0)	(1.3)
State	0.0	(0.3)	(0.2)
Income tax expense	$ 43.8	$ 24.4	$ 30.1

The domestic and foreign components of income before taxes are as follows:

(in millions)	Year Ended September 30, 1999	1998	1997
Domestic	$100.0	$ 57.1	$ 58.7
Foreign	6.9	3.5	10.9
Income before taxes	$106.9	$ 60.6	$ 69.6

A reconciliation of the federal corporate income tax rate and the effective tax rate on income before income taxes is summarized below:

	Year Ended September 30, 1999	1998	1997
Statutory income tax rate	35.0%	35.0%	35.0%
Effect of foreign operations	(0.7)	(1.6)	
Goodwill amortization and other effects resulting from purchase accounting	3.0	4.6	4.2
State taxes, net of federal benefit	2.6	3.8	3.0
Other	1.1	(1.5)	1.0
Effective income tax rate	41.0%	40.3%	43.2%

The net current and non-current components of deferred income taxes recognized in the Consolidated Balance Sheets at September 30 are:

(in millions)	1999	1998
Net current asset	$ 32.3	$ 20.8
Net non-current asset (liability)	11.3	(1.2)
Net asset	$ 43.6	$ 19.6

The components of the net deferred tax asset are as follows:

(in millions)	September 30, 1999	1998
Assets		
Inventories	$ 6.1	$ 5.9
Accrued liabilities	35.5	11.7
Postretirement benefits	9.6	9.8
Foreign net operating losses	1.9	6.0
Other	14.1	12.6
Gross deferred tax assets	67.2	46.0
Valuation allowance	(1.1)	(6.0)
Net deferred tax assets	66.1	40.0
Liabilities		
Property, plant and equipment	(22.5)	(20.4)
Net asset	$ 43.6	$ 19.6

Net operating loss carryforwards in foreign jurisdictions were $1.9 million and $6.0 million at September 30, 1999 and 1998, respectively. The use of these acquired carryforwards is subject to limitations imposed by the tax laws of each applicable country.

As a result of tax planning strategies developed and implemented in fiscal 1999, the Company realized $0.8 million of certain net operating losses during fiscal 1999. As a result of acquisitions and reorganizations during fiscal 1999, $4.1 million of foreign net operating losses are no longer available. These amounts and the corresponding valuation allowance have been removed from the accounts. The valuation allowance of $1.1 million at September 30, 1999, is to provide for operating losses for which the benefits are not expected to be realized. The foreign net operating losses of $1.9 million can be carried forward indefinitely.

Note 12 *Financial Instruments*

A description of the Company's financial instruments and the methods and assumptions used to estimate their fair values are as follows:

Long-Term Debt

At September 30, 1999, the Company had $330 million outstanding of 8⅝% Senior Subordinated Notes due 2009 that were issued through a private offering. The fair value of these notes was estimated based on recent trading information. Variable rate debt outstanding at September 30, 1999, consists of revolving borrowings and term loans under the Company's credit facility and local bank borrowings for certain of the Company's foreign operations. The carrying amounts of these borrowings are considered to approximate their fair values.

At September 30, 1998, the Company had outstanding $100.0 million in principal amount of 9⅞% Senior Subordinated Notes due 2004. The fair value of these notes was based on the quoted market prices for the same or similar issues. Borrowings at September 30, 1998 under the credit facility were at variable rates. The carrying amounts of these borrowings were considered to approximate their fair values.

Interest Rate Swap Agreements

At September 30, 1999, the Company had outstanding five interest rate swaps with major financial institutions that effectively convert variable-rate debt to a fixed rate. One swap has a notional amount of 20.0 million British Pounds Sterling under a five-year term expiring in April 2002 whereby the Company pays 7.6% and receives three-month LIBOR. The remaining four swaps have notional amounts between $20 million and $35 million ($105 million in total) with three, four or five year terms commencing in January 1999. Under the terms of these swaps, the Company pays rates ranging from 5.05% to 5.18% and receives three-month LIBOR.

At September 30, 1998, the Company had outstanding the interest rate swap agreement with a notional amount of 20.0 million British Pounds Sterling.

The Company enters into interest rate swap agreements as a means to hedge its interest rate exposure on debt instruments. In addition, the Company's credit facility requires that the Company enter into hedge agreements to the extent necessary to provide that at least 50% of the aggregate principal amount of the Senior Subordinated Notes and term loans is subject to a fixed rate. Since the interest rate swaps have been designated as hedging instruments, their fair values are not reflected in the Company's Consolidated Balance Sheets. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. The fair value of the swap agreements was determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date.

Interest Rate Locks

In fiscal 1998, the Company entered into two contracts, each with notional amounts of $100.0 million to lock the treasury rate component of the Company's anticipated offering of debt securities in the first

quarter of fiscal 1999. One of the interest rate locks expired in October 1998 and was rolled over into a new rate lock that expired in February 1999. The other rate lock expired in February 1999.

The Company entered into the interest rate locks to hedge its interest rate exposure on the offering of the 9⅞% Senior Subordinated Notes. Since the interest rate locks were designated as hedging instruments, their fair value was not reflected in the Company's Consolidated Balance Sheets; net amounts to be received or paid under the interest rate locks will be reflected as an adjustment to the carrying amount of the future debt offering. The fair value of the interest rate locks was estimated based on the difference between the contracted interest rates and the yield on treasury notes at September 30, 1998.

The estimated fair values of the Company's financial instruments are as follows for the fiscal years ended September 30:

	1999		1998	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$903.3	$889.3	$99.5	$106.8
Interest rate swap agreement	—	2.8	—	(1.5)
Interest rate locks	—	—	—	(16.7)

Note 13 Operating Leases

The Company leases buildings, land and equipment under various noncancellable lease agreements for periods of two to six years. The lease agreements generally provide that the Company pay taxes, insurance and maintenance expenses related to the leased assets. Certain lease agreements contain purchase options. At September 30, 1999, future minimum lease payments were as follows:

(in millions)	
2000	$18.6
2001	15.1
2002	8.9
2003	5.2
2004	2.9
Thereafter	2.8
Total minimum lease payments	$53.5

The Company also leases transportation and production equipment under various one-year operating leases, which provide for the extension of the initial term on a monthly or annual basis. Total rental expenses for operating leases were $18.5 million, $13.5 million and $12.3 million for fiscal 1999, 1998 and 1997, respectively. The total to be received from sublease rentals in place at September 30, 1999, is $4.1 million.

Note 14 Commitments

The Company has entered into the following purchase commitments:

Seed

The Company is obligated to make future purchases based on estimated yields. At September 30, 1999, estimated annual seed purchase commitments were as follows:

(in millions)	
2000	18.7
2001	16.4
2002	4.8
2003	4.1
2004	1.3

The Company made purchases of $13.2 million and $13.1 million under this obligation in fiscal 1999 and 1998, respectively.

Urea

The Company is obligated to purchase 100,000 tons of urea annually. The value to the Company based on current market prices of urea is approximately $12.0 million. The purchase commitments expire December 31, 2001. The Company purchased 172,000 tons and 104,000 tons under this obligation in fiscal 1999 and 1998, respectively.

Glufosinate Ammonium

Under the terms of the agreement to acquire the AgrEvo pesticides business, the Company is obligated to purchase glufosinate ammonium valued at $12.6 million (approximately 315,000 pounds) through September 2001. If the Company does not purchase product with a value of $12.6 million, the Company is required to provide cash settlement in an amount equal to 50% of the shortfall. In connection with the sale of this business in February 1999, the purchaser agreed to purchase a minimum of 50,000 pounds of glufosinate ammonium through September 2001. The Company has not purchased any glufosinate ammonium under this commitment through September 30, 1999.

Peat

The Company is obligated to purchase 470,000 cubic meters annually (approximately $6.8 million based on average prices) for ten years. The arrangement can be

extended another ten years at the Company's option. If the Company does not purchase required amounts, the Company will be required to provide cash settlement equal to 50% of the quantity shortfall multiplied by the average product price. The Company purchased 517,650 cubic meters of peat under this contract in fiscal 1999.

Note 15 Contingencies

Management continually evaluates the Company's contingencies, including various lawsuits and claims which arise in the normal course of business, product and general liabilities, property losses and other fiduciary liabilities for which the Company is self-insured. In the opinion of management, its assessment of contingencies is reasonable and related reserves, in the aggregate, are adequate; however, there can be no assurance that future quarterly or annual operating results will not be materially affected by final resolution of these matters. The following matters are the more significant of the Company's identified contingencies.

Ohio Environmental Protection Agency

The Company has assessed and addressed environmental issues regarding the wastewater treatment plants which had operated at the Marysville facility. The Company decommissioned the old wastewater treatment plants and has connected the facility's wastewater system with the City of Marysville's municipal treatment system. Additionally, the Company has been assessing, under Ohio's new Voluntary Action Program (''VAP''), the possible remediation of several discontinued on-site waste disposal areas dating back to the early operations of its Marysville facility.

In February 1997, the Company learned that the Ohio Environmental Protection Agency was referring certain matters relating to environmental conditions at the Company's Marysville site, including the existing wastewater treatment plants and the discontinued on-site waste disposal areas, to the Ohio Attorney General's Office. Representatives from the Ohio Environmental Protection Agency, the Ohio Attorney General and the Company continue to meet to discuss these issues.

In June 1997, the Company received formal notice of an enforcement action and draft Findings and Orders from the Ohio Environmental Protection Agency. The draft Findings and Orders elaborated on the subject of the referral to the Ohio Attorney General alleging: potential surface water violations relating to possible historical sediment contamination possibly impacting water quality; inadequate treatment capabilities of the Company's existing and currently permitted wastewater treatment plants; and that the Marysville site is subject to corrective action under the Resource Conservation Recovery Act (''RCRA''). In late July 1997, the Company received a draft judicial consent order from the Ohio Attorney General which covered many of the same issues contained in the draft Findings and Orders including RCRA corrective action. As a result of on-going discussions, the Company received a revised draft of a judicial consent order from the Ohio Attorney General in late April 1999, which is the focus of the current negotiations.

In accordance with the Company's past efforts to enter into Ohio's VAP, the Company submitted to the Ohio Environmental Protection Agency a ''Demonstration of Sufficient Evidence of VAP Eligibility Compliance'' on July 8, 1997. Among other issues contained in the VAP submission, was a description of the Company's ongoing efforts to assess potential environmental impacts of the discontinued on-site waste disposal areas as well as potential remediation efforts. Under the statutes covering VAP, an eligible participant in the program is not subject to State enforcement actions for those environmental matters being addressed. On October 21, 1997, the Company received a letter from the Director of the Ohio Environmental Protection Agency denying VAP eligibility based upon the timeliness of and completeness of the submittal. The Company has appealed the Director's action to the Environmental Review Appeals Commission. No hearing date has been set and the appeal remains pending.

The Company is continuing to meet with the Ohio Attorney General and the Ohio Environmental Protection Agency in an effort to negotiate an amicable resolution of these issues but is unable at this stage to predict the outcome of the negotiations. While negotiations have narrowed the unresolved issues between the Company and the Ohio Attorney General/Ohio Environmental Protection Agency, several critical issues remain the subject of ongoing discussions. The Company believes that it has viable defenses to the State's enforcement action, including that it had been proceeding under VAP to address specified environmental issues, and will assert those defenses in any such action.

Since receiving the notice of enforcement action in June 1997, management has continually assessed the potential costs that may be incurred to satisfactorily

remediate the Marysville site and to pay any penalties sought by the State. Because the Company and the Ohio Environmental Protection Agency have not agreed as to the extent of any possible contamination and an appropriate remediation plan, the Company has developed and initiated an action plan to remediate the site based on its own assessments and consideration of specific actions which the Ohio Environmental Protection Agency will likely require. Because the extent of the ultimate remediation plan is uncertain, management is unable to predict with certainty the costs that will be incurred to remediate the site and to pay any penalties. As of September 30, 1999, management estimates that the range of possible loss that could be incurred in connection with this matter is $2 million to $10 million. The Company has accrued for the amount it considers to be the most probable within that range and believes the outcome will not differ materially from the amount reserved. Many of the issues raised by the State are already being investigated and addressed by the Company during the normal course of conducting business.

Lafayette

In July 1990, the Philadelphia District of the U.S. Army Corps of Engineers (''Corps'') directed that peat harvesting operations be discontinued at Hyponex's Lafayette, New Jersey facility, based on its contention that peat harvesting and related activities result in the ''discharge of dredged or fill material into waters of the United States'' and, therefore, require a permit under Section 404 of the Clean Water Act. In May 1992, the United States filed suit in the U.S. District Court for the District of New Jersey seeking a permanent injunction against such harvesting, and civil penalties in an unspecified amount. If the Corps' position is upheld, it is possible that further harvesting of peat from this facility would be prohibited. The Company is defending this suit and is asserting a right to recover its economic losses resulting from the government's actions. The suit was placed in administrative suspense during fiscal 1996 in order to allow the Company and the government an opportunity to negotiate a settlement, and it remains suspended while the parties develop, exchange and evaluate technical data. In July 1997, the Company's wetlands consultant submitted to the government a draft remediation plan. Comments were received and a revised plan was submitted in early 1998. Further comments from the government were received during 1998 and 1999. The Company believes agreement on the remediation plan has essentially been reached. Before this suit can be fully resolved, however, the Company and the government must reach agreement on the government's civil penalty demand. The Company has reserved for its estimate of the probable loss to be incurred under this proceeding as of September 30, 1999. Furthermore, management believes the Company has sufficient raw material supplies available such that service to customers will not be materially adversely affected by continued closure of this peat harvesting operation.

Hershberger

In September 1991, the Company was identified by the Ohio Environmental Protection Agency as a Potentially Responsible Party (''PRP'') with respect to a site in Union County, Ohio (the ''Hershberger site''), because the Company allegedly arranged for the transportation, treatment or disposal of waste that allegedly contained hazardous substances, at the Hershberger site. Effective February 1998, the Company and four other named PRPs executed an Administrative Order on Consent with the Ohio Environmental Protection Agency, by which the named PRPs funded remedial action at the Hershberger site. Construction of the leachate collection system and reconstruction of the landfill cap was completed in August 1998. The Company expects its future obligation will consist primarily of its share of annual operating and maintenance expenses. Management does not believe that its obligations under the Administrative Order will have a material adverse effect on the Company's results of operations or financial condition.

Agrevo Environmental Health, Inc.

On June 3, 1999, AgrEvo Environmental Health, Inc. (''AgrEvo'') filed a complaint against the Company, a subsidiary of the Company and Monsanto seeking damages and injunctive relief for alleged antitrust violations and breach of contract by the Company and its subsidiary and antitrust violations and tortious interference with contact by Monsanto. The Company purchased a consumer herbicide business from AgrEvo in May 1998. AgrEvo claims in the suit that the Company's subsequent agreement to become Monsanto's exclusive sales and marketing agent for Monsanto's consumer Roundup® business violated the federal antitrust laws. AgrEvo contends that Monsanto attempted to or did monopolize the market for non-selective herbicides and conspired with the Company to eliminate the herbicide

the Company previously purchased from AgrEvo, which competed with Monsanto's Roundup®, in order to achieve or maintain a monopoly position in that market. AgrEvo also contends that the Company's execution of various agreements with Monsanto, including the Roundup® marketing agreement, as well as the Company's subsequent actions, violated the purchase agreements between AgrEvo and the Company.

AgrEvo is requesting unspecified damages as well as affirmative injunctive relief, and seeking to have the court invalidate the Roundup® marketing agreement as violative of the federal antitrust laws. On September 20, 1999, the Company filed an answer denying liability and asserting counterclaims that it was fraudulently induced to enter into the agreement for purchase of the consumer herbicide business and the related agreements, and that AgrEvo breached the representations and warranties contained in these agreements. On October 1, 1999, the Company moved to dismiss the antitrust allegations against it on the ground that the claims fail to state claims for which relief may be granted. On October 12, 1999, AgreEvo moved to dismiss the Company's counterclaims. The Company intends to vigorously defend against this action. Under the indemnification provisions of the Roundup® marketing agreement, Monsanto and the Company each have requested that the other indemnify against any losses arising from this lawsuit. The Company currently is unable to determine the potential impact of these proceedings on its future results of operations and financial condition.

On June 29, 1999, AgrEvo also filed a complaint against two of the Company's subsidiaries seeking damages for alleged breach of contract. AgrEvo alleges that, under the contracts by which a subsidiary of the Company purchased a herbicide business from AgrEvo in May 1998, two of the Company's subsidiaries have failed to pay AgrEvo approximately $0.6 million. AgrEvo is requesting damages in this amount, as well as pre and post-judgment interest and attorneys' fees and costs. The Company's subsidiaries have moved to dismiss or stay this action. The Company's subsidiaries intend to vigorously defend the asserted claims.

Bramford

In the United Kingdom, major discharges of waste to air, water and land are regulated by the Environment Agency. The Scotts (UK) Ltd. fertilizer facility in Bramford (Suffolk), United Kingdom, is subject to environmental regulation by this Agency. Two manufacturing processes at this facility require process authorizations and previously required a waste management license (discharge to a licensed waste disposal lagoon having ceased in July 1999). The Company expects to surrender the waste management license in consultation with the Environment Agency. In connection with the renewal of an authorization, the Environment Agency has identified the need for remediation of the lagoon, and the potential for remediation of a former landfill at the site. The Company intends to comply with the reasonable remediation concerns of the Environment Agency. The Company previously installed an environmental enhancement to the facility to the satisfaction of the Environment Agency and believes that it has adequately addressed the environmental concerns of the Environment Agency regarding emissions to air and groundwater. The Company and the Environment Agency have not agreed on a final plan for remediating the lagoon and the landfill. The Company has reserved for its estimate of the probable loss to be incurred in connection with this matter as of September 30, 1999.

Other

The Company has determined that quantities of cement containing asbestos material at certain manufacturing facilities in the United Kingdom should be removed. The Company has reserved for the estimate of costs to be incurred for this matter as of September 30, 1999.

Note 16 *Concentrations of Credit Risk*

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of trade accounts receivable. The Company sells its consumer products to a wide variety of retailers, including mass merchandisers, home centers, independent hardware stores, nurseries, garden outlets, warehouse clubs and local and regional chains. Professional products are sold to golf courses, schools and sports fields, nurseries, lawn care service companies and growers of specialty agriculture crops.

At September 30, 1999, 66% of the Company's accounts receivable was due from customers in North America. Approximately two-thirds of these receivables were generated from the Company's North American consumer business. The most significant concentration of receivables within this segment was from home centers,

which accounted for 19% of the Company's receivables balance at September 30, 1999. No other retail concentrations (e.g., mass merchandisers, independent hardware stores, etc. in similar markets) accounted for more than 10% of the Company's accounts receivable balance at September 30, 1999.

The remaining one-third of North American accounts receivable was generated from the Company's North American Professional business. Due to seasonality, the Professional segment accounts for a share of the Company's receivable balance at September 30, 1999, that is disproportionate to its share of total company sales for the year. As a result of the changes in distribution methods made earlier in fiscal 1999 for the Professional business, nearly all products are sold through distributors. Accordingly, nearly all of the Professional business accounts receivable at September 30, 1999, is due from distributors.

The 34% of accounts receivable generated outside of North America is due from retailers, distributors, nurseries and growers. No concentrations of or individual customers within this group account for more than 10% of the Company's accounts receivable balance at September 30, 1999.

At September 30, 1998, the Company's concentrations of credit risk were similar to those existing at September 30, 1999, except that the North American professional business accounted for 47% of North American receivables at that time.

The Company's two largest customers accounted for the following percentage of net sales in each respective period:

	Largest Customer	2nd Largest Customer
1999	17.4%	11.6%
1998	16.8%	10.6%
1997	16.1%	11.9%

Sales to the Company's two largest customers are reported within the Company's North American Consumer Segment. No other customers accounted for more than 10% of fiscal 1999, 1998 or 1997 net sales.

Note 17 Other Expenses (Income)

Other expense (income) consisted of the following for the fiscal years ended September 30:

(in millions)	1999	1998	1997
Royalty income	$(4.0)	$(3.4)	$(2.0)
Asset valuation and write-off charges	1.2	2.3	6.0
Foreign currency losses	0.1	2.5	—
Other, net	(0.9)	(0.1)	1.2
Total	$(3.6)	$ 1.3	$ 5.2

During fiscal 1997, the Company recorded charges of $6.0 million to write-down certain long-lived assets to their estimated fair value. The components of these charges were as follows:

- A charge of $2.2 million to write-down the carrying value of the Company's peat harvesting facility in Lafayette, New Jersey. As disclosed in Note 15, operations at this facility were discontinued at the order of the Philadelphia District of the U.S. Army Corps of Engineers in July 1990. While proceedings with the government are ongoing, the Company does not expect to resume operations at this site. The charge reduced the carrying amount for this facility to its estimated fair value based on appraisal.
- A charge of $1.6 million to write-off the carrying value of certain paper packaging equipment that was rendered obsolete by management's decision to convert to plastic packaging. The equipment was considered to have only nominal value and has subsequently been abandoned or scrapped.
- A charge of $0.9 million to write-down the carrying value of the Company's water soluble fertilizer plant in Allentown, Pennsylvania. In fiscal 1997, management determined that the production capacity at this plant was unnecessary after completing the merger transactions with Miracle-Gro in fiscal 1995. The Allentown facility was sold in July 1997.
- A charge of $0.7 million to write-off certain spreader molding equipment that was considered obsolete. In fiscal 1997, management elected to upgrade the production line at its spreader manufacturing facility in Carlsbad, California. In connection with this change, certain production equipment was unusable and was scrapped.

- A charge of $0.6 million to write-off certain software costs that had been deferred under an ERP implementation project. In fiscal 1997, management elected to change the software platform that would be used for the Company's ERP project. Software costs that had been deferred while configuring and installing the previous software were determined to have no future benefit and were written-off.

Note 18 New Accounting Standards

In August 1998, the FASB issued SFAS No. 133, ''Accounting For Derivative Instruments and Hedging Activities.'' SFAS NO. 133 (as amended) is effective for fiscal years beginning after June 15, 2000.

SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company has not yet determined the impact this statement will have on its operating results. The Company plans to adopt SFAS No. 133 in fiscal 2001.

In December 1999, the Securities and Exchange Commission issued SEC Staff Accounting Bulletin No. 101, ''Revenue Recognition in Financial Statements.'' This staff accounting bulletin summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company believes its annual accounting policies are consistent with the staff's views. The Company will be required, however, to conform its interim period revenue recognition policies for the commission under the Roundup® marketing agreement to be consistent with the staff's views. The impact of conforming the Company's interim period revenue recognition policies for the commission under the Roundup® marketing agreement will require the Company to defer the recognition of commission earned in interim periods but will not impact the commission earned on an annual basis. The Company will adopt the interim period revenue recognition policies no later than the first quarter of the fiscal year ending December 31, 2001, as permitted by the staff accounting bulletin.

Note 19 Supplemental Cash Flow Information

(in millions)	1999	1998	1997
Interest paid (net of amount capitalized)	$ 63.6	$ 31.5	$ 24.2
Income taxes paid	50.3	38.6	20.5
Dividends declared not paid		2.5	—
Businesses acquired:			
Fair value of assets acquired, net of cash	691.2	197.3	115.8
Liabilities assumed	(149.3)	(45.9)	(69.2)
Net assets acquired	541.9	151.4	46.6
Cash paid	4.8	0.4	—
Notes issued to seller	35.7	—	—
Debt issued	501.4	151.0	46.6

Note 20 Segment Information

The Company is divided into three reportable segments—North American Consumer, Professional and International. The North American Consumer segment consists of the Lawns, Gardens, Growing Media and Ortho business units.

The North American Consumer segment specializes in dry, granular slow-release lawn fertilizers, lawn fertilizer combination and lawn control products, grass seed, spreaders, water-soluble and controlled-release garden and indoor plant foods, plant care products, and potting soils, barks, mulches and other growing media products, and pesticides products. Products are marketed to mass merchandisers, home improvement centers, large hardware chains, nurseries and gardens centers.

The Professional segment is focused on a full line of turf and horticulture products including controlled-release and water-soluble fertilizers and plant protection products, grass seed, spreaders, custom application services and growing media. Products are sold to golf courses, professional baseball, football and soccer stadiums, lawn and landscape service companies, commercial nurseries and greenhouses and specialty crop growers.

The International segment provides a broad range of controlled-release and water-soluble fertilizers and related products, including ornamental horticulture, turf and landscape, and consumer lawn and garden products which are sold to all customer groups mentioned above.

The following table presents segment financial information in accordance with SFAS No. 131. ''Disclosures about Segments of an Enterprise and Related Information''. Pursuant to that statement, the presentation of the segment financial information is consistent with the basis used by management (i.e., certain costs not

allocated to business segments for internal management reporting purposes are not allocated for purposes of this presentation). Prior periods have been restated to conform to this basis of presentation.

(in millions)	North America Consumer	Professional	International	Corporate	Total
Sales:					
1999	$1,097.0	$159.4	$391.9		$1,648.3
1998	733.7	179.4	199.9		1,113.0
1997	619.2	165.5	114.6		899.3
Operating income (loss):					
1999	$ 234.6	$ 23.6	$ 53.0	$(115.1)	$ 196.1
1998	126.5	23.5	30.0	$ (85.9)	94.1
1997	108.4	22.4	20.4	(56.4)	94.8
Operating margin:					
1999	21.4%	14.8%	13.5%	nm	11.9%
1998	17.2	13.1	15.0	nm	8.5%
1997	17.5	13.5	17.8	nm	10.5
Depreciation and amortization:					
1999	$ 35.9	3.3	$ 15.1	5.9	$ 60.2
1998	24.1	2.7	7.7	3.3	37.8
1997	21.2	3.1	2.9	3.2	30.4
Capital expenditures:					
1999	$ 22.5	5.7	$ 10.6	$ 27.9	$ 66.7
1998	19.6	9.2	5.1	7.4	41.3
1997	16.5	5.5	2.0	4.6	28.6
Long-lived assets:					
1999	649.0	98.5	322.7	57.7	1,127.9
1998	391.3	103.1	169.2	4.4	668.0
Total assets:					
1999	1,010.1	176.9	496.7	85.9	1,769.6
1998	581.8	182.6	246.0	24.8	1,035.2

nm Not meaningful.

Operating income (loss) reported for the Company's three operating segments represents earnings before amortization of intangible assets since this is the measure of profitability used by management. Accordingly, Corporate operating loss for the fiscal years ended September 30, 1999, 1998 and 1997 includes amortization of certain intangible assets, corporate general and administrative expenses, research and development expense, interest expense, income tax expense and ''other'' income/expense not allocated to the business segments. Corporate operating income for fiscal 1998 includes $20.4 million of restructuring and other charges.

Long-lived assets and total assets reported for the Company's operating segments include the intangible assets for the acquired businesses within those segments. Depreciation and amortization for the segments includes the amortization of these intangibles. Corporate assets primarily include deferred financing and debt issuance costs, corporate fixed assets as well as deferred tax assets.

Note 21 *Quarterly Consolidated Financial Information (Unaudited)*

The following is a summary of the unaudited quarterly results of operations for fiscal 1999 and 1998:

(in millions except for share data)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Full Year
Fiscal 1999					
Net sales	$184.4	$631.5	$586.2	$246.2	$1,648.3
Gross profit	64.7	268.9	236.4	89.2	659.2
Income (loss) before extraordinary item	(10.0)	54.7	41.6	(17.2)	69.1
Net income (loss)	(10.4)	49.3	41.6	(17.3)	63.2
Basic earnings (loss) per common share	(0.70)	2.56	2.14	(1.07)	2.93
Shares used in basic EPS calculation	18.3	18.3	18.3	18.3	18.3
Diluted earnings (loss) per common share	(0.70)	1.63	1.35	(1.08)	2.08
Shares used in diluted EPS calculation	18.3	30.3	30.9	18.3	30.5

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Full Year
Fiscal 1998					
Net sales	$124.8	$430.1	$367.0	$191.1	$1,113.0
Gross profit	41.3	170.5	131.3	54.9	398.0
Income (loss) before extraordinary item	(5.5)	33.5	24.4	(15.4)	37.0
Net income (loss)	(5.5)	32.8	24.4	(15.4)	36.3
Basic earnings (loss) per common share	(.42)	1.62	1.18	(.96)	1.42
Shares used in basic EPS calculation	18.7	18.7	18.7	18.6	18.7
Diluted earnings (loss) per common share	(.42)	1.08	.80	(.96)	1.20
Shares used in diluted EPS calculation	18.7	30.4	30.6	18.6	30.3

NOTES:

Certain reclassifications have been made within interim periods.

The Company's business is highly seasonal with approximately 72% of sales occurring in the second and third fiscal quarters combined.

Statement of Operations

Note 22 *Financial Information For Subsidiary Guarantors and Non-Guarantors*

In January 1999, the Company issued $330 million of 8⅝% Senior Subordinated Notes due 2009 to qualified institutional buyers under the provisions of Rule 144A of the Securities Act of 1993. The Company intends to register these Notes under the Securities Act.

The Notes are general obligations of the Company and are guaranteed by all of the existing and future wholly-owned and significant domestic subsidiaries of the Company. The following information presents consolidating Statements of Operations, Statements of Cash Flows and Balance Sheets for the three years ended September 30, 1999.

For the fiscal year ended September 30, 1999 (in millions)	Parent and Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Sales	$1,242.5	$405.8		$1,648.3
Cost of sales	764.5	224.6		989.1
Gross profit	478.0	181.2		659.2
	29.8	0.5		30.3
Advertising and promotion	140.2	48.8		189.0
Selling, general and administration	193.1	88.1		281.2
Amortization or goodwill and other intangibles	16.1	9.3		25.4
Restructuring and other changes	1.4			1.4
Equity income in non-guarantors	(4.0)		4.0	
Intracompany allocations	(6.6)	6.6		
Other income, net	(2.9)	(0.7)		(3.6)
Income from operations	170.5	29.6	(4.0)	196.1
Interest expense	55.5	23.6		79.1
Income before income taxes	115.0	6.0	(4.0)	117.0
Income taxes	45.9	2.0		47.9
Income before extraordinary item	69.1	4.0	(4.0)	69.1
Extraordinary loss on early extinguishment of debt, net of income tax benefit	5.9			5.9
Net income	$ 63.2	$ 4.0	$(4.0)	$ 63.2

Statement of Cash Flows

For the fiscal year ended September 30, 1999 (in millions)	Parent and Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities				
Net Income	$ 63.2	$ 4.0	$ (4.0)	$ 63.2
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	22.5	6.5		29.0
Amortization	21.3	9.9		31.2
Equity income in non-guarantors	(4.0)		4.0	
Extraordinary loss	5.9	—		5.9
Restructuring and other charges				
Loss on sale of fixed assets	1.7	0.1		1.8
Deferred income taxes	0.5	—		0.5
Changes in assets and liabilities, net of acquired businesses:				
Accounts receivable	23.7	—		23.7
Inventories	(21.6)	—		(21.6)
Prepaid and other current assets	(14.6)	(10.6)		(25.2)
Accounts payable	14.6	(3.9)		10.7
Accrued taxes and liabilities	15.2	(25.4)		(10.2)
Other assets	(34.7)	(1.2)		(35.9)
Other liabilities	6.3	(4.6)		1.7
Other, net	(1.0)	4.4		3.4
Net cash provided by operating activities	99.0	(20.8)	0.0	78.2
Cash flows from investing activities				
Investment in property, plant and equipment	(56.0)	(10.7)		(66.7)
Proceeds from sale of equipment	1.5	0.0		1.5
Investments in non-guarantors	(32.4)		32.4	
Investments in acquired businesses, net of cash acquired	(350.1)	(156.1)		(506.2)
Other	0.5	(0.7)		(0.2)
Net cash used in investing activities	(436.5)	(167.5)	32.4	(571.6)
Cash flows from financing activities				
Gross borrowings under term loans	260.0	265.0		525.0
Gross repayments under term loans	(1.0)	(2.0)		(3.0)
Net borrowings under revolving and bank lines of credit	160.7	(95.4)		65.3
Repayment of outstanding balance on old credit facility	(241.0)	0.0		(241.0)
Issuance of 8⅝% Senior Subordinated Notes	330.0	0.0		330.0
Extinguishment of 9⅞% Senior Subordinated Notes	(107.1)	0.0		(107.1)
Settlement of interest rate locks	(12.9)	0.0		(12.9)
Financing and issuance fees	(24.1)	0.0		(24.1)
Dividends on Class A Convertible Preferred Stock	(12.1)	0.0		(12.1)
Repurchase of treasury shares	(10.0)	0.0		(10.0)
Cash received from exercise of stock options	3.8	0.0		3.8
Investment from parent	0.0	32.4	(32.4)	
Net cash provided by financing activities	346.3	200.0	(32.4)	513.9
Effect of exchange rate changes on cash	0.0	0.8	0.0	(0.8)
Net increase (decrease) in cash	8.8	10.9	0.0	19.7
Cash and cash equivalents, beginning of period	2.8	7.8	0.0	10.6
Cash and cash equivalents, end of period	$ 11.6	$ 18.7	$ 0.0	$ 30.3

Balance Sheet

As of September 30, 1999 (in millions, except share information)	Parent and Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets				
Current assets:				
Cash	$ 11.6	$ 18.7		$ 30.3
Accounts receivable, net	131.6	69.8		201.4
Inventories, net	244.0	69.2		313.2
Current deferred tax asset	28.6	0.7		29.3
Prepaid and other assets	47.3	20.2		67.5
Total current assets	463.1	178.6	0.0	641.7
Property, plant and equipment, net	216.8	42.6		259.4
Intangible assets, net	498.8	295.3		794.1
Other assets	64.7	9.7		74.4
Investment in affiliates	101.1		(101.1)	
Intracompany assets	5.3		(5.3)	
Total assets	1,349.8	526.2	(106.4)	1,769.6
Liabilities and shareholders' equity				
Current liabilities:				
Short-term debt	27.7	28.7		56.4
Accounts payable	94.9	38.6		133.5
Accrued liabilities	121.2	36.5		157.7
Accrued taxes	16.8	2.5		19.3
Total current liabilities	260.6	106.3	0.0	366.9
Long-term debt	594.4	299.2		893.6
Other liabilities	42.8	23.0		65.8
Intracompany liabilities		5.3	(5.3)	0.0
Total liabilities	897.8	433.8	(5.3)	1,326.3
Commitments and contingencies				
Shareholders' equity:				
Class A Convertible Preferred Stock, no par value	173.9	—		173.9
Investment from parent		57.4	(57.4)	0.0
Common shares, no par value per share, $.01 stated value per share	0.2	—		0.2
Capital in excess of par value	213.9	—		213.9
Retained earnings	130.1	43.7	(43.7)	130.1
Treasury stock, 2.8 shares at cost	(61.9)	—		(61.9)
Accumulated other comprehensive income	(4.2)	(8.7)		(12.9)
Total shareholders' equity	452.0	92.4	(101.1)	443.3
Total liabilities and shareholders' equity	$1,349.8	$526.2	$(106.4)	$1,769.6

Statement of Operations

For the fiscal year ended September 30, 1998 (in millions)	Parent and Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Sales	$905.9	$207.1		$1,113.0
Cost of sales	598.1	116.9		715.0
Gross profit	307.8	90.2		398.0
Advertising and promotion	83.3	21.1		104.4
Selling, general and administration	125.9	44.0		169.9
Amortization or goodwill and other intangibles	8.9	4.0		12.9
Restructuring and other changes	12.9	2.5		15.4
Equity income in non-guarantors	(3.5)		3.5	
Intracompany allocations	(1.3)	1.3		
Other expenses, net	1.0	0.3		1.3
Income from operations	80.6	17.0	(3.5)	94.1
Interest expense	21.1	11.1		32.2
Income before income taxes	59.5	5.9	(3.5)	61.9
Income taxes	22.5	2.4		24.9
Income before extraordinary item	37.0	3.5	(3.5)	37.0
Extraordinary loss on early extinguishment of debt, net of income tax benefit	0.7			0.7
Net income	$ 36.3	$ 3.5	$(3.5)	$ 36.3

Statement of Cash Flows

For the fiscal year ended September 30, 1998 (in millions)	Parent and Subsidiary	Guarantors	Non-Guarantors	Eliminations Consolidated
Cash flows from operating activities				
Net income	$ 36.3	$ 3.5	$(3.5)	$ 36.3
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	17.3	4.3		21.6
Amortization	11.8	4.4		16.2
Equity income in non-guarantors	(3.5)		3.5	
Extraordinary loss	0.7	0.0		0.7
Restructuring and other charges	14.4	4.9		19.3
Loss on sale of fixed assets	2.3	0.0		2.3
Deferred income taxes	(2.4)	0.0		(2.4)
Changes in assets and liabilities, net of acquired businesses:				
Accounts receivable	(10.5)	1.9		(8.6)
Inventories	(5.2)	(0.5)		(5.7)
Prepaid and other current assets	(2.2)	0.1		(2.1)
Accounts payable	9.7	(0.9)		8.8
Accrued taxes and liabilities	(8.5)	(5.9)		(14.4)
Other, net	1.0	(2.0)		(1.0)
Net cash provided by operating activities	61.2	9.8	0.0	71.0
Cash flows from investing activities				
Investment in property, plant and equipment	(35.9)	(5.4)		(41.3)
Proceeds from sale of equipment	0.6			0.6
Investments in acquired businesses, net of cash acquired	(63.8)	(87.6)		(151.4)
Investments in non-guarantors	(6.7)		6.7	
Net cash used in investing activities	(105.8)	(93.0)	6.7	(192.1)
Cash flows from financing activities				
Net borrowings under revolving and bank lines of credit	67.6	72.4		140.0
Dividends on Class A Convertible Preferred Stock	(7.3)			(7.3)
Repurchase of common shares	(15.3)			(15.3)
Investments from parent		6.7	(6.7)	
Other, net	1.0			1.0
Net cash provided by financing activities	46.0	79.1	(6.7)	118.4
Effect of exchange rate changes on cash		0.3		0.3
Net increase (decrease) in cash	1.4	(3.8)		(2.4)
Cash and cash equivalents, beginning of period	1.4	11.6		13.0
Cash and cash equivalents, end of period	$ 2.8	$ 7.8	$ 0.0	$ 10.6

Balance Sheet

As of September 30, 1998 (in millions, except share information)	Parent and Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets				
Current assets:				
Cash	$ 2.8	$ 7.8		$ 10.6
Accounts receivable, net	105.7	40.9		146.6
Inventories, net	147.9	29.8		177.7
Current deferred tax asset	20.8			20.8
Prepaid and other assets	10.1	1.4		11.5
Total current assets	287.3	79.9	0.0	367.2
Property, plant and equipment, net	166.3	30.7		197.0
Intangible assets, net	285.1	150.0		435.1
Other assets	35.9			35.9
Investment in affiliates	75.1		(75.1)	0.0
Intracompany assets		4.5	(4.5)	0.0
Total assets	849.7	265.1	(79.6)	1,035.2
Liabilities and shareholders' equity				
Current liabilities:				
Short-term debt	10.5	2.8		13.3
Accounts payable	65.7	12.1		77.8
Accrued liabilities	95.2	29.7		124.9
Accrued taxes	12.6	3.3		15.9
Total current liabilities	184.0	47.9		231.9
Long-term debt	214.0	145.2		359.2
Other liabilities	40.3	(0.1)		40.2
Intracompany liabilities	4.5		(4.5)	0.0
Total liabilities	442.8	193.0	(4.5)	631.3
Commitments and contingencies				
Shareholders' equity:				
Class A Convertible Preferred Stock, no par value	177.3			177.3
Investment from parent		35.0	(35.0)	0.0
Common shares, no par value per share, $.01 stated value per share, issued 21.1 shares in 1998 and 1997	0.2			0.2
Capital in excess of par value	208.9			208.9
Retained earnings	76.6	40.1	(40.1)	76.6
Treasury stock, 2.8 shares at cost	(55.9)			(55.9)
Accumulated other comprehensive income	(0.2)	(3.0)		(3.2)
Total shareholders' equity	406.9	72.1	(75.1)	403.9
Total liabilities and shareholders' equity	$849.7	$265.1	$(79.6)	$1,035.2

Statement of Operations

For the fiscal year ended September 30, 1997 (in millions)	Parent and Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Sales	$784.7	$114.6		$ 899.3
Cost of sales	515.2	58.4		573.6
Gross profit	269.5	56.2		325.7
Advertising and promotion	74.2	9.7		83.9
Selling, general and administration	105.0	26.6		131.6
Amortization or goodwill and other Intangibles	8.8	1.4		10.2
Equity income in non-guarantors	(7.6)		7.6	
Intracompany allocations	(0.3)	0.3		
Other expenses (income), net	4.7	0.5		5.2
Income from operations	84.7	17.7	(7.6)	94.8
Interest expense	20.8	4.4		25.2
Income before income taxes	63.9	13.3	(7.6)	69.6
Income taxes	24.4	5.7		30.1
Net income	39.5	7.6	(7.6)	39.5

Statement of Cash Flows

For the fiscal year ended September 30, 1997 (in millions)	Parent and Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities				
Net income	$ 39.5	$ 7.6	$(7.6)	$ 39.5
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	15.7	0.9		16.6
Amortization	12.4	1.4		13.8
Equity income in non-guarantors	(7.6)		7.6	0.0
Loss (gain) on sale of fixed assets	5.6	0.0		5.6
Deferred income taxes	(1.5)	0.0		(1.5)
Changes in assets and liabilities, net of acquired businesses:				
Accounts receivable	6.5	11.8		18.3
Inventories	10.0	7.3		17.3
Prepaid and other current assets		0.4		0.4
Accounts payable	5.1	(4.0)		1.1
Accrued taxes and liabilities	13.2	(0.5)		12.7
Other, net	1.1	(3.8)		(2.7)
Net cash provided by operating activities	100.0	21.1	0.0	121.1
Cash flows from investing activities				
Investment in property, plant and equipment	(27.2)	(1.4)		(28.6)
Proceeds from sale of equipment	2.6	0.1		2.7
Dividends from non-guarantors	8.9	(46.6)	(8.9)	(46.6)
Investments in non-guarantors	(7.1)		7.1	
Net cash used in investing activities	(22.8)	(47.9)	(1.8)	(72.5)
Cash flows from financing activities				
Net borrowings (repayments) under revolving and bank lines of credit	(71.9)	34.6		(37.3)
Dividends on Class A Convertible Preferred Stock	(9.8)			(9.8)
Dividends to parent		(8.9)	8.9	0.0
Investments from parent		7.1	(7.1)	0.0
Other, net	0.9			0.9
Net cash provided by (used in) financing activities	(80.8)	32.8	1.8	(46.2)
Effect of exchange rate changes on cash		0.0		0.0
Net increase (decrease) in cash	(3.6)	6.0		2.4
Cash and cash equivalents, beginning of period	5.0	5.6		10.6
Cash and cash equivalents, end of period	$ 1.4	$ 11.6	$ 0.0	$ 13.0

Balance Sheet

As of September 30, 1997 (in millions, except share information)	Parent and Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets				
Current assets:				
Cash	$ 1.4	$ 11.6		$ 13.0
Accounts receivable, net	84.3	20.0		104.3
Inventories, net	128.6	17.5		146.1
Current deferred tax asset	19.0			19.0
Prepaid and other assets	2.4	1.0		3.4
Total current assets	235.7	50.1	0.0	285.8
Property, plant and equipment, net	135.2	10.9		146.1
Intangible assets, net	274.7	77.5		352.2
Other assets	3.5			3.5
Investment in affiliates	51.0		(51.0)	0.0
Intracompany assets		0.3	(0.3)	0.0
Total assets	700.1	138.8	(51.3)	787.6
Liabilities and shareholders' equity				
Current liabilities:				
Short-term debt	1.5			1.5
Accounts payable	49.6	4.5		54.1
Accrued liabilities	48.1	9.7		57.8
Accrued taxes	20.0	5.9		25.9
Total current liabilities	119.2	20.1	0.0	139.3
Long-term debt	152.0	67.8		219.8
Other liabilities	35.1	4.2		39.3
Intracompany liabilities	0.3		(0.3)	
Total liabilities	306.6	92.1	(0.3)	398.4
Commitments and contingencies				
Shareholders' equity:				
Class A Convertible Preferred Stock, no par value	177.3			177.3
Investment from parent		15.2	(15.2)	
Common shares, no par value per share, $.01 stated value per share, issued 21.1 shares in 1998 and 1997	0.2			0.2
Capital in excess of par value	207.8			207.8
Retained earnings	50.1	35.8	(35.8)	50.1
Treasury stock, 2.8 shares at cost	(41.9)			(41.9)
Accumulated other comprehensive income		(4.3)		(4.3)
Total shareholders' equity	393.5	46.7	(51.0)	389.2
Total liabilities and shareholders' equity	$700.1	$138.8	$(51.3)	$ 787.6

Report of Management

Management of The Scotts Company is responsible for the preparation, integrity and objectivity of the financial information presented in this Annual Report. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and, accordingly, include some amounts that are based on management's best judgments and estimates.

Management is responsible for maintaining a system of accounting and internal controls which it believes is adequate to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements. The selection and training of qualified personnel, the establishment and communication of accounting and administrative policies and procedures, and a program of internal audits are important objectives of these control systems.

The financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants, selected by the Board of Directors. The independent accountants conduct a review of internal accounting controls to the extent required by generally accepted auditing standards and perform such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements in accordance with generally accepted accounting principles.

The Board of Directors, through its Audit Committee consisting solely of non-management directors, meets periodically with management, internal audit personnel and the independent accountants to discuss internal accounting controls and auditing and financial reporting matters. The Audit Committee reviews with the independent accountants the scope and results of the audit effort. Both internal audit personnel and the independent accountants have access to the Audit Committee with or without the presence of management.

Report of Independent Accountants

To the Board of Directors and Shareholders of The Scotts Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and changes in shareholders' equity present fairly, in all material respects, the financial position of The Scotts Company at September 30, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Columbus, Ohio
October 21, 1999

Price Range:

Fiscal year ended September 30, 1998	High	Low
First Quarter	31 1/16	26 1/4
Second Quarter	35 1/2	29 7/16
Third Quarter	38	32 1/2
Fourth Quarter	41 3/8	26 3/8

Fiscal year ended September 30, 1999	High	Low
First Quarter	36 3/16	26 5/8
Second Quarter	39 3/4	32 3/8
Third Quarter	47 5/8	38 1/2
Fourth Quarter	46 3/8	34 5/8

The Scotts Company

Shareholder Information

World Headquarters
41 South High Street
Suite 3500
Columbus, Ohio 43215
(614) 719-5500

www.scottscompany.com

Annual Meeting
The annual meeting of shareholders will be held at The Westin Great Southern Hotel, 310 South High Street, Columbus, Ohio, on Tuesday, February 15, 2000, at 10:00 a.m. (EST).

NYSE Symbol
SMG Listed NYSE

The common shares of The Scotts Company trade on The New York Stock Exchange under the symbol "SMG".

Transfer Agent And Registrar
National City Bank
National City Center
P.O. Box 5756
Cleveland, Ohio 44101-0756

Shareholder And Investor Relations Contact
Rebecca J. Bruening
Vice President, Corporate Treasurer

Kristen L. Bibby
Manager, Investor Relations

The Scotts Company
41 South High Street
Suite 3500
Columbus, Ohio 43215
(614) 719-5500

Stock Price Performance
See chart above for stock performance. The Scotts Company common shares have been publicly traded since January 31, 1992.

Shareholders
As of December 1, 1999 there were approximately 8,500 shareholders, including holders of record and the company's estimate of beneficial holders.

Dividends
The company has not paid any dividends since the initial public offering of its common shares. The payment of any future dividends will be determined by the Board of Directors of the company in light of conditions then existing, including the company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions, and other factors.

Publications For Shareholders
In addition to the Annual Report, The Scotts Company informs shareholders about the company through the Form 10-K Report, the Form 10-Q Reports, and Notice of Annual Meeting and Proxy Statement. Copies of any of these documents may be obtained on our Investor Relations Web site at www.smgnyse.com or by writing to:

The Scotts Company
Attention: Investor Relations
41 South High Street
Suite 3500
Columbus, Ohio 43215

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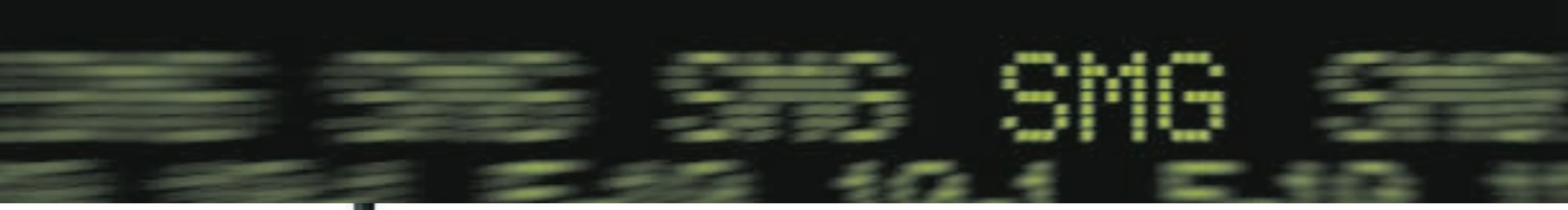
Produced by Scotts Corporate Communications and Investor Relations Departments
Design: Salvato, Coe + Gabor
Writing: Lord, Sullivan & Yoder
Printing (computer to plate): West-Camp Press, Inc.



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