The Scotts Company

2000 Annual Report

Scotts

The Scotts Company
Long-Term Strategic Goals

Achieve by 2000

1. Establish Challenging Financial Growth Targets — 8-10% Sales growth, 15-20% EPS growth, 15% Return on Equity, Margin Improvement
2. Grow the Category – and Take the Lion's Share of the Growth — More footsteps in the store
3. Enter New Lawn and Garden Categories — Think Plant, Nurture, Protect!
4. Leverage the Strength of the Brand — Turn dirt into $$$!
5. Become the Leader in all Major Lawn and Garden Markets in the World — Apply the North American Model
6. Target the Next Generation of Profitability and Growth — Brand the Yard!

RESULTS?

Goals Set, Goals Achieved, Results Delivered

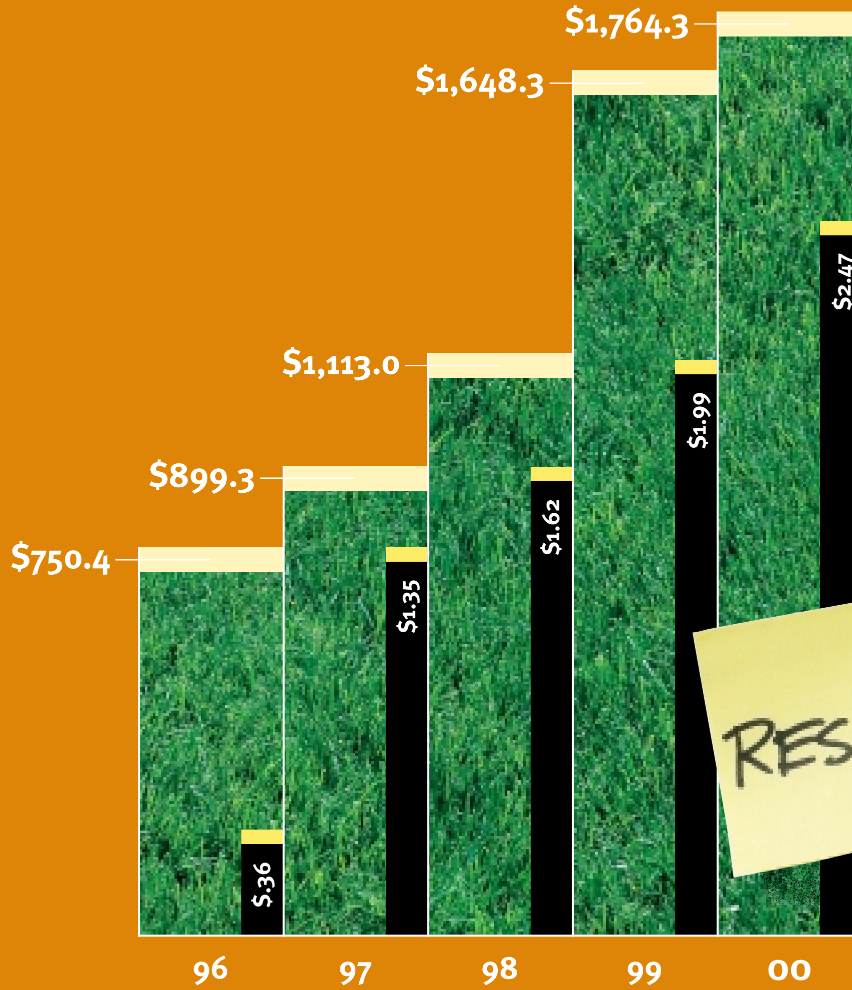
In 1996, The Scotts Company established challenging long-term profitability and growth goals, along with a strategy to achieve them.

In 2000, that strategy paid off again, driving the company's revenue growth and margin improvement, resulting in its fourth consecutive year of 20 percent Earnings Per Share growth.

Impressive results, but Scotts' strategy wasn't just developed to improve the company's financial performance. It's a strategy to literally reinvent and revitalize the entire consumer lawn and garden market, first in North America, and then in the major European markets.

In this year's Annual Report, in a series of quick, to-the-point essays, we'll examine some of the key steps The Scotts Company has taken to achieve its strategic goals, and then look ahead at how Scotts has targeted the next generation of profitability and growth. Interested in learning more? Invest fifteen minutes of your time and read on!

Certain of the statements contained in this Annual Report are forward-looking in nature. Actual results could differ materially from the forward-looking information due to a variety of factors. We recommend that you read about these factors in the 10-K document.



* Excludes restructuring and other non-recurring items.
1999 reflects the Ortho acquisition on a pro forma basis.

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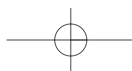


1. Establish Challenging Financial Growth Targets

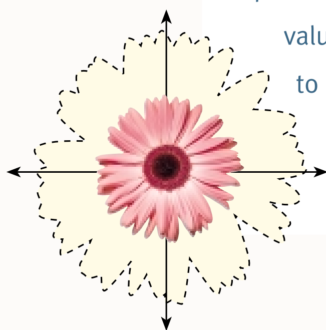
1.1 – Financial goals. Chairman and Chief Executive Officer Chuck Berger made them very clear in 1996, when he joined Scotts.

15%

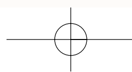
Achieve at least 8 percent to 10 percent sales growth annually. Grow Earnings Per Share by 15 percent to 20 percent annually. Target a 15 percent or better Return on Equity, and produce steady margin improvement. – 1.2

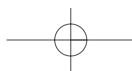
1.3 – Scotts has achieved those goals, year after year. Here's how.

Don't fight for a bigger piece of a small pie. Grow the whole category instead. Bring new consumers into it. Increase the amount of product existing consumers use. Develop new, value-added products that add more enjoyment to gardening – and grow Scotts' bottom line. Use powerful marketing and advertising to support everything you do. – 1.4



1.5 – Make gardening a pastime, not a chore. Treat Scotts® Turf Builder® and Miracle-Gro® Plant Food like branded consumer products, not just fertilizers.





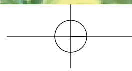
1.6 – Don't fly by the seat of your pants. Use research to identify opportunities for growth. Usage & Attitude surveys, brand audits, advertising effectiveness research, retail scanner data. Learn how, why, and when consumers use your products, then leverage that information.

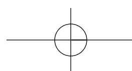
Look beyond the comfort zone. Look at all the categories in the lawn and garden market, especially those Scotts doesn't serve. – 1.7

1.8 – Scotts' market is the gardener, not geography.

1.9 – Don't forget technology: product technology, information technology, production technology, the Internet. Use them to differentiate products and services. To get closer to retailers and suppliers. To talk directly to the consumer. To improve competitiveness, to improve margins, to meet goals.

8-10% Sales growth
15-20% EPS growth
15% Return on Equity
Margin Improvement





2. Grow the Category – and Take the Lion's Share of the Growth

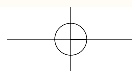
2.1 – **Think like a leader.** Think like a lion. For Scotts, that philosophy unleashed an unprecedented wave of growth – and a lot more footsteps in the store. Follow our thinking.

Use research to better **understand consumers.** Identify opportunities. Identify obstacles. – 2.2

2.3 – Use powerful advertising to pull consumers into the store. To help them understand how, and when, to use Scotts products. In the store, use easy-to-read packaging, effective displays, and helpful Scotts counselors to keep them there, to **help them buy** Scotts products.

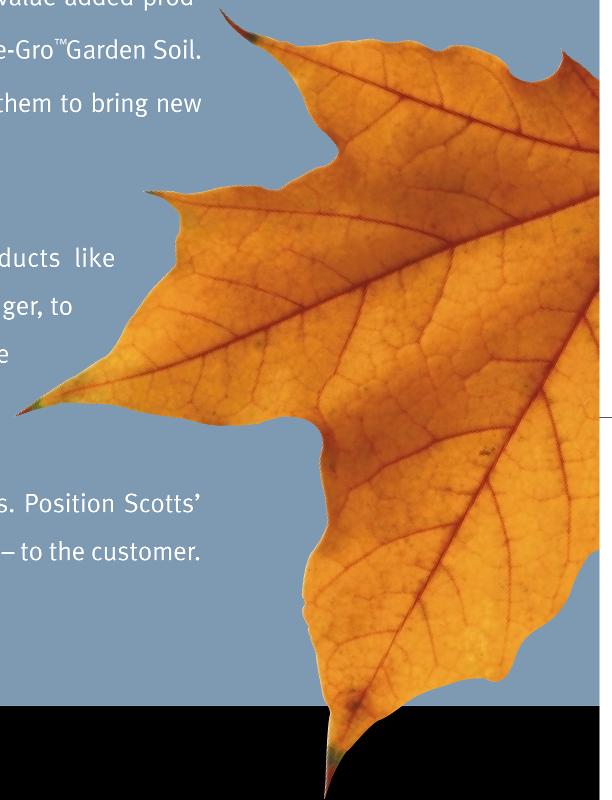
Simplify the product line. Simplify the packaging. Market products that are innovative, easy-to-use, and easy to apply. Products like the Miracle-Gro No-Clog-4 in 1® feeder, or the Ortho® Lock 'N Spray® system. – 2.4

Look at the demographics. They show a huge opportunity for growth. **Baby Boomers are reaching prime "gardening age."** – 2.5



2.6 – Leverage advertising and other communications media to **demystify lawn care and gardening.** Use the Internet to help the more than 4 million visitors to www.scotts.com understand how and when to apply Scotts products. Increase usage among today's do-it-yourself customers and bring do-nothings into the market.

2.7 – Leverage the power of the company's brands to create new, value-added products like Miracle-Gro™ Potting Mix, Scotts GrubEx®, and Miracle-Gro™ Garden Soil. **Trade consumers up** to higher-margin products. Use them to bring new gardeners into the store.

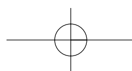


2.8 – Use advertising to create a strong fall season with products like Winterizer™ lawn fertilizer. Advertise earlier, and advertise longer, to **extend the entire gardening season.** Grow the category – and Scotts' sales.

2.9 – **Invest in strong relationships** with major retailers. Position Scotts' sales organization to present one face – the face of the leader – to the customer.

2.10 – Use merchandising, training, and marketing to get retailers behind category growth. Invest in effective production and distribution, to **meet increased demand.** Make certain retailers can count on you, all season long.

More footsteps in the store



3. Enter New Lawn and Garden Categories

3.1 – Control products help protect lawns and gardens from pests. It's a $1.4 billion U.S. market Scotts didn't serve. Today, the company leads the category. Here's how it happened.

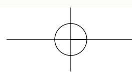
Begin with the question. Do these products make sense for Scotts? They do. Plant, nurture, and protect – it's all part of gardening. – 3.2

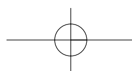
3.3 – Move aggressively. There are two great brands in the category. One, Ortho, has strong brand equity and the industry's broadest product line. The other, Roundup®*, is the unquestioned leader in its market. Add them to the Scotts portfolio.

Build the business. Use the same approach that grew other categories – research, advertising, and consumer trust. – 3.4

3.5 – Reposition the brands. They solve problems. Use advertising, communications, and effective displays to explain how. Regionalize advertising to talk about local problems and local solutions.

*Roundup is a registered trademark of Monsanto Company





3.6 – Use simplified packaging and ready-to-use formulations to make applying the products – and solving the problems – easier. Use in-store counselors, the Internet, the Ortho Problem Solver, and the toll-free Consumer Helpline to **answer consumers' questions.**

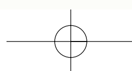
3.7 – Focus on general-purpose products: Bug-B-Gon® for pests, Weed-B-Gon® for weeds. Their names say it all.

3.8 – **Expand opportunities** for Roundup. Enhance its formulation. Increase advertising support. Take weed control beyond the patio into the yard and garden.

3.9 – Use the new control brands – and the broad product line they give Scotts – to **forge even stronger relationships with retailers.** Explore opportunities open to the leader, such as category management.

3.10 – **Realize synergies** in sales, manufacturing, and distribution.

Think Plant, Nurture, Protect!



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4. Leverage the Strength of the Brand

4.1 – Scotts. Miracle-Gro. Ortho. Roundup. Category leading brands in the Scotts portfolio. Capitalize on their strengths. Think like a branded consumer products company.

4.2 – Understand that a brand is more than a name. The brand talks about the performance and the reputation of the product. The Scotts brand is a reliable workhorse. The Miracle-Gro brand is a trusted friend that grows strong and healthy plants.

4.3 - Use brand audits to understand the strengths of the brands, and then find ways to leverage them.

4.4 - Revitalize a category: create a premium-priced, value-added segment in the huge potting soil market with Miracle-Gro Potting Mix. It's a rich organic blend enhanced with Miracle-Gro Plant Food. Take 28 percent of the category, and the number one position. Turn dirt into dollars.

4.5 - Build on the Potting Mix success by introducing Miracle-Gro Garden Soils, formulated especially for gardens and plant beds. Again, take 41 percent of the category, and the number one position, in the first year. Turn more dirt – branded dirt – into dollars.

4.6 - Leverage the brand to introduce Miracle-Gro Garden Weed Preventer™, Miracle-Gro Fertilizer Spikes for Trees, and other successful extensions.

4.7 - Introduce Scotts LawnService®. Use the power of the Scotts brand to differentiate the company in the $3.6 billion professional lawn care service market. Offer the unquestioned quality of Scotts products, plus a level of service carefully refined to grow the business and enhance the brand.

4.8 - Use the Scotts brand to energize the market for grass seed. Relaunch Scotts Pure Premium™ Seed and grow market share by 3 points.

4.9 - Leverage new brands acquired in Europe. Use the Fertiligène® brand – plus Scotts' patented technology – to successfully market the first lawn fertilizer program in France. Use the Miracle-Gro brand in the U.K. to introduce a convenient "Pour and Feed" plant fertilizer.

4.10 - Leverage the company brand: the Scotts name. Sponsor the National Garden in Washington, the century-old Philadelphia Flower Show, the Franklin Park Conservatory in our hometown of Columbus, the Sheffield Gardens in the United Kingdom, all a part of the Scotts "Give Back to Grow™" program.

Turn dirt into $$$!

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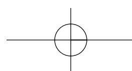


5. Become the Leader in all Major Lawn and Garden Markets in the World

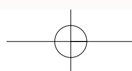
5.1 – **Europe.** Its $1.2 billion consumer lawn and garden market is the world's second largest. It's underdeveloped. Fragmented. Most competitors don't understand the value of marketing and advertising.

Entering Europe was a key component of Scotts' growth strategy. The plan? – 5.2

5.3 – **First, establish a European beachhead.** Miracle-Gro used the North American model to revitalize the United Kingdom's plant food market in the early 1990s. Start there, grow the beachhead, then look on to Continental Europe.

Make **strategic acquisitions:** Miracle Garden Care and Levington Horticulture in the U.K., Rhône-Poulenc Jardin in France and Germany, ASEF in The Netherlands, and the Substral® brand in Germany. All leaders in their markets, with strong brands ready to blossom with effective advertising and marketing. – 5.4

Don't forget Roundup: this standout in Scotts' North American consumer brand portfolio has a major presence in Europe, too. – 5.5



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5.6 – Strengthen relationships with the retail trade. Understand the European marketplace and what's required to succeed there. Explore opportunities such as category management.

5.7 – Commit to research. Conduct brand audits, to understand the portfolio and the opportunities it offers. Identify redundancies.

5.8 – Treat the brands like consumer products, not chemicals. Increase advertising, to support the brands that research shows can lead the market.

5.9 – Explore new categories such as growing media, Europe's largest. To support growth there, purchase distribution rights for high quality organic materials from Bord na Mona.

5.10 – Grow first in the U.K., France, and Germany, the largest markets, where Scotts already leads the overall market. Grow sales and grow the category.

5.11 – Introduce a new level of product quality and performance. Create a global R&D capability, to bring patented Scotts technologies into Europe and innovative European technologies to North America. Leverage R&D investments.

Apply the North American Model

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6. Target the Next Generation of Profitability and Growth

6.1 – From 1996 through 2000, Scotts enjoyed the strongest sustained profitability and growth in its 132-year history – look at the promise the years ahead hold.

6.2 – Reject any notion that the North American market has reached its full potential. Consider the $900 million lawns category: almost 30 percent of homeowners are do-nothings! The average do-it-yourselfer still makes fewer than half the recommended product applications each season. If every homeowner made just four applications a year, lawns could be a $2.8 billion market! Keep implementing the model.

Every Other Week Makes Miracles.

6.3 – In gardens, Miracle-Gro is number one, but most gardeners apply it just a few times a season. Use powerful advertising to show them how "Every Other Week Makes Miracles™" for plants and shrubs. Promote an improved No-Clog-4 in 1 Feeder, too, to grow healthier plants, and increase product usage. More consumers using more products more often could grow this category to as much as $800 million.

6.4 – The upside is huge in control products, too. Today, 50 percent of potential consumers in the United States walk away confused, empty handed. Use more advertising, better displays, in-store counselors, easy-to-understand and easy-to-apply products to simplify the category. Seize the opportunity. Every 1 percent reduction in walk-aways – the wrong kind of footsteps – grows the category by $25 million.

6.5 – In growing media, keep building the premium-priced segment by leveraging the Miracle-Gro brand.

6.6 – Target costs and productivity. Leverage new technology, new active ingredients, investments in R&D, and other innovations to improve performance and margins. Capitalize on Scotts' growing global presence to forge new, exclusive relationships with suppliers.

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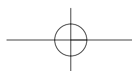


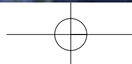
6.7 – **Accelerate the progress in Europe.** Streamline the supply chain. Rationalize production and distribution. Improve productivity. Increase advertising on key brands.

6.8 – **Leverage the brands in Europe.** Introduce fertilizer lines and create a value-added segment of the growing media category, the continent's largest. Use Substral in Germany, Miracle-Gro in the U.K., and Fertiligéne in France.

6.9 – **Capitalize on market leadership** to forge new, stronger relationships with retailers.

6.10 – Scotts entered 2001 with 22 percent of Europe's consumer markets. A good start, but there's a lot of **room to grow** the category and increase market share.

What about the **next generation of growth?** – 6.11



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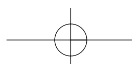
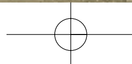


6.12 – Roughly 15 percent of homeowners use professional lawn care services – a $3.6 billion opportunity, larger than the entire North American consumables market. Scotts has staked out the premium end of this market, leveraging brand power with the Scotts LawnService and Miracle-Gro Tree & Shrub Care Service.

6.13 – Today, Scotts LawnService is an established competitor in nine of the top 40 U.S. markets. Careful efforts to build a model for performance have produced a business plan that is expected to generate significant market share, strong profitability, and industry-leading customer satisfaction and retention rates.

6.14 – The lawn service plan is in place; now it's time to expand. This could become a $500 million business within the next ten years.



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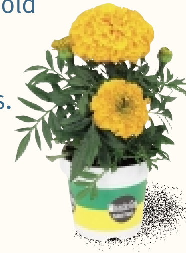
6.15 – Other opportunities? Scotts has branded lawn care and gardening. Even dirt. Why not **brand the yard?**

6.16 – **Bedding plants alone represent a $3.5 billion market.** They're sold "one aisle over" from the shelves where Scotts brands line the shelves.

6.17 – Research indicates there's a **market demand for differentiated plants.** Miracle-Gro™ Select Plants, grown with Miracle-Gro Plant Food. Scotts sold 10 million of them in test markets in 2000, finding that consumers are willing to pay a 50 percent premium for these Miracle-Gro branded plants.



6.18 – Scotts is expanding its development work in **branded plants** in 2001, working with growers and retailers to refine the business plan.

6.19 – **Longer term, biotechnology** can play a role in growing this market, too. Scotts is using proprietary technology to develop plants that produce more blooms and bloom longer, and turf grasses that require less water, less mowing, and less pesticides. Scotts is also developing a Roundup Ready®* bentgrass for golf courses which alone could generate a $25 million to $35 million revenue stream annually.

6.20 – The future? There's **strong growth ahead** in existing categories, and exciting opportunities in new ones. The foundation for tomorrow's footsteps is firmly in place.

Brand the Yard!

*Roundup Ready is a registered trademark of Monsanto Company

To Our Shareholders:

The Scotts Company has just completed another record year, its fourth in a row. The cover of this year's Annual Report illustrates, simply and directly, how we've achieved these four remarkable years of profitability and growth.

We established challenging financial goals. We developed a strategy, built on brand power and effective consumer marketing, to grow the entire lawn and garden category – and take the lion's share of the growth.

We implemented the strategy aggressively, first in core North American markets, then in new lawn and garden categories and new European markets. And finally, we have targeted future rounds of profitability and growth.

It's an exciting story. We've often talked about the successful brand-building and marketing elements, but there's much more to it than that. There are exciting innovations in critical areas such as technology, production and distribution, retail relationships, Research & Development, and supply chain – innovations that also offer significant opportunities to improve The Scotts Company's long-term profitability and growth.

Where We've Been

In 2000, Scotts achieved its fourth consecutive year of 20-plus percent earnings growth. Net earnings rose 20 percent to $73.1 million, earnings per diluted share rose 24 percent to $2.47, and cash earnings per share (that's net earnings plus amortization) rose 22 percent to $3.32. These numbers and comparisons exclude non-recurring and extraordinary items.

Record global sales totaled $1.76 billion, up 7 percent in actual terms and nearly 10 percent adjusted for foreign exchange rates. Driving growth were double-digit sales increases in the company's North American Consumer Lawns, Consumer Gardens, and Consumer Growing Media Business Groups. These reflect the continued success of our category-growing advertising, new product introductions that leveraged our powerful brands, initiatives to trade consumers up to new value-added products, and ongoing improvement in already strong retail relationships.

Sales for the Consumer Ortho Business Group, which Scotts acquired in January of 1999, rose 4 percent for the year. Sales were negatively affected by a voluntary product container return, the mandated phase-out of a major active ingredient, and declining sales efforts by a primary distributor prior to termination of its distribution arrangement. Without these negatives, we believe Ortho sales were on track for a strong 10 percent increase.

Sales for Scotts' International Business Group, where we're integrating six 1998 and 1999 acquisitions and implementing new marketing strategies, increased 5 percent on a local currency basis. Accounting for foreign exchange rates, sales decreased 4 percent. Although our decision to consolidate overall product lines and exit some low-margin business reduced sales in the U.K., local currency revenues rose by double digits in both France and Germany, continental Europe's two largest consumer markets.

North American Professional revenues decreased 20 percent, primarily due to the sale of the ProTurf® business in May.

Scotts full-year gross commission from the Roundup worldwide agency agreement was $39.2 million, compared to last year's total of $30.3 million. The commission increase reflects a strong increase in Roundup sales, which generated a 2 point market share gain, to 69 percent.

In all, Scotts gained 3 share points in the total North American lawn and garden category, achieving a 51 percent market share. Our market share remained steady in Europe at 22 percent.

Where We're Going

We're all proud of the performance we've achieved, not just during 2000, but over these last four years. Few companies of our size and market share can point to four years of strong double-digit earnings growth.

Looking to 2001, we see another strong year. We anticipate continued gains in core North American Consumer Business Groups, improved performance in the Consumer

Ortho and International Business Groups, a stronger performance in Professional, and a significant contribution from our newer groups.

We discussed some of those initiatives earlier in this report, but let me highlight several.

- In Consumer Lawns, we're introducing a premium Turf Builder Grass Seed in 2001, marketed exclusively by North America's largest home center organization.

- In Consumer Gardens, the expanded "Every Other Week Makes Miracles" advertising campaign should help continue Miracle-Gro Plant Food's strong growth. Most consumers use Miracle-Gro just a few times a season, but using powerful advertising to encourage consumers to apply the product every other week – at the recommended levels – should produce "miraculous" results, for gardeners and for Scotts!

- In Consumer Growing Media, we're excited about new Miracle-Gro Moisture Control™ Potting Mix. With a special natural ingredient which retains moisture, it's perfect for gardeners who can't water plants as often as they'd like.

- In the Consumer Ortho Business Group, we highlight one startling statistic: nearly 50 percent of consumers who want to buy a control product walk away confused and empty-handed. Each one percent of those walk-aways we turn around – through advertising, helpful hints from The Scotts Company Web Site or Consumer Helpline, clearer packaging, simplified product application, or just a timely word of advice from an in-store counselor – translates into $25 million in category growth.

- In International, we expect a double-digit sales increase, driven in part by continued implementation of our marketing and brand-building efforts. Initial results are encouraging. In France, a $2 million television advertising campaign, plus Scotts' patented fertilizer technology, increased Fertiligène lawn fertilizer sales by 100 percent in 2000. In the United Kingdom, the first television advertising support in 10 years for Evergreen® lawn fertilizer increased sales of the featured Grasshopper® pack by 43 percent and drove category growth by 15 percent.

Scotts also anticipates a strong performance in the Professional area, where we recently created a worldwide business group. This organization, which combined the company's North American Professional Horticulture Business Subgroup and the professional segment of the International Business Group, should benefit from increased synergies and efficiencies, plus enhanced awareness of its worldwide brands.

In 2001, several of the company's newer business platforms are expected to contribute to profitability and growth, including Scotts LawnService, where we've begun expansion into the $3.6 billion professional lawn care market, and the growing Consumer Canada organization, where we're capitalizing on the expanded brand portfolio.

Looking beyond 2001, there are equally exciting initiatives in place to continue the company's momentum. They're described in more detail beginning on Page 12 of this report, in "Target the Next Generation of Profitability and Growth."

The Business Side of Scotts

The Scotts Company also anticipates continued gains from company-wide efforts that will benefit all of its business groups. One of these is the integrated sales organization now representing most of our major U.S. brands. Termed "One Face To The Customer," it permits retailers to deal with one Scotts team, not the separate organizations each business group formerly used. This effort, which includes integration of trade programs, customer service, and distribution operations, should encourage retailers to increase support for Scotts products in the marketplace.

We are also intensifying efforts to streamline our supply chain, distribution operations, and information technology. Today's Scotts organization is the result of nearly a dozen acquisitions since 1993, and there are opportunities to take

additional costs out of, and still enhance our operations. The company-wide Enterprise Resource Planning (ERP) system and the real-time information it provides will play a critical role in achieving these gains. The ERP system is currently "live" in all of our U.S. business groups.

Another major company-wide initiative, new for 2001, targets improved performance on a key performance metric, Return on Invested Capital (ROIC). Over the past four years, Scotts has focused its efforts on the metrics outlined on this report's cover and, as we've pointed out, has performed exceptionally well against them.

We've added ROIC to the list because we have invested significant capital in achieving Scotts' sales and earnings growth performance, and this new initiative should help maximize returns on those investments. Currently, we calculate The Scotts Company's ROIC at just under 9 percent, well under the consumer products industry's average of approximately 13.5 percent. Our objective is to reach that industry average over the next four years. Initiatives to achieve that include reducing overhead, tightening capital spending controls, integrating ROIC performance measures into our incentive compensation plans, and – most importantly – accelerating operating performance and gross margin improvements utilizing our new ERP capabilities.

Achieving the targeted 4-plus percent improvement in ROIC could, by itself, increase operating earnings by $80 million to $100 million annually by 2004.

A Strategy For Continued Growth

Four years of record sales and earnings. Four years of record market shares. Four years of bringing, as this report's cover suggests, "more footsteps into the store."

Four remarkable years – and a strategy to carry growth forward. I'm pleased to note, too, that James Hagedorn has assumed an even larger role in achieving that growth. In April of 2000, Jim, previously President of Scotts North America, became the company's President and Chief Operating Officer.

In this new role, Jim has been invaluable to me in helping oversee the operations of our business units, bringing increased coordination to their efforts and increased opportunities in the marketplace.

Those opportunities are there, and Scotts has a strong strategy to capitalize on them. A strategy to grow the category, leverage the strength of our brands, and bring more footsteps into the garden and the store. Footsteps we believe will continue and improve The Scotts Company's record of profitability and growth.

Sincerely,

Charles M. Berger

Charles M. Berger
Chairman and Chief Executive Officer

December 15, 2000

Charles M. Berger (left) with
James Hagedorn, President and
Chief Operating Officer

Scotts' Leadership Team

Charles M. Berger
Chairman and Chief Executive Officer
Berger, who joined Scotts in 1996, has led the company to four years of record profitability and growth. Previously, he spent 32 years with H.J. Heinz Company. At Heinz, he served as Chairman and CEO of Heinz India Pvt. Ltd.; Chairman, President, and CEO of Weight Watchers International; Managing Director of Heinz Italy, the largest Heinz affiliate outside the U.S.; and as Director of Corporate Planning. He began his career as a Marketing Manager at Procter & Gamble.

At Scotts, Berger has capitalized on his extensive experience to reinvent the company as the world's leading marketer of branded consumer products for lawns and gardens.

James Hagedorn
President and Chief Operating Officer
Hagedorn, who joined Scotts in 1995, became President and Chief Operating Officer in April of 2000. He is responsible for all of Scotts' domestic and international business groups.

He had previously served as President of Scotts North America, where he was instrumental in achieving record performances for the company's Lawns, Gardens, Growing Media, and Ortho business groups, as well as building even stronger relationships with key retailers. Prior to joining Scotts, Hagedorn played a leading role in the Miracle-Gro organization's growth, serving as Executive Vice President of Sterns Miracle-Gro Products, Inc.

Michael P. Kelty, Ph.D.
Group Executive Vice President, Technology and Operations
Kelty has held key positions in horticulture, manufacturing, Research & Development, and business group management since joining Scotts in 1979. He is currently responsible for Scotts' manufacturing operations and technological organizations, assuring that they support the company's challenging profitability and growth targets.

Prior to joining Scotts, Kelty was an Assistant Professor of Environmental and Health Services at Cleveland State University.

James L. Rogula
Group Executive Vice President, North American Business Groups
Rogula, who joined Scotts in 1995, has been instrumental in bringing brand power to the company's Lawns and Ortho business groups, which he previously headed. He is now responsible for overseeing and integrating the efforts of Scotts' North American groups.

Prior to joining Scotts, Rogula was President of American Candy Company. Previous to that, he was Vice President and General Manager at Church & Dwight Company, where he was responsible for the famous Arm & Hammer brand, among others.

Laurens J. M. de Kort
Senior Vice President, Professional Business Group, Worldwide
de Kort, head of the new worldwide professional organization based in Waardenburg, Netherlands, joined Scotts in 1994. He was previously Senior Vice President of Scotts' International Professional business.

Previously, de Kort held various sales and marketing positions with Grace-Sierra Horticultural Products Company, which Scotts acquired in fiscal 1994.

Patrick J. Norton
Executive Vice President and Chief Financial Officer
Norton, a member of Scotts' Board of Directors since 1998, was elected interim Chief Financial Officer in February of 2000. Elected to his present position in May, he is responsible for Finance, Treasury, Tax, Audit, Accounting, Investor Relations, and Information Systems. He also plays a strategic role as part of the company's senior management team.

Earlier, Norton served as President and Chief Executive Officer of Barefoot Grass Lawn Service, Inc., the second largest U.S. lawn care company prior to its acquisition in February 1997. There, he introduced a business philosophy centered on total quality management and a complete focus on customer service, key elements in Scotts LawnService's growth strategy.

Michel J. Farkouh
Senior Vice President, International Consumer Business Group (Acting)
Farkouh, acting head of the consumer side of Scotts' international business based in Lyon, France, joined the company in 1999 as Senior Vice President, responsible for its consumer business in Germany and Austria. In that position, he played an important role in integrating Scotts' recent European acquisitions.

Previously, he was Vice President, Worldwide General Manager of The Solaris Group, Monsanto Company's lawn and garden business. Under Farkouh's leadership, Solaris grew into a $450 million worldwide business.

G. Robert Lucas
Executive Vice President, General Counsel, and Secretary
Lucas, who joined Scotts in 1997, oversees the company's legal affairs, as well as environmental, health, and safety programs. He played an important role in the company's numerous recent North American and European acquisitions. As Secretary, he works closely with the Board of Directors and its various committees.

Prior to joining Scotts, Lucas was a Partner with Vorys, Sater, Seymour and Pease LLP, a leading law firm headquartered in Central Ohio.

Hadia Lefavre
Senior Vice President, Human Resources Worldwide
Lefavre joined Scotts in 1999, bringing extensive international business and Human Resources (H.R.) expertise to the organization. She is leading the H.R. aspects of integrating Scotts' growing North American and international operations.

Prior to Scotts, Lefavre had served as Senior Vice President, Human Resources Worldwide, for Rhône-Poulenc Rorer Inc. Previous to that, she held various H.R. positions at leading European companies.

Directors and Executive Officers

Directors

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

Arnold W. Donald
Chairman and Chief
Executive Officer,
Merisant Company
Company selling health,
nutritional and lifestyle products
Member of Audit Committee

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

James Hagedorn
President and Chief Operating Officer,
The Scotts Company
Member of both Nominating & Board
Governance Committee and Finance Committee

Albert E. Harris
Chairman,
Fifth Third Funds
Mutual fund family
Member of both Nominating &
Board Governance Committee and
Compensation & Organization Committee

Katherine Hagedorn Littlefield
Chairman,
Hagedorn Partnership, L.P.
Private investment partnership

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

Karen G. Mills
Managing Director and Founder,
Solera Capital
Private equity firm
Chairman of Nominating &
Board Governance Committee
and Member of Finance Committee

Patrick J. Norton
Executive Vice President and
Chief Financial Officer,
The Scotts Company

John M. Sullivan
Independent director for
several companies
Member of both Compensation & Organization
Committee and Audit Committee

L. Jack Van Fossen
President,
Nessoff Corporation
Privately-held investment company
Chairman of Audit Committee

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

Executive Officers

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

James Hagedorn
President and Chief Operating Officer
Joined Scotts in 1995
Present office since 2000

Michael P. Kelty, Ph.D.
Group Executive Vice President,
Technology and Operations
Joined Scotts in 1979
Present office since 2000

James L. Rogula
Group Executive Vice President,
North American Business Groups
Joined Scotts in 1995
Present office since 2000

Patrick J. Norton
Executive Vice President and
Chief Financial Officer
Joined Scotts in 2000
Present office since 2000

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,
Professional Business Group, Worldwide
Joined Scotts in 1994
Present office since 2000

William A. Dittman
Senior Vice President,
Consumer Gardens
Business Group
Joined Scotts in 1995
Present office since 2000

Michel J. Farkouh
Senior Vice President,
International Consumer
Business Group (Acting)
Joined Scotts in 1999
Present office since 2000

Thomas A. Feusse
Senior Vice President,
Consumer Growing Media Business Group
Joined Scotts in 1985
Present office since 2000

Nick G. Kirkbride
Senior Vice President,
International Consumer Business Group,
United Kingdom and Ireland
Joined Scotts in 1998
Present office since 2000

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

Daniel C. McCafferty,
Senior Vice President,
Ortho Business Group
Joined Scotts in 1999
Present office since 2000

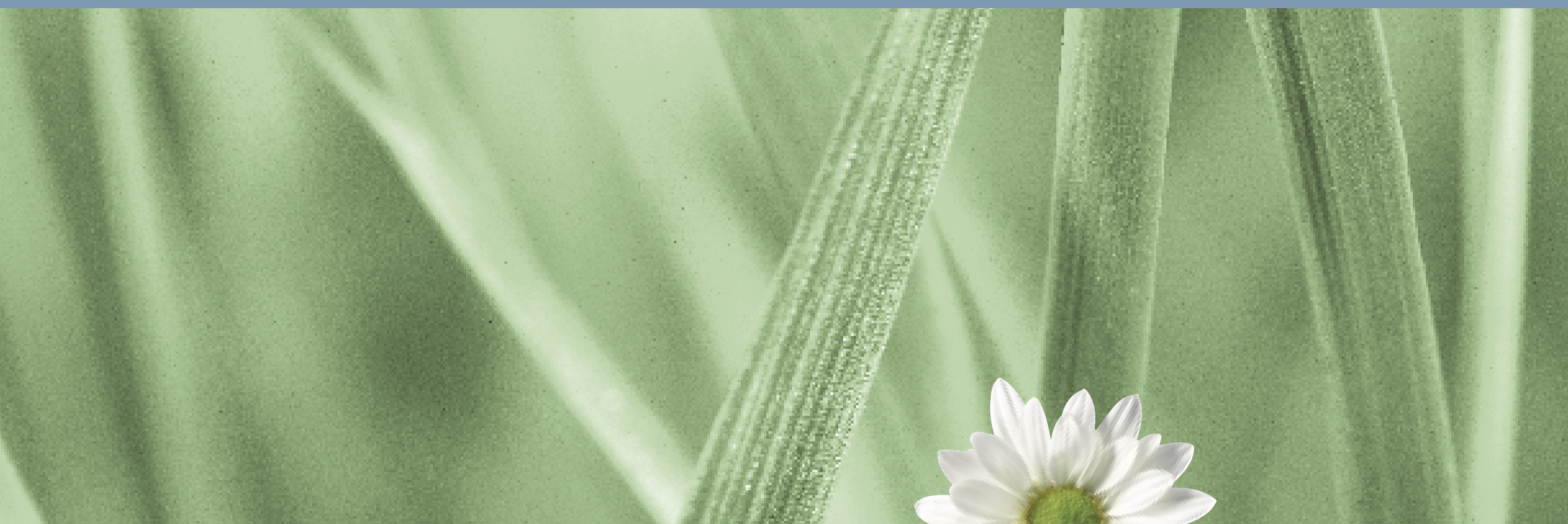
Joseph M. Petite
Senior Vice President,
Business Process Development
Joined Scotts in 1988
Present office since 1998

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

Mark R. Schwartz
Senior Vice President,
Branded Plants Business Group
Joined Scotts in 1995
Present office since 2000

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

2000 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)	2000	1999(1)	1998(2)	1997(3)	1996
OPERATING RESULTS:					
Sales	$1,764.3	$1,648.3	$1,113.0	$899.3	$750.4
Gross profit	712.0	659.2	398.0	325.7	238.0
Income from operations(4)	210.2	196.1	94.1	94.8	26.3
Income (loss) before extraordinary items	73.1	69.1	37.0	39.5	(2.5)
Income (loss) applicable to common shareholders	66.7	53.5	26.5	29.7	(12.3)
Depreciation and amortization	66.3	60.2	37.8	30.4	29.3
FINANCIAL POSITION:					
Working capital(5)	234.1	274.8	135.3	146.5	181.1
Investments in property, plant and equipment	72.5	66.7	41.3	28.6	18.2
Property, plant and equipment, net	290.5	259.4	197.0	146.1	139.5
Total assets	1,761.4	1,769.6	1,035.2	787.6	731.7
Total debt	862.8	950.0	372.5	221.3	225.3
Total shareholders' equity	477.9	443.3	403.9	389.2	364.3
CASH FLOWS:					
Cash flows from operating activities	171.5	78.2	71.0	121.1	82.3
Cash flows from investing activities	(88.5)	(571.6)	(192.1)	(72.5)	(17.4)
Cash flows from financing activities	(79.2)	513.9	118.4	(46.2)	(61.1)
RATIOS:					
Operating margin	11.9%	11.9%	8.5%	10.5%	3.5%
Current ratio	1.6	1.7	1.6	2.1	2.6
Total debt to total book capitalization	64.3%	68.2%	48.0%	36.2%	38.2%
Return on average shareholders' equity	15.9%	14.9%	9.2%	10.5%	(0.7)%
PER SHARE DATA:					
Basic earnings (loss) per common share before extraordinary items	2.39	3.25	1.46	1.60	(0.65)
Basic earnings (loss) per common share	2.39	2.93	1.42	1.60	(0.65)
Diluted earnings (loss) per common share before extraordinary items and impact of early conversion of Class A Convertible Preferred Stock	2.39	2.27	1.22	1.35	(0.65)
Diluted earnings (loss) per common share	2.25	2.08	1.20	1.35	(0.65)
Price to diluted earnings per share, end of period	14.9	16.6	25.5	19.4	nm
Stock price at year-end	33.50	34.63	30.63	26.25	19.25
Stock price range — High	42.00	47.63	41.38	30.56	21.88
Low	29.44	26.63	26.25	17.75	16.13
OTHER:					
EBITDA(6)	276.5	256.3	131.9	125.2	55.6
EBITDA margin	15.7%	15.5%	11.9%	13.9%	7.4%
Interest coverage (EBITDA/interest expense)	2.9	3.2	4.1	5.0	2.2
Average common shares outstanding	27.9	18.3	18.7	18.6	18.8
Common shares used in diluted earnings (loss) per common share calculation	29.6	30.5	30.3	29.3	18.8
Dividends on Class A Convertible Preferred Stock	$ 6.4	$ 9.7	$ 9.8	$ 9.8	$ 9.8

NOTE: Prior year presentations have been changed to conform to fiscal 2000 presentation; these changes did not impact net income.

(1) Includes Rhone-Poulenc Jardin (nka Scotts France SAS) from October 1998, ASEF Holdings BV from December 1998 and the non-Roundup ("Ortho") business from January 1999.

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

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

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

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

(6) 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 and professional horticulture in the United States and Europe. During fiscal 2000, our operations were divided into three business segments: North American Consumer, North American Professional and International. The North American Consumer segment includes the Consumer Lawns, Consumer Gardens, Consumer Growing Media, Consumer Ortho and Consumer Canada 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 2000, we spent $209.1 million on advertising and promotional activities, which is a significant increase over fiscal 1999 spending levels of $189.0 million. 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 13.2% from fiscal 1999 to fiscal 2000, after having experienced double-digit percentage increases in sales during the prior two years. 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 increase consumer marketing expenditures across all of our consumer businesses, driving increased sales through market share and category 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 for its consumer Roundup® herbicide products. Under the marketing agreement, Scotts and Monsanto will jointly develop global consumer and trade marketing programs for Roundup®. Scotts has assumed responsibility for sales support, merchandising, distribution and logistics. 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 $366 million. 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 Consumer 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 believe we are currently a leader by market share in all five segments of the consumer lawn and garden category in North America: lawn fertilizer, garden fertilizer, growing media, grass seeds and pesticides. We believe that we are now positioned as the only company with a complete offering of consumer lawn and garden products in the United States.

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 Rhone-Poulenc Jardin, a leading European lawn and garden business, from Rhone-Poulenc for approximately $147.5 million (excluding access rights to certain research and development acquired for $23.2 million). This acquisition provided a significant addition to our existing European platform and strengthened 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.

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 Scotts 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 net sales for the three years ended September 30, 2000:

	Fiscal Year Ended September 30,		
	2000	1999	1998
Net sales	100.0%	100.0%	100.0%
Cost of sales	59.6	60.0	64.2
Gross profit	40.4	40.0	35.8
Commission earned from agency agreement, net	1.7	1.8	0.0
Advertising and promotion	11.9	11.5	9.4
Selling, general and administrative	17.2	17.1	15.2
Amortization of goodwill and other intangibles	1.4	1.5	1.2
Restructuring and other charges	0.0	0.0	1.4
Other (income) expense, net	(0.3)	(0.2)	0.1
Income from operations	11.9	11.9	8.5
Interest expense	5.3	4.8	2.9
Income before income taxes	6.6	7.1	5.6
Income taxes	2.4	2.9	2.2
Income before extraordinary items	4.2	4.2	3.4
Extraordinary loss on extinguishment of debt	0.0	0.4	0.1
Net income	4.2	3.8	3.3
Dividends on Class A Convertible Preferred Stock	0.4	0.6	0.9
Income applicable to common shareholders	3.8%	3.2%	2.4%

The following table sets forth net sales by business segment for the three years ended September 30, 2000:

	2000	1999	1998
North American Consumer:			
Consumer Lawns	$ 517.6	$ 457.2	$ 366.3
Consumer Gardens	157.8	141.2	128.0
Consumer Growing Media	300.5	263.7	231.3
Consumer Ortho	255.5	212.5	0.0
Consumer Canada	29.8	22.4	8.1
Total	1,261.2	1,097.0	733.7
North American Professional	127.6	159.4	179.4
International	375.5	391.9	199.9
Consolidated	$1,764.3	$1,648.3	$1,113.0

Fiscal 2000 Compared to Fiscal 1999

Net sales for fiscal 2000 were $1.8 billion, an increase of 7.0% over fiscal 1999 net sales of $1.7 billion. On a pro forma basis, assuming that the Ortho acquisition had occurred on October 1, 1998, net sales for fiscal 2000 were 4.9% higher than pro forma net sales for fiscal 1999. The increase in net sales from year to year was driven by significant increases in net sales across all businesses in the North American Consumer segment, partially offset by decreases in net sales in the North American Professional and International segments as discussed below.

North American Consumer segment net sales were $1.3 billion in fiscal 2000, an increase of $164.2 million, or 15.0%, over net sales for fiscal 1999 of $1.1 billion. Net sales in the Consumer Lawns Business Group increased $60.4 million, or 13.2%, from fiscal 1999 to fiscal 2000, primarily due to a significant increase in sales to and consumer takeaway from national home centers. Net sales in the Consumer Gardens Business Group increased $16.6 million, or 11.8%, primarily driven by strong net sales and market share performance in the water soluble and tree spikes product lines and the successful introduction of new products such as Miracle-Gro® Garden Weed Prevent (now known as Miracle-Gro® Garden Weed Preventer™) line in fiscal 2000. Net sales in the Consumer Growing Media Business Group increased $36.8 million, or 14.0%, due to strong category and market share growth, particularly for value-added products such as Miracle-Gro™ Potting Soils. Sales in the Consumer Ortho Business Group increased $43.0 million, or 20.2%, on an actual basis and $10.0 million, or 4.1%, on a pro forma basis, reflecting significantly improved volume with home center retailers and improved category and market share performance on the selective weed control product lines. Net sales for the Consumer Ortho Business Group were negatively impacted by the voluntary product return of the registered pesticide Ortho® Home Defense® Indoor & Outdoor Insect Killer, sold with the Pull 'N Spray® pump dispenser, the phasing out of products containing the active ingredient Dursban and reduced selling efforts by a primary distributor prior to its termination on September 30, 2000. Selling price changes did not have a significant impact on net sales in the North American Consumer segment for fiscal 2000.

North American Professional segment net sales of $127.6 million in fiscal 2000 were $31.8 million lower than fiscal 1999 net sales of $159.4 million. In fiscal 1999, the North American Professional segment consisted 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 net sales for the North American Professional segment was primarily due to lower net sales of ProTurf® products and the sale of the ProTurf® business during the third quarter of fiscal 2000. In the second quarter of fiscal 1999, we changed from selling direct to customers to selling through distributors. The timing of this change and performance issues with one of our largest ProTurf® distributors caused sales to decrease when compared to the prior year for the period prior to the sale of the business. Net sales of horticulture products within this segment were slightly improved compared to the prior year.

International segment net sales of $375.5 million in fiscal 2000 were $16.4 million lower than net sales for fiscal 1999 of $391.9 million. Excluding the adverse impact of changes in exchange rates, net sales for the International segment increased 5.1% compared to the prior year period. The increase is primarily due to improved results in the segment's continental European consumer businesses and the international professional business, partially offset by decreases in the segment's U.K. consumer business caused by significant product rationalization and unusually poor weather.

Gross profit increased to $712.0 million for fiscal 2000, an increase of 8.0% over fiscal 1999 gross profit of $659.2 million, driven by the 7.0% increase in year-to-date net sales discussed above and a slight increase in gross profit as a percentage of net sales. As a percentage of net sales, gross profit was 40.4% for fiscal 2000 compared to 40.0% of net sales for fiscal 1999. This increase in profitability on net sales was driven by a shift to direct distribution to certain retail accounts, improved product mix toward higher margin, value-added products and improved efficiencies in Scott's production plants, offset by increased urea, fuel and other raw material costs and a significant erosion in the profitability of the ProTurf® business prior to its sale.

The "gross commission from agency agreement" in fiscal 2000 was $39.2 million, compared to $30.3 million in fiscal 1999. The increase in the gross commission from year to year was driven by significantly higher sales of Roundup® worldwide year over year. The gross commission earned under the

agreement is based on the EBIT (as defined by the agreement) generated each program year by the global Roundup® business. "Contribution expenses under agency agreement" were $9.9 million for fiscal 2000, compared to $1.6 million for fiscal 1999. The increase in contribution expenses was due to an increase in the contribution payment to Monsanto (now Pharmacia) and an increase of $3.2 million in the amortization of the $32 million marketing fee paid to Monsanto as a result of correcting the amortization period from 20 to 10 years. The $3.2 million of additional amortization represents the additional amortization of $1.6 million that was not recognized in fiscal 1999 and additional amortization of $1.6 million for fiscal 2000.

Advertising and promotion expenses for fiscal 2000 were $209.1 million, an increase of 10.6% over fiscal 1999 advertising and promotion expenses of $189.0 million. As a percentage of net sales, advertising and promotion expenses increased to 11.9% in fiscal 2000 from 11.5% in fiscal 1999. This increase was primarily due to continued emphasis on increasing advertising and promotion expenses to drive revenue growth within the North American Consumer segment and investments in advertising and promotion to drive future sales growth in the International segment.

Selling, general and administrative expenses in fiscal 2000 were $302.7 million, an increase of 7.6% over fiscal 1999 expenses of $281.2 million. As a percentage of net sales, selling, general and administrative expenses were 17.2% for both fiscal 2000 and fiscal 1999. The increase in the dollar amount of selling, general and administrative expenses was primarily related to additional costs needed to support the increased net sales levels in the North American Consumer Business Groups, infrastructure expenses within the International segment, selling, general and administrative expenses for the Consumer Ortho Business Group which were not incurred in the first quarter of fiscal 1999 due to the timing of the acquisition in January 1999, and increased legal costs as a result of the various legal matters discussed in Note 15 of the Notes to Consolidated Financial Statements.

Amortization of goodwill and other intangibles in fiscal 2000 was $25.3 million, an increase of $1.5 million over fiscal 1999 amortization of $23.8 million. This increase was primarily due to fiscal 1999 not reflecting a full year of amortization related to the Ortho acquisition since the acquisition occurred in January 1999.

Restructuring and other charges were $1.4 million in fiscal 1999. These charges represent severance costs associated with the reorganization of the North American Professional Business Group to strengthen distribution and technical sales support, integrate brand management across market segments and reduce annual operating expenses. Substantially all payments have been made. There were no restructuring charges incurred in fiscal 2000.

Other income in fiscal 2000 was $6.0 million compared to other income of $3.6 million in the prior year. The increase in other income, on a net basis, was primarily due to the $4.6 million gain resulting from the sale of the ProTurf® business, partially offset by costs incurred in connection with Scotts' voluntary return program for the registered pesticide Ortho® Home Defense® Indoor & Outdoor Insect Killer, sold with the Pull 'N Spray® pump dispenser and additional losses on disposals of miscellaneous fixed assets.

Income from operations for fiscal 2000 was $210.2 million compared to $196.1 million for fiscal 1999. The increase in income from operations was due primarily to the increase in net sales across the North American Consumer Business Groups as noted above, partially offset by the decrease in net sales in the North American Professional segment.

Interest expense for fiscal 2000 was $93.9 million, an increase of $14.8 million over fiscal 1999 interest expense of $79.1 million. The increase in interest expense was due to increased borrowings to fund the Ortho acquisition and an increase in average borrowing rates under our credit facility, partially offset by reduced working capital requirements.

Income tax expense was $43.2 million for fiscal 2000 compared to $47.9 million in the prior year. Scotts' effective tax rate decreased to 37.1% for fiscal 2000 compared to 41.0% for the previous year. The decrease in the tax rate for fiscal 2000 is due primarily to a reversal of $3.2 million of tax reserves upon resolution of certain outstanding tax matters during the third quarter of fiscal 2000 and a reduction in the base tax rate for the year, before reversal of reserves, to 40.0%. The base tax rate reduction is primarily a

result of the favorable treatment of a permanent tax difference associated with percentage depletion accounting.

In conjunction with the Ortho acquisition, in January 1999 Scotts completed an offering of $330 million of 8 5/8% Senior Subordinated Notes due 2009. The net proceeds from this offering, together with borrowings under our credit facility, were used to fund the Ortho acquisition and repurchase approximately 97% of the then outstanding $100 million 9 7/8% Senior Subordinated Notes due August 2004. We recorded an extraordinary loss on the extinguishment of the 9 7/8% 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.

Scotts reported net income of $73.1 million for fiscal 2000, or $2.25 per common share on a diluted basis, compared to net income of $63.2 million for fiscal 1999, or $2.08 per common share on a diluted basis. The diluted earnings per share for fiscal 2000 is net of a one-time reduction of $0.22 per share resulting from the early conversion of Class A Convertible Preferred Stock in October 1999. The diluted earnings per share for fiscal 1999 is net of a $0.19 per share charge associated with the extraordinary loss on early extinguishment of debt discussed above.

Fiscal 1999 Compared To Fiscal 1998

Net 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, Rhone-Poulenc Jardin, Levington and EarthGro acquisitions had occurred on October 1, 1997, pro forma net sales for fiscal 1999 were $1.68 billion, an 11% increase over fiscal 1998 pro forma net sales of $1.5 billion. As discussed below, the increase in net 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 Consumer Growing Media Business Groups.

North American Consumer segment net sales were $1.1 billion in fiscal 1999, an increase of nearly 50% over fiscal 1998 net sales of $734 million and an increase of 16% over fiscal 1998 on a pro forma basis. Net sales in the Consumer Lawns Business Group within this segment were $461.0 million in fiscal 1999, a 25% increase over fiscal 1998 net sales of $369.1 million. The continued dramatic revenue growth in the Consumer Lawns Business Group was driven by increases in consumer-oriented marketing efforts such as advertising, consumer research and packaging improvements, which increased category growth and Scotts' market share. Net 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®. Net sales in the Consumer 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 net sales for value-added potting soils in particular. Net sales in the Consumer Ortho Business Group were $224.3 million in fiscal 1999 which is an increase of 10% on a pro forma basis.

North American Professional segment net sales were $159.4 million in fiscal 1999, a decrease of 11% from fiscal 1998. The decrease in fiscal 1999 net 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 net sales volumes in fiscal 1999.

International segment net sales increased to $391.9 million in fiscal 1999 compared to $199.9 million in fiscal 1998, primarily the result of the Rhone-Poulenc Jardin and ASEF acquisitions in fiscal 1999. The increase in net sales on a pro forma basis was 9%, which was primarily due to revenue growth in the European Professional and Rhone-Poulenc Jardin businesses, partially offset by a net sales decline 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 net sales in fiscal 1999 would have been 10% higher than fiscal 1998. Selling price changes did not have a significant 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 net sales, compared to $569.2 million in fiscal 1998, or 38% of net sales. The increase in gross profit as a percentage of net 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 "gross commission earned from agency agreement" in fiscal 1999 of $30.3 million was generated from our marketing agreement with Monsanto for exclusive domestic and international marketing and agency rights to Monsanto's consumer Roundup® herbicide products.

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 Ortho and Rhone-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 Business Groups, respectively. As a percentage of net 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 Ortho and Rhone-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 Resource Planning 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 Business Groups 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 $23.8 million in fiscal 1999 compared to $12.9 million in fiscal 1998 due to additional intangibles resulting from the Ortho, Rhone-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 North American 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 were made to these former associates during fiscal 1999; $0.2 million of the remaining $0.3 million was paid in fiscal 2000, and the remaining $0.1 million is expected to be paid in fiscal 2001. 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.

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 represented royalties received under license agreements for the use of some of our trademarks. Other expenses in fiscal 1998 represented 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, were 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 Rhone-Poulenc Jardin businesses and significant improvements in the Consumer Lawns and Consumer Growing Media Business Groups, 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, Rhone-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 8 5/8% Senior Subordinated Notes due 2009. The net proceeds from this offering, together with borrowings under our credit facility, were used to fund the Ortho acquisition and repurchase approximately 97% of the outstanding $100 million 9 7/8% Senior Subordinated Notes due August 2004. We recorded an extraordinary loss on the extinguishment of the 9 7/8% 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 was $1.62 on a diluted basis.

Liquidity and Capital Resources

Cash provided by operating activities was $171.5 million for fiscal 2000 compared to $78.2 million for fiscal 1999. The seasonal nature of our operations generally requires cash to fund significant increases in working capital (primarily inventory and accounts receivable) during the first and second quarters. The third fiscal quarter is a period for collecting accounts receivable and reducing inventory levels. The increase in cash provided by operating activities for fiscal 2000 compared to the prior year is attributable to a significant decrease in the amount of working capital required during the year as well as the payment of the Roundup® marketing fee made in the first quarter of fiscal 1999.

Cash used in investing activities was $88.5 million for fiscal 2000 compared to $571.6 million in the prior year. In the first quarter of fiscal 1999, we purchased the Rhone-Poulenc Jardin and ASEF businesses for approximately $147.5 million (excluding $23.2 million for access rights acquired under a research and development agreement with Rhone-Poulenc Jardin). In the second quarter of fiscal 1999, we purchased from Monsanto the assets of its worldwide consumer lawn and garden businesses, exclusive of the Roundup® business. Scotts made an initial payment of $339.9 million at the acquisition date, and made an additional payment of $15.6 million when the final purchase price of $355.5 was determined in the third quarter of fiscal 2000. Capital expenditures increased to $72.5 million in fiscal 2000 compared to $66.7 million in fiscal 1999.

Financing activities required cash of $79.2 million for fiscal 2000 compared to providing $513.9 million in the prior year. In the first quarter of fiscal 1999, Scotts borrowed funds under its credit facility in order to purchase the Rhone-Poulenc Jardin and ASEF businesses, to pay marketing fees associated with the Roundup® marketing agreement, to pay financing fees associated with the new credit facility and to settle the then outstanding interest rate locks (as described below). In the second quarter of fiscal 1999, Scotts completed an offering of $330 million of 8 5/8% Senior Subordinated Notes due August 2009. The net proceeds from this offering, together with borrowings under our credit facility, were used to fund the Ortho acquisition and repurchase approximately 97% of the then outstanding $100 million 9 7/8% Senior Subordinated Notes due August 2004. Due to the cash provided by operating activities during fiscal 2000, Scotts was able to make net repayments to its credit facility of $47.6 million. Scotts also repurchased $23.9 million of treasury shares during fiscal 2000, compared to $10.0 million in fiscal 1999.

Total debt was $862.8 million as of September 30, 2000, a decrease of $87.2 million compared with total debt at September 30, 1999. The decrease in total debt as of September 30, 2000 was primarily due to scheduled quarterly debt repayments on Scotts' term loans during fiscal 2000, repayments on the

revolving portion of Scotts' credit facility during fiscal 2000, and the impact of weakening exchange rates on debt denominated in foreign currencies.

Our primary sources of liquidity are funds generated by operations and borrowings under our credit facility. The credit facility 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. On December 5, 2000, we amended our current credit facility to refinance a portion of the term loan facilities and to increase the revolving credit facility to $575 million. See further description of the amendment to the credit facility in Note 18 of the Notes to Consolidated Financial Statements.

We funded the acquisition of the Rhone-Poulenc Jardin and ASEF businesses with borrowings under our credit facility. Additional borrowings under the credit facility, along with proceeds from the January 1999 offering of $330 million of $8\frac{5}{8}$% Senior Subordinated Notes due 2009, were used to fund the Ortho acquisition and to repurchase approximately 97% of Scotts' then outstanding $100.0 million $9\frac{7}{8}$% Senior Subordinated Notes due August 2004.

Coincidental with the $8\frac{5}{8}$% Notes offering, Scotts settled its then outstanding interest rate locks for approximately $3.6 million. We entered into two interest rate locks in fiscal 1998 to hedge the anticipated interest rate exposure on the $330 million note offering. In October 1998, we terminated one of the interest rate locks for $9.3 million and entered into a new interest rate lock instrument. The total amount paid under the interest rate locks of $12.9 million has been deferred and is being amortized over the life of the notes.

Capital expenditures were $72.5 million in fiscal 2000. We estimate that capital expenditures will approximate $75-80 million in each of fiscal 2001 and 2002.

In July 1998, our Board of Directors 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, 2000, 1,106,295 common shares (or $40.6 million) have been repurchased under this repurchase program limit.

In October 2000, the Board of Directors approved cancellation of the third year commitment of $50 million under the share repurchase program. The Board did authorize repurchasing the amount still outstanding under the second year repurchase commitment (approximately $9.0 million) through September 30, 2001.

Any repurchase will also be subject to the covenants contained in our credit facility as well as our other debt instruments. The repurchased shares have been and will be held in treasury and will thereafter be used for the exercise of employee stock options and for other general corporate purposes.

In our opinion, cash flows from operations and capital resources will be sufficient to meet debt service and working capital needs during fiscal 2001, 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 our 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 our credit facility, 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 legal actions with various governmental agencies related to environmental matters. 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 future quarterly or

annual operating results. Additional information on environmental matters affecting us is provided in Note 15 to our Consolidated Financial Statements included herein and under "ITEM 1. BUSINESS-Environmental and Regulatory Considerations" and "ITEM 3. LEGAL PROCEEDINGS" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2000.

Year 2000 Readiness

In fiscal 2000, we did not experience any significant issues related to the ability of our information technology and business systems to recognize the year 2000. In addition, we did not experience any significant supply difficulties related to our vendors' year 2000 readiness. While we believe that we have taken adequate precautions against year 2000 systems issues, there can be no assurance that we will not encounter business interruption or other issues related to the year 2000 in the future.

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 includes the redesign of many key business processes in connection with the installation of new software. SAP was selected as the primary software provider for this project. As of October 1, 2000, all of the North American businesses with the exception of Canada are operating under the new system. Through September 30, 2000, we spent approximately $52.3 million on the project, approximately 75% of which will be capitalized over a period of four to eight years. We are currently evaluating when, and to what extent, the new information systems and applications will be implemented at our international locations.

Euro

A new currency called the "euro" has been introduced in certain Economic and Monetary Union (EMU) 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 are in the process of developing our plans and contracts for work to be performed to implement utilization of the euro as required at our operations in continental Europe. We expect that a significant portion of the costs associated with this work will be incurred during fiscal 2001; however, some costs will likely be incurred in the first quarter of fiscal 2002 as well. 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 material adverse effect on our business, operating results and financial condition.

Management's Outlook

Fiscal 2000 was another year of significant financial achievements for Scotts, as we reported record net sales of $1.76 billion, grew diluted earnings per share by at least 20% for the fourth consecutive year (on a pro forma basis, excluding extraordinary items and the impact of the early conversion of the Class A Convertible Preferred Stock) and established or maintained what we believe to be the leading 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 Rhone-Poulenc Jardin businesses, were critical in providing us with significant market positions in the pesticides category as well as continental European lawn and garden markets.

During fiscal 2000, we were able to achieve our financial results despite encountering unfavorable market trends such as rising raw material and fuel costs, increased interest rates and declining exchange rates against the U.S. dollar in nearly all of the significant foreign countries in which we operate. We anticipate that raw material and fuel costs will likely remain at their high levels or even increase further in fiscal 2001. To achieve our earnings targets for fiscal 2001, we plan to continue our emphasis on consumer marketing to grow the categories and our market shares, pursue opportunities to recover raw material and fuel cost increases through increased manufacturing and distribution efficiencies enabled by our newly implemented North American Enterprise Resource Planning system, consolidate and reorganize our North American sales force to better leverage sales and merchandising opportunities with our customers, and reduce the rate of increases in our selling, general and administrative costs.

Strategically, fiscal 2000's performance reflected the successful continuation of our emphasis on consumer-oriented marketing efforts to pull demand through our distribution channels. 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 our 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.

Scotts anticipates that we will continue to deliver significant revenue and earnings growth through emphasis on executing our strategic plan. We believe that we can continue to generate annual sales growth of 6% to 8% in our core businesses and annual earnings growth of at least 15%. In addition, we have targeted improving our return on invested capital. We believe that we can achieve our goal of realizing a return of 13.5% on our invested capital (our estimate of the average return on invested capital for our consumer products peer group) in the next four years. We expect to achieve this goal by reducing our overhead spending, tightening capital spending controls, implementing return on capital measures into our incentive compensation plans and accelerating operating performance and gross margin improvements utilizing our new Enterprise Resource Planning capabilities in North America.

Forward-Looking Statements

We have 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 our Annual Report, in this 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 our Annual Report, in this 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 described 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 pesticide 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 net 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 flows from operations to payments on our indebtedness, which would reduce the cash flows 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 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, Rhone-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 56.5% of our fiscal 2000 net sales and 41% of our outstanding accounts receivable as of September 30, 2000. Our top three customers, Home Depot, Wal*Mart and Kmart represented approximately 22.9%, 8.9% and 8.2% of our fiscal 2000 net 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 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®, was subject to a patent in the United States that expired in September 2000. Scotts cannot predict the success of Roundup® now that glyphosate is no longer patented. Substantial new competition in the United States could adversely affect Scotts. Glyphosate is no longer subject to patent in Europe and is not subject to patent in Canada. While sales of Roundup® in such countries have continued to increase despite the lack of patent protection, sales in the United States may decline as a result of increased competition. Any such decline in sales would adversely affect Scotts' financial results through the reduction of commissions as calculated under the Roundup® 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 42% 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. In the United States, 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 our business. 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 ("USEPA") is evaluating the cumulative risks from dietary and non-dietary exposures to pesticides. The pesticides in Scotts' products, which are also used on foods, will be evaluated by the USEPA as part of this non-dietary exposure risk assessment. It is possible that the USEPA or the active ingredient registrant may decide that a pesticide Scotts uses in its products, would be limited or made unavailable to Scotts. For example, in June 2000, DowAgroSciences, an active ingredient registrant, voluntarily agreed to a gradual phase-out of residential uses of Dursban, an active ingredient used by Scotts in its lawn and garden products. Scotts cannot predict the outcome or the severity of the effect of the USEPA's continuing evaluations. Management believes that Scotts 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. With regard to Dursban, Scotts has introduced new pesticide products to meet consumer needs for pest control.

  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. 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, and air and water discharges from our facilities. In June 1997, the Ohio Environmental Protection Agency (EPA) 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 potential 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 2000, we made approximately $1.2 million in environmental capital expenditures and $1.8 million in other environmental expenses, compared with approximately $1.1 million in environmental capital expenditures and $5.9 million in other environmental expenses in fiscal 1999. Management anticipates that environmental capital expenditures and other environmental expenses for fiscal 2001 will not differ significantly from those incurred in fiscal 2000. If we are required to significantly increase our actual environmental capital expenditures and other environmental expenses, it 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 (EMU) 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 material 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 Care Limited, Ortho and Rhone-Poulenc Jardin and with the marketing agreement for consumer Roundup® products. In fiscal 2000, international sales accounted for approximately 21% 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, 2000 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, 2000 was $1.48: 1 GBP.
- 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 8 5/8% 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, 2000. 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, 2000. The information is presented in U.S. dollars (in millions):

	Expected Maturity Date						
	2001	2002	2003	2004	Thereafter	Total	Fair Value
Long-term debt:							
Fixed rate debt					$330.0	$330.0	$318.5
Average rate					8.625%	8.625%	
Variable rate debt	$29.4	$38.5	$42.0	$42.0	$337.6	$489.5	$489.5
Average rate	8.04%	7.97%	7.96%	7.96%	9.67%	9.02%	
Interest rate derivatives:							
Interest rate swap on GBP LIBOR	$(0.4)	$(0.2)				$(0.6)	$(0.6)
Average rate	7.62%	7.62%				7.62%	
Interest rate swaps on USD LIBOR	$1.7	$1.1	$0.5	$0.2		$3.5	$3.2
Average rate	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 2000, 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.

The Scotts Company
Consolidated Statements of Operations
for the fiscal years ended September 30, 2000, 1999 and 1998
(in millions, except per share data)

	2000	1999	1998
Net Sales	$1,764.3	$1,648.3	$1,113.0
Cost of sales	1,052.3	989.1	715.0
Gross profit	712.0	659.2	398.0
Gross commission earned from marketing agreement	39.2	30.3	
Contribution expenses under marketing agreement	9.9	1.6	
Net commission earned from marketing agreement	29.3	28.7	
Operating expenses:			
Advertising and promotion	209.1	189.0	104.4
Selling, general and administrative	302.7	281.2	169.9
Amortization of goodwill and other intangibles	25.3	23.8	12.9
Restructuring and other charges		1.4	15.4
Other (income) expense, net	(6.0)	(3.6)	1.3
Income from operations	210.2	196.1	94.1
Interest expense	93.9	79.1	32.2
Income before income taxes	116.3	117.0	61.9
Income taxes	43.2	47.9	24.9
Income before extraordinary item	73.1	69.1	37.0
Extraordinary loss on early extinguishment of debt, net of income tax benefit		5.9	0.7
Net income	73.1	63.2	36.3
Dividends on Class A Convertible Preferred Stock	6.4	9.7	9.8
Income applicable to common shareholders	$ 66.7	$ 53.5	$ 26.5
Basic earnings per share:			
Before extraordinary loss	$ 2.39	$ 3.25	$ 1.46
Extraordinary loss, net of tax		(0.32)	(0.04)
	$ 2.39	$ 2.93	$ 1.42
Diluted earnings per share:			
Before extraordinary loss	$ 2.25	$ 2.27	$ 1.22
Extraordinary loss, net of tax		(0.19)	(0.02)
	$ 2.25	$ 2.08	$ 1.20
Common shares used in basic earnings per share calculation	27.9	18.3	18.7
Common shares and potential common shares used in diluted earnings per share calculation	29.6	30.5	30.3

See Notes to Consolidated Financial Statements.

The Scotts Company
Consolidated Statements of Cash Flows
for the fiscal years ended September 30, 2000, 1999 and 1998
(in millions)

	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 73.1	$ 63.2	$ 36.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	29.0	29.0	21.6
Amortization	37.3	31.2	16.2
Extraordinary loss		5.9	0.7
Restructuring and other charges			19.3
Loss on sale of property	4.4	1.8	2.3
Gain on sale of business	(4.6)		
Changes in assets and liabilities, net of acquired businesses:			
Accounts receivable	6.4	23.7	(8.6)
Inventories	5.8	(21.6)	(5.7)
Prepaid and other current assets	(9.2)	(25.2)	(2.1)
Accounts payable	19.4	10.7	8.8
Accrued taxes and liabilities	30.0	(10.2)	(14.4)
Other assets	(4.7)	(35.9)	0.3
Other liabilities	(6.4)	2.2	(0.1)
Other, net	(9.0)	3.4	(3.6)
Net cash provided by operating activities	171.5	78.2	71.0
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in property, plant and equipment	(72.5)	(66.7)	(41.3)
Proceeds from sale of equipment	1.8	1.5	0.6
Investments in acquired businesses, net of cash acquired	(18.3)	(506.2)	(151.4)
Other, net	0.5	(0.2)	
Net cash used in investing activities	(88.5)	(571.6)	(192.1)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (repayments) borrowings under revolving and bank lines of credit	(26.0)	65.3	140.0
Gross borrowings under term loans		525.0	
Gross repayments under term loans	(23.7)	(3.0)	
Repayment of outstanding balance on previous credit facility		(241.0)	
Issuance of 8 5/8% Senior Subordinated Notes		330.0	
Extinguishment of 9 7/8% Senior Subordinated Notes		(107.1)	
Settlement of interest rate locks		(12.9)	
Financing and issuance fees	(1.0)	(24.1)	
Dividends on Class A Convertible Preferred Stock	(6.4)	(12.1)	(7.3)
Repurchase of treasury shares	(23.9)	(10.0)	(15.3)
Cash received from exercise of stock options	2.8	3.8	1.7
Other, net	(1.0)		(0.7)
Net cash (used in) provided by financing activities	(79.2)	513.9	118.4
Effect of exchange rate changes on cash	(1.1)	(0.8)	0.3
Net increase (decrease) in cash	2.7	19.7	(2.4)
Cash and cash equivalents, beginning of period	30.3	10.6	13.0
Cash and cash equivalents, end of period	$ 33.0	$ 30.3	$ 10.6

See Notes to Consolidated Financial Statements.

The Scotts Company
Consolidated Balance Sheets
September 30, 2000 and 1999
(in millions)

	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33.0	$ 30.3
Accounts receivable, less allowance for uncollectible accounts of $11.7 in 2000 and $16.4 in 1999	216.0	201.4
Inventories, net	307.5	313.2
Current deferred tax asset	25.1	29.3
Prepaid and other assets	62.3	67.5
Total current assets	643.9	641.7
Property, plant and equipment, net	290.5	259.4
Intangible assets, net	743.1	794.1
Other assets	83.9	74.4
Total assets	$1,761.4	$1,769.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 49.4	$ 56.4
Accounts payable	153.0	133.5
Accrued liabilities	174.3	157.7
Accrued taxes	33.1	19.3
Total current liabilities	409.8	366.9
Long-term debt	813.4	893.6
Other liabilities	60.3	65.8
Total liabilities	1,283.5	1,326.3
Commitments and contingencies		
Shareholders' equity:		
Class A Convertible Preferred Stock, no par value		173.9
Common shares, no par value per share, $.01 stated value per share, 31.3 shares issued in 2000, 21.3 shares issued in 1999	0.3	0.2
Capital in excess of stated value	389.3	213.9
Retained earnings	196.8	130.1
Treasury stock, 3.4 shares in 2000, 2.9 shares in 1999	(83.5)	(61.9)
Accumulated other comprehensive income	(25.0)	(12.9)
Total shareholders' equity	477.9	443.3
Total liabilities and shareholders' equity	$1,761.4	$1,769.6

See Notes to Consolidated Financial Statements.

The Scotts Company

Consolidated Statements of Changes in Shareholders' Equity
for the fiscal years ended September 30, 2000, 1999 and 1998
(in millions)

	Class A Convertible Preferred Stock		Common Shares		Capital in Excess of Stated Value	Retained Earnings	Treasury Stock	
	Shares	Amount	Shares	Amount			Shares	Amount
Balance, September 30, 1997	0.2	$ 177.3	21.1	$0.2	$207.8	$ 50.1	(2.4)	$ (41.9)
Net income						36.3		
Foreign currency translation								
Minimum pension liability								
Comprehensive income								
Issuance of common shares held in treasury					1.1		0.1	1.7
Purchase of common shares							(0.5)	(15.7)
Dividends on Class A Convertible Preferred Stock						(9.8)		
Balance, September 30, 1998	0.2	177.3	21.1	0.2	208.9	76.6	(2.8)	(55.9)
Net income						63.2		
Foreign currency translation								
Minimum pension liability								
Comprehensive income								
Issuance of common shares held in treasury					1.6		0.2	4.0
Purchase of common shares							(0.3)	(10.0)
Dividends on Class A Convertible Preferred Stock						(9.7)		
Conversion of Class A Convertible Preferred Stock	(0.2)	(3.4)	0.2		3.4			
Balance, September 30, 1999	0.0	173.9	21.3	0.2	213.9	130.1	(2.9)	(61.9)
Net income						73.1		
Foreign currency translation								
Minimum pension liability								
Comprehensive income								
Issuance of common shares held in treasury				0.1	1.5		0.1	2.3
Purchase of common shares							(0.6)	(23.9)
Dividends on Class A Convertible Preferred Stock						(6.4)		
Conversion of preferred stock		(173.9)	10.0		173.9			
Balance, September 30, 2000	0.0	$ 0.0	31.3	$0.3	$389.3	$196.8	(3.4)	$ (83.5)

The Scotts Company
Consolidated Statements of Changes in Shareholders' Equity
for the fiscal years ended September 30, 2000, 1999 and 1998
(in millions)

	Accumulated Other Comprehensive Income		
	Minimum Pension Liability Adjustment	Foreign Currency Translation	Total
Balance, September 30, 1997	$ 0.0	$ (4.3)	$ 389.2
Net income			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			2.8
Purchase of common shares			(15.7)
Dividends on Class A Convertible Preferred Stock			(9.8)
Balance, September 30, 1998	$ (0.2)	$ (3.0)	$ 403.9
Net income			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			5.6
Purchase of common shares			(10.0)
Dividends on Class A Convertible Preferred Stock			(9.7)
Conversion of Preferred Stock			
Balance, September 30, 1999	$ (4.2)	$ (8.7)	$ 443.3
Net income			73.1
Foreign currency translation		(11.2)	(11.2)
Minimum pension liability	(0.9)(a)		(0.9)
Comprehensive income			61.0
Issuance of common shares held in treasury			3.9
Purchase of common shares			(23.9)
Dividends on Class A Convertible Preferred Stock			(6.4)
Balance September 30, 2000	$ (5.1)	$ (19.9)	$ 477.9

(a) Net of tax benefits of $0.5 million, $2.7 million, and $0.1 million for fiscal 2000, 1999 and 1998, respectively.

See Notes to Consolidated Financial Statements.

The Scotts Company
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, 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 ownership of the goods in writing. Provisions for estimated returns and allowances are recorded at the time of shipment based on historical rates of return as a percentage of sales.

Research and Development

All costs associated with research and development are charged to expense as incurred. Expense for fiscal 2000, 1999, and 1998 was $24.1 million, $21.7 million, and $14.8 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 the Company may undertake in the future, actual results ultimately may differ from the estimates.

Inventories

Inventories are stated at the lower of cost or market, principally determined by the FIFO method; however, certain growing media inventories are accounted for by the LIFO method. At September 30, 2000 and 1999, approximately 13% and 8% 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 $2.4 million and $1.8 million of interest costs during fiscal 2000 and 1999, 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 debt instruments. Patents and trademarks are being amortized on a straight-line basis over periods varying from 7 to 40 years. Accumulated amortization at September 30, 2000 and 1999 was $121.9 million and $96.2 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 Enterprise Resource Planning 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. As of September 30, 2000 and 1999, the Company had $37.3 million and $23.9 million, respectively, in unamortized capitalized internal use computer software costs. Amortization of these costs was $0.9 million during fiscal 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Barter Credits

The Company occasionally exchanges excess or obsolete inventory for barter credits from an inventory broker. The barter credits are recorded as an asset at the net book value of the inventory exchanged which is typically less than the face value of the credits. The broker credits can be used in exchange for a variety of services, including advertising, telephone and freight. When a barter credit is utilized for face value, the charge for the service received is recorded at the amount of cash paid plus the book value of the barter credits exchanged.

As of September 30, 2000, the Company had available barter credits with a face value of $2.8 million and with a carrying value of $1.4 million which are included in the Company's balance sheet. To the extent that the Company is able to utilize these barter credits in the future, the cost of the service received will be reduced by the face value of the barter credits exchanged, offset by the carrying value of the barter credits utilized.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to fiscal 2000 classifications.

NOTE 2. DETAIL OF CERTAIN FINANCIAL STATEMENT ACCOUNTS

	2000	1999
	(in millions)	
INVENTORIES, NET:		
Finished Goods	$232.9	$206.4
Raw Materials	73.7	106.5
FIFO Cost	306.6	312.9
LIFO Reserve	0.9	0.3
Total	$ 307.5	$ 313.2

Inventory balances are shown net of provisions for slow moving and obsolete inventory of $20.1 million and $30.5 million as of September 30, 2000 and 1999, respectively.

	2000	1999
	(in millions)	
PROPERTY, PLANT AND EQUIPMENT, NET:		
Land and improvements	$ 38.5	$ 41.4
Buildings	109.0	88.2
Machinery and equipment	201.4	213.7
Furniture and fixtures	30.0	19.8
Software	39.5	32.6
Construction in progress	54.4	26.3
Less: accumulated depreciation	(182.3)	(162.6)
Total	$290.5	$259.4

	2000	1999
	(in millions)	
INTANGIBLE ASSETS, NET:		
Goodwill	$280.4	$508.6
Trademarks	331.1	207.9
Other	131.6	77.6
Total	$ 743.1	$ 794.1

	2000	1999
	(in millions)	
ACCRUED LIABILITIES:		
Payroll and other compensation accruals	$ 40.5	$ 42.5
Advertising and promotional accruals	73.0	56.4
Other	60.8	58.8
Total	$ 174.3	$ 157.7

	2000	1999
	(in millions)	
OTHER NON-CURRENT LIABILITIES:		
Accrued pension and postretirement liabilities	$ 49.8	$ 50.4
Legal and environmental reserves	10.5	11.5
Other	0.0	3.9
Total	$ 60.3	$ 65.8

NOTE 3. MARKETING AGREEMENT

Effective September 30, 1998, the Company entered into an agreement with Monsanto Company (“Monsanto”, now known as Pharmacia Corporation) for exclusive domestic and international marketing and agency rights to Monsanto’s consumer Roundup® herbicide products. Under the terms of the agreement, the Company is entitled to receive an annual commission from Monsanto in consideration for the performance of its duties as agent. The annual commission is calculated as a percentage of the actual earnings before interest and income taxes (EBIT), as defined in the agreement, of the Roundup® business. Each year’s percentage varies in accordance with the terms of the agreement based on the achievement of two earnings thresholds and on commission rates that vary by threshold and program year.

The agreement also requires the Company to make fixed annual payments to Monsanto as a contribution against the overall expenses of the Roundup® business. The annual fixed payment is defined as $20 million. However, portions of the annual payments for the first three years of the agreement are deferred. No payment was required for the first year (fiscal 1999), a payment of $5 million was required for the second year and a payment of $15 million is required for the third year so that a total of $40 million of the contribution payments are deferred. Beginning in the fifth year of the agreement, the annual payments to Monsanto increase to at least $25 million, which include per annum charges at 8%. The annual payments may be increased above $25 million if certain significant earnings targets are achieved. If all of the deferred contribution amounts are paid prior to 2018, the annual contribution payments revert to $20 million. Regardless of whether the deferred contribution amounts are paid, all contribution payments cease entirely in 2018.

The Company is recognizing a charge each year associated with the annual contribution payments equal to the required payment for that year. The Company is not recognizing a charge for the portions of the contribution payments that are deferred until the time those deferred amounts are paid. The Company considers this method of accounting for the contribution payments to be appropriate after consideration of the likely term of the agreement, the Company's ability to terminate the agreement without paying the deferred amounts, and the fact that approximately $18.6 million of the deferred amount is never paid, even if the agreement is not terminated prior to 2018, unless significant earnings targets are exceeded.

The agreement permits the Company to terminate the agreement only upon Material Breach, Material Fraud or Material Willful Misconduct by Monsanto, as such terms are defined in the agreement, or upon the sale of the Roundup® business by Monsanto. In such instances, the agreement permits the Company to avoid payment of any deferred contribution and related per annum charge. Our basis for not recording a financial liability to Monsanto for the deferred portions of the annual contribution and per annum charge is based on our assessment and consultations with our Delaware legal counsel that the Company can likely terminate the agreement at will without incurring a significant economic penalty, and avoid paying any deferred amounts. However, this conclusion is not free from challenge and, in fact, would likely be challenged if the Company were to terminate the agreement. If it were determined that, upon termination, the Company must pay any remaining deferred contribution amounts and related per annum charges, the resulting charge to earnings could have a material impact on the Company's results of operations and financial position. At September 30, 2000, contribution payments and related per annum charges of approximately $38.0 million had been deferred under the agreement. This amount is considered a contingent obligation and has not been reflected in the financial statements as of and for the three months then ended.

Monsanto has disclosed that it is accruing the $20 million fixed contribution fee per year beginning in the fourth quarter of Monsanto's fiscal year 1998, plus interest on the deferred portion.

The agreement has a term of seven years for all countries within the European Union (at the option of both parties, the agreement can be renewed for up to 20 years for the European Union countries). For countries outside of the European Union, the agreement continues indefinitely unless terminated by either party. The agreement provides Monsanto with the right to terminate the agreement for an event of default (as defined in the agreement) by the Company or a change in control of Monsanto or the sale of the Roundup® business. The agreement provides the Company with the right to terminate the agreement in certain circumstances including an event of default by Monsanto or the sale of the Roundup® business. Unless Monsanto terminates the agreement for an event of default by the Company, Monsanto is required to pay a termination fee to the Company that varies by program year. The termination fee is $150 million for each of the first five program years, gradually declines to $100 million by year ten of the program and then declines to a minimum of $16 million if the program continues for years 11 through 20.

In consideration for the rights granted to the Company under the agreement for North America, the Company was required to pay a marketing fee of $32 million to Monsanto. The Company has deferred this amount on the basis that the payment will provide a future benefit through commissions that will be earned under the agreement and is amortizing the balance over ten years, which is the estimated likely term of the agreement.

In fiscal 1999, the Company recognized commission income under the agreement during interim periods based on the estimated percentage of EBIT that would be payable to the Company as commission for the year applied to the actual EBIT for the Roundup® business for the interim period. Commission income recorded for that full year is calculated by applying the threshold commission structure for that year to the actual EBIT of the Roundup® business for the year. Beginning with the first quarter of fiscal 2000, the Company has adopted SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". Accordingly, the Company will not recognize commission income until the actual EBIT for the Roundup® business reaches the first commission threshold for the year. The annual contribution payment, if any, is recognized ratably throughout the year.

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 who were terminated in fiscal 1999. Approximately $1.1 million of severance payments were made to these former associates during fiscal 1999. Of the remaining $0.3 million, $0.2 million was paid in fiscal 2000, and the remainder is expected to be paid in fiscal 2001.

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 United States 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 U.K. 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 (see Note 5). 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. $1.3 million to relaunch products under a single, integrating branding strategy and $0.8 million to write off packaging materials rendered obsolete as a result of new packaging design. The charges associated with the relaunch were expensed as incurred in fiscal 1998. Cash outflow associated with the relaunch was complete in early fiscal 1999.
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 integration activities. The Company determined that certain SKUs of the combined product lines would not be sold under the Company's branding, marketing and selling strategies. The carrying value of the obsolete inventory was subsequently written off and the inventory was disposed of in late fiscal 1998 and early fiscal 1999.

5. $0.8 million for costs which were expensed as incurred in fiscal 1998 for other integration-related activities. The components of the other integration costs include studies performed on combined logistics and manufacturing processes, costs to integrate the combined information technology of the businesses and legal costs associated with the integration of the two previously separate entities.

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 expired 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 at the compost facilities scheduled for closure. In accordance with SFAS No. 121, the Company concluded that the carrying amount of these assets would not be recovered through future anticipated cash flows. Given the impairment, a charge was recorded equal to the difference between the estimated carrying value of the asset at the end of the revenue producing period and the estimate of the fair value of the asset. In most cases, the fair value of the asset was determined to be zero as these assets were scheduled to be abandoned or scrapped. Depreciation will continue to be recognized during revenue-producing periods.

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 $1.0 and $3.0 for the fiscal years ended September 30, 1999 and 1998, 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 charge was calculated as the difference between the Company's estimate of the proceeds to be received upon sale of the business, less the carrying value of the assets as of September 30, 1998. The business was subsequently sold in February 1999 and no material differences were experienced between actual selling proceeds and those used to determine the fiscal 1998 charge. The AgrEvo business incurred an operating loss of

$0.8 million in fiscal 1998 and $0.5 million in fiscal 1999. The Company does not expect any future benefits to be gained from the sale of the AgrEvo business other than foregoing the operating losses incurred by this business during the Company's time of ownership.

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, Inc. ("EarthGro") business in February 1998 (see Note 5). The closure of this facility was completed in September 1998. The charge taken was equivalent to the carrying value of the assets which were abandoned or scrapped.

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

			Fiscal 1998 Activity			Fiscal 1999 Activity		
	Type Balance	Classification	Charge	Payments	Balance	Payments	Adjustments	
Consolidation of U.K. 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. During fiscal 2000, the amounts reserved at September 30, 1999 associated with the closure of compost sites were paid.

NOTE 5. ACQUISITIONS AND DIVESTITURES

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. A revised assessment of working capital provided by Monsanto indicated that an additional payment of approximately $27.0 million (for a total purchase price of $366.0 million) would also have been required; however, the Company disputed a significant portion of those working capital amounts. In the third quarter of fiscal 2000, the Company and Monsanto resolved the disputed working capital amounts which resulted in a purchase price of approximately $355.5 million (requiring an additional payment of $15.6 million).

In October 1998, the Company acquired Rhone-Poulenc Jardin, continental Europe's largest consumer lawn and garden products company. Management's initial estimate of the purchase price for Rhone-

Poulenc Jardin was $192.8 million; however, subsequent adjustments for reductions in acquired working capital have resulted in a final purchase price of approximately $147.5 million.

In connection with the Rhone-Poulenc Jardin acquisition, the Company entered into a Research and Development Access Rights Agreement with Rhone-Poulenc. The agreement provides the Company with the royalty-free right to market products with current and future active ingredients developed by Rhone-Poulenc and the right to obtain research and development services from Rhone-Poulenc at a cost stipulated in the agreement. In exchange for the rights provided under the agreement, the Company will make four annual payments of 39 million French Francs each beginning on October 1, 1999. The present value of the payments (approximately $23.2 million) is being amortized over the 15-year life of the agreement.

In February 1998, the Company acquired all the shares of 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 2000, 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 Lawn Service, 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 Rhone-Poulenc Jardin, EarthGro and Levington were $137.3 million, $23.3 million and $62.8 million, respectively. The allocation of the final purchase price of the Ortho business to the net assets was completed during the fourth quarter of fiscal 2000. Intangible assets associated with the purchase were $232.1 million. 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, Rhone-Poulenc Jardin, EarthGro and Levington acquisitions and the Roundup® marketing agreement as if they had occurred on October 1, 1997.

	1999	1998
	(in millions)	
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, Rhone-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.

In May 2000, the Company sold its ProTurf® business to two buyers. The terms of the agreement included the sale of certain inventory for approximately $16.3 million and an arrangement for the use and eventual purchase of related tradenames by the buyers. A gain of approximately $4.6 million for the sale of this business is reflected in the Company's fiscal 2000 results of operations.

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. These 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 2000 and 1999:

	2000	1999
	(in millions)	
Beginning balance	$59.0	$56.9
Interest cost	4.1	4.2
Actuarial losses	0.0	1.2
Benefits paid	(3.6)	(3.3)
Ending balance	$59.5	$59.0

The following table sets forth the changes in the fair value of the net assets of the curtailed pension plans for fiscal 2000 and 1999:

	2000	1999
	(in millions)	
Beginning balance	$56.8	$58.0
Actual return on plan assets	3.0	2.1
Benefits paid	(3.6)	(3.3)
Ending Balance	$56.2	$56.8

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

	September 30,	
	2000	1999
	(in millions)	
Actuarial present value of projected benefit obligations:		
Vested benefits	$(58.5)	$(58.6)
Nonvested benefits	(1.0)	(0.4)
	(59.5)	(59.0)
Plan assets at fair value, primarily corporate bonds, U.S. Government bonds and cash equivalents	56.2	56.8
Plan assets less than projected benefit obligations	(3.3)	(2.2)
Unrecognized losses	8.3	6.9
Prepaid pension costs	5.0	4.7
Accrued benefit liability	$ (3.3)	$ (2.2)
Accumulated other comprehensive income	8.3	6.9
Prepaid pension costs	$ 5.0	$ 4.7

Pension cost includes the following components:

	Fiscal Year Ended September 30,		
	2000	1999	1998
	(in millions)		
Interest cost	$ 4.1	$ 4.2	$ 3.6
Expected return on plan assets	(4.4)	(4.5)	(3.7)
Net amortization and deferral	0.0	0.4	0.0
Net pension cost	$(0.3)	$ 0.1	$(0.1)

The weighted-average settlement rate used in determining the actuarial present value of the projected benefit obligation was 7.75% as of September 30, 2000 and 1999. The expected long-term rate of return on plan assets was 8.0% for fiscal 2000 and 1999.

The Company also sponsors the following pension plans associated with the international businesses it has acquired: Scotts Europe BV, ASEF Europe BV (Netherlands), 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, ASEF Europe BV (Netherlands), The Scotts Company (UK) Ltd. 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 2000 and 1999:

	2000	1999
	(in millions)	
Beginning balance	$73.2	$52.0
Service cost	2.9	2.8
Interest cost	3.7	3.6
Participant contributions	0.8	0.5
Actuarial (gains) losses	(0.4)	7.6
Benefits paid	(1.6)	(3.0)
Foreign currency translation	(6.5)	(1.9)
Impact of acquisition		11.6
Ending balance	$ 72.1	$73.2

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 2000 and 1999:

	2000	1999
	(in millions)	
Beginning balance	$59.9	$50.9
Return on plan assets	7.6	10.3
Employer contributions	1.2	2.7
Participant contributions	0.9	0.6
Benefits paid	(0.6)	(2.8)
Foreign currency translation	(4.7)	(1.8)
Ending balance	$64.3	$59.9

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, 2000 and 1999:

	September 30,	
	2000	1999
	(in millions)	
Projected benefit obligations	$(72.1)	$(73.2)
Plan assets at fair value	64.3	59.9
Projected benefit obligations in excess of plan assets	(7.8)	(13.3)
Unrecognized items	0.7	(0.5)
Accrued benefit costs	$ (7.1)	$(13.8)

	September 30, 2000	September 30, 1999
	(in millions)	
Plans with benefit obligations in excess of plan assets:		
Aggregate projected benefit obligations	$17.2	$33.7
Aggregate fair value of plan assets	4.7	20.0
Plans with plan assets in excess of benefit obligations:		
Aggregate projected benefit obligations	$54.9	$39.5
Aggregate fair value of plan assets	59.6	39.9

Pension costs for the international plans on a combined basis consisted of the following components for fiscal 2000 and 1999:

	Fiscal Year Ended September 30, 2000	Fiscal Year Ended September 30, 1999
	(in millions)	
Service cost	$ 3.5	$ 3.2
Interest cost	4.0	3.6
Expected return on plan assets	(5.5)	(3.7)
Net amortization	0.6	0.3
Net pension cost	$ 2.6	$ 3.4

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

Settlement rates	5.4% – 6.5%
Compensation increases	1.5% – 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 2000 and 1999:

	2000	1999
	(in millions)	
Beginning balance	$ 1.9	$ 1.8
Interest cost	0.1	0.1
Actuarial losses	(0.1)	0.1
Benefits paid	0.0	(0.1)
Ending balance	$ 1.9	$ 1.9

The following table sets forth the funded status of the non-qualified plan at September 30, 2000 and 1999:

	2000	1999
	(in millions)	
Actuarial present value of benefit obligations:		
Vested benefits	$(1.8)	$(1.8)
Nonvested benefits	(0.1)	(0.1)
Projected benefit obligations	(1.9)	(1.9)
Plan assets at fair value	0.0	0.0
Plan assets less than projected benefit obligations	(1.9)	(1.9)
Unrecognized losses	0.3	0.4
Net pension liability	$(1.6)	$(1.5)
Accrued benefit liability	(1.9)	(1.9)
Accumulated other comprehensive income	0.3	0.4
Net pension liability	$(1.6)	$(1.5)

Pension expense for the plan was $0.1 million, $0.2 million and $0.1 million in fiscal 2000, 1999 and 1998, 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 postretirement benefit obligation for the retiree medical plan for fiscal 2000 and 1999:

	2000	1999
	(in millions)	
Beginning balance	$15.8	$15.2
Service cost	0.4	0.4
Interest cost	1.3	1.1
Contribution by participants	0.3	0.2
Actuarial loss	1.4	0.1
Sale of ProTurf® Business	(0.2)	0.0
Benefits paid	(1.0)	(1.2)
Ending balance	$18.0	$15.8

The following table sets forth the changes in the fair value of the assets of the retiree medical plan for fiscal 2000 and 1999:

	2000	1999
	(in millions)	
Beginning balance	$ 0.0	$ 0.0
Company contributions	0.7	0.9
Contributions by participants	0.3	0.3
Benefits paid	(1.0)	(1.2)
	$ 0.0	$ 0.0

The following table sets forth the retiree medical plan status reconciled to the amounts included in the Consolidated Balance Sheets, as of September 30, 2000 and 1999.

	2000	1999
	(in millions)	
Accumulated postretirement benefit obligation:		
Retirees	$ 7.3	$ 8.9
Fully eligible active plan participants	0.4	0.5
Other active plan participants	10.3	6.4
Total accumulated postretirement benefit obligation	18.0	15.8
Unrecognized prior service costs	3.0	5.0
Unrecognized net gains	4.0	5.6
Accrued postretirement liability	$25.0	$26.4

Net periodic postretirement benefit cost includes the following components:

	Fiscal Year Ended September 30,		
	2000	1999	1998
		(in millions)	
Service cost	$0.4	$ 0.4	$ 0.4
Interest cost	1.3	1.1	1.0
Net amortization	(1.1)	(1.0)	(1.3)
Net periodic postretirement benefit cost	$0.6	$ 0.5	$ 0.1

The discount rates used in determining the accumulated postretirement benefit obligation were 7.75% and 7.5% in fiscal 2000 and 1999, respectively. For measurement purposes, annual rates of increase in per capita cost of covered retiree medical benefits assumed for fiscal 2000 and 1999 were 8.50% and 7.75%, respectively. The rate was assumed to decrease gradually to 5.5% through the year 2006 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, 2000 and 1999 by $0.7 million and $0.5 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 $7.4 million and $8.4 million under the new plan in fiscal 2000 and 1999, 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 $7.7 million, $11.0 million and $8.6 million in fiscal 2000, 1999, and 1998, 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

	September 30,	
	2000	1999
	(in millions)	
Revolving loans under credit facility	$ 37.3	$ 64.2
Term loans under credit facility	452.2	509.0
Senior subordinated notes	319.2	318.0
Notes due to sellers	36.4	37.0
Notes due to the State of Ohio	7.9	0.0
Foreign bank borrowings and term loans	7.1	17.6
Capital lease obligations and other	2.7	4.2
	862.8	950.0
Less current portions	49.4	56.4
	$813.4	$893.6

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

	Capital Leases	Other Debt
	(in millions)	
2001	$1.7	$ 47.7
2002	0.5	53.0
2003	0.4	51.1
2004	0.1	43.7
2005	0.0	91.7
Thereafter	0.0	572.9
	$2.7	$860.1
Less: amounts representing interest	0.0	(4.0)
	$2.7	$856.1

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.

The term loan facilities consist of three tranches. The Tranche A Term Loan Facility consists of three sub-tranches of French Francs, German Deutsche Marks and British Pounds Sterling in an aggregate principal amount of $265 million which are to be repaid quarterly over a 6 1/2 year period. The Tranche B Term Loan Facility is a 7 1/2 year term loan facility in an aggregate principal amount of $140 million, which

is to be repaid in nominal quarterly installments for the first $6^1/_2$ years and in substantial quarterly installments in the final year. The Tranche C Term Loan Facility is a $8^1/_2$ year term loan facility in an aggregate principal amount of $120 million, which is to be repaid in nominal quarterly installments for the first $7^1/_2$ 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 $6^1/_2$ 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 Deutsche Marks, 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, 2000 was 8.78%. In addition, the new credit facility required that the Company enter into hedge agreements to the extent necessary to provide that at least 50% of the aggregate principal amount of the $8^5/_8$% Senior Subordinated Notes due 2009 and term loan facilities was 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 $13.6 million of financing costs associated with the new credit facility have been deferred as of September 30, 2000 and are being amortized over a period of approximately 7 years, beginning in fiscal year 1999.

On December 5, 2000, the Company amended its current credit facility to refinance the Tranche B and C Term Loan Facilities and to increase the revolving credit facility to $575 million. See further description of the amendment to the credit facility in Note 18.

In January 1999, the Company completed an offering of $330 million of $8^5/_8$% Senior Subordinated 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 $9^7/_8$% 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 $8^5/_8$% 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 $9^7/_8$% 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 $8^5/_8$% Notes offering. The total amount paid under the interest rate locks of $12.9 million has been recorded as a reduction of the $8^5/_8$% Notes' carrying value and is being amortized over the life of the $8^5/_8$% Notes as interest expense.

In conjunction with the acquisitions of Rhone-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 $24.0 million and $4.1 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 (approximately 9% and 8%, respectively).

In conjunction with the other acquisitions discussed in Note 5, notes were issued for certain portions of the total purchase price that are to be paid in annual installments over periods ranging from four to

five years. The present value of remaining note payments is $8.3 million. The Company is imputing interest on the non-interest bearing notes using an interest rate prevalent for similar instruments at the time of the acquisitions (approximating 8%).

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 present value of these loans at September 30, 2000 was $3.2 million. The loans are denominated in British Pounds Sterling and can be redeemed, on demand, by the note holder. The foreign bank borrowings of $3.9 million at September 30, 2000 represent lines of credit for foreign operations and are denominated in French Francs.

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.

NOTE 9. SHAREHOLDERS' EQUITY

	2000	1999
	(in millions)	
STOCK		
Class A Convertible Preferred Stock, no par value:		
Authorized	0.2 shares	0.2 shares
Issued	0.0 shares	0.2 shares
Common shares, no par value		
Authorized	100.0 shares	50.0 shares
Issued	31.3 shares	21.3 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. The conversion feature associated with the Preferred Shares issued in connection with the Miracle-Gro merger transactions was negotiated as an integral part of the overall transaction. The conversion price exceeded the fair market value of the Company's common shares on the date the two companies reached agreement and, therefore, the Preferred Shares did not provide for a beneficial conversion feature. 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 10.0 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 42% 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.

The limitations on the ability of the former shareholders of Miracle-Gro to acquire additional voting securities of the Company contained in the merger agreement terminated as of October 1, 1999, except for the restriction under which the former shareholders of Miracle-Gro may not acquire, directly or indirectly,

beneficial ownership of Voting Stock (as that term is defined in the Miracle-Gro merger agreement) representing more than 49% of the total voting power of the outstanding Voting Stock, except pursuant to a tender offer for 100% of that total voting power, which tender offer is made at a price per share which is not less than the market price per share on the last trading day before the announcement of the tender offer and is conditioned upon the receipt of at least 50% of the Voting Stock beneficially owned by shareholders of the Company other than the former shareholders of Miracle-Gro and their affiliates and associates. 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 common shares surrendered to exercise options (other than director options) granted under the 1992 Plan, up to a maximum of 1.0 million surrendered common 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,					
	2000		1999		1998	
	Number of Shares	WTD. Avg. Price	Number of Shares	WTD. Avg. Price	Number of Shares	WTD. Avg. Price
	(in millions)					
Beginning balance	4.9	$26.33	3.8	$20.70	2.6	$18.35
Options granted	0.3	37.39	1.4	35.70	1.4	29.43
Options exercised	(0.1)	19.46	(0.2)	16.51	(0.1)	16.60
Options canceled	(0.2)	36.87	(0.1)	30.94	(0.1)	29.63
Ending balance	4.9	26.67	4.9	26.33	3.8	20.70
Exercisable at September 30	2.7	$21.45	1.9	$19.77	1.8	$18.17

The following summarizes certain information pertaining to stock options outstanding and exercisable at September 30, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	No. of Options	WTD. Avg. Remaining Life	WTD. Avg. Exercise Price	WTD. Avg. No. of Options	Exercise Price
$9.90	0.1	1.05	$ 9.90	0.1	$ 9.90
$15.00 – $20.00	1.7	5.02	18.32	1.6	17.77
$20.00 – $25.00	0.3	5.86	19.10	0.4	21.32
$25.00 – $30.00	0.7	7.18	27.86	0.2	27.96
$30.00 – $35.00	1.1	8.17	31.74	0.3	32.38
$35.00 – $40.00	0.9	8.84	36.07	0.1	35.89
$40.00 – $46.38	0.1	8.47	37.17	0.0	—
	4.9		$26.42	2.7	$21.45

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 2000, 1999 and 1998: (1) expected market-price volatility of 27.05%, 24.44% and 23.23%, respectively; (2) risk-free interest rates of 6.0%, 6.0% and 4.3%, respectively; and (3) expected life of options of 6 years. The estimated weighted-average fair value per share of options granted during fiscal 2000, 1999 and 1998 was $14.94, $13.64 and $9.28, respectively.

Had compensation expense been recognized for fiscal 2000, 1999 and 1998 in accordance with provisions of SFAS No. 123, the Company would have recorded net income and earnings per share as follows:

	2000	1999	1998
	(in millions, except, per share data)		
Net income used in basic earnings per share calculation	$59.4	$55.3	$31.3
Net income used in diluted earnings per share calculation	$59.4	$45.3	$21.5
Earnings per share:			
Basic	$2.12	$2.50	$1.15
Diluted	$2.00	$1.82	$1.03

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 gave 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. EARNINGS PER COMMON SHARE

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

	Year Ended September 30,		
	2000	1999	1998
	(in millions except, per share data)		
BASIC EARNINGS PER COMMON SHARE:			
Net income before extraordinary loss	$ 73.1	$69.1	$37.0
Net income	73.1	63.2	36.3
Class A Convertible Preferred Stock dividend	(6.4)	(9.7)	(9.8)
Income available to common shareholders	66.7	53.5	26.5
Weighted-average common shares outstanding during the period	27.9	18.3	18.7
Basic earnings per common share			
Before extraordinary item	$ 2.39	$3.25	$1.46
After extraordinary item	$ 2.39	$2.93	$1.42
DILUTED EARNINGS PER COMMON SHARE:			
Net income used in diluted earnings per common share calculation	$ 66.7	$63.2	$36.3
Weighted-average common shares outstanding during the period	27.9	18.3	18.7
Potential common shares:			
Assuming conversion of Class A Convertible Preferred Stock	0.0	10.2	10.3
Assuming exercise of options	0.8	1.0	0.7
Assuming exercise of warrants	0.9	1.0	0.6
Weighted-average number of common shares outstanding and dilutive potential common shares	29.6	30.5	30.3
Diluted earnings per common share			
Before extraordinary item	$ 2.25	$2.27	$1.22
After extraordinary item	$ 2.25	$2.08	$1.20

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:

	Year Ended September 30,		
	2000	1999	1998
		(in millions)	
Currently payable:			
Federal	$27.8	$34.5	$22.1
State	3.6	4.4	3.9
Foreign	4.3	4.4	2.7
Deferred:			
Federal	6.9	0.5	(4.0)
State	0.6	0.0	(0.3)
Income tax expense	$43.2	$43.8	$24.4

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

	Year Ended September 30,		
	2000	1999	1998
		(in millions)	
Domestic	$107.1	$100.0	$ 57.1
Foreign	9.2	6.9	3.5
Income before taxes	$116.3	$106.9	$60.6

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,		
	2000	1999	1998
Statutory income tax rate	35.0%	35.0%	35.0%
Effect of foreign operations	(0.3)	(0.7)	(1.6)
Goodwill amortization and other effects resulting from purchase accounting	2.7	3.0	4.6
State taxes, net of federal benefit	2.4	2.6	3.8
Resolution of previous contingencies	(2.8)	—	—
Other	0.2	1.1	(1.5)
Effective income tax rate	37.2%	41.0%	40.3%

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

	2000	1999	1998
		(in millions)	
Net current assets	$21.6	$32.3	$20.8
Net non-current assets (liability)	19.7	11.3	(1.2)
Net assets	$41.3	$43.6	$19.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2000	September 30, 1999
	(in millions)	
ASSETS		
Inventories	$ 11.5	$ 6.1
Accrued liabilities	33.3	35.5
Postretirement benefits	14.3	9.6
Foreign net operating losses	1.9	1.9
Other	12.9	14.1
Gross deferred tax assets	73.9	67.2
Valuation allowance	(1.1)	(1.1)
Net deferred tax assets	72.8	66.1
LIABILITIES		
Property, plant and equipment	(18.2)	(22.5)
Other	(13.3)	
Net assets	$ 41.3	$ 43.6

Net operating loss carryforwards in foreign jurisdictions were $1.9 million at September 30, 2000 and 1999, 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. The valuation allowance of $1.1 million at September 30, 2000 and 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 is as follows:

Long-Term Debt

At September 30, 2000 and 1999, the Company had $330 million outstanding of 8 5/8% 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, 2000 and 1999 consisted 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.

Interest Rate Swap Agreements

At September 30, 2000 and 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.

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 8 5/8% Senior Subordinated Notes due 2009. Since the interest rate locks were designated as hedging instruments, their fair value was not reflected in the Company's Consolidated Balance Sheets. The net amount to be received or paid under the interest rate locks is reflected as an adjustment to the carrying amount of the 8 5/8% Notes.

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

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Revolving and term loans under credit facility	$489.5	$489.5	$573.2	$573.2
Senior subordinated notes	330.0	318.5	330.0	316.0
Foreign bank borrowings and term loans	7.1	7.1	17.6	17.6
Interest rate swap agreements	—	2.6	—	2.8

Excluded from the fair value table above are the following items that are included in the Company's total debt balances at September 30, 2000 and 1999:

	2000	1999
Amounts paid to settle treasury locks	(10.8)	(12.0)
Non-interest bearing notes	36.4	37.0
Capital lease obligations	1.8	4.2

The fair value of the non-interest bearing notes is not considered determinable since there is no established market for notes with similar characteristics and since they represent notes that were negotiated between the Company and the seller as part of transactions to acquire businesses.

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, 2000, future minimum lease payments were as follows:

	(in millions)
2001	$11.8
2002	8.7
2003	6.1
2004	3.4
2005	1.6
Thereafter	3.8
Total minimum lease payments	$35.4

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 $12.8 million, $18.5 million and $13.5 million for fiscal 2000, 1999 and 1998, respectively. The total to be received from sublease rentals in place at September 30, 2000 is $4.3 million.

NOTE 14. COMMITMENTS

The Company has entered into the following purchase commitments:

Substral®: On June 15, 2000, the Company signed an Asset Purchase Agreement to acquire the Substral® brand and consumer plant care business from Henkel KGaA as of December 31, 2000. Substral® is a leading consumer fertilizer brand in many European countries including Germany, Austria, Belgium, France and the Nordics. Under the terms of the agreement, the Company will acquire specified working capital and intangible assets associated with the Substral® business; however, ownership of these assets will not transfer to the Company until December 31, 2000 and payments will be made subsequent to that date. The purchase price will be determined based on the value of the working capital assets acquired and the performance of the business for the period from June 15, 2000 to December 31, 2000. The Company has not reflected the acquisition of the Substral® business in its fiscal 2000 financial statements because the Company had not assumed ownership of any assets associated with the Substral® business as of September 30, 2000 and the results of operations for the Substral® business prior to December 31, 2000 are retained by the seller.

Seed: The Company is obligated to make future purchases based on estimated yields and other market purchase commitments. At September 30, 2000, estimated annual seed purchase commitments were as follows:

	(in millions)
2001	$62.1
2002	$37.4
2003	$20.6
2004	$ 6.1
2005	$ 1.7

The Company made purchases of $31.2 million and $24.0 million under this obligation in fiscal 2000 and 1999, 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 $15.0 million. The purchase commitments expire September 30, 2001. The Company purchased 250,000 tons and 172,000 tons under this obligation in fiscal 2000 and 1999, 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, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Peat: In March 2000, the Company entered in a contract to purchase peat over the next ten years. Upon the execution of this contract, the previous peat contract was terminated. The purchase obligations under the March 2000 contract are as follows:

	Cubic Meters	Approximate Value Based on Average Prices
2001	1,039,000	$1,488,000
2002	1,046,000	$1,498,000
2003	1,067,000	$1,528,000
2004	1,088,000	$1,558,000
2005	1,110,000	$1,590,000
Thereafter	3,962,000	$5,674,000

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 183,000 cubic meters of peat during the first six months of fiscal 2000 (under the original peat contract) and 485,000 cubic meters of peat during the second six months of fiscal 2000 (under the terms of the new contract). The Company purchased 517,650 cubic meters of peat under the original peat contract in fiscal 1999.

Media Advertising: The Company has committed to purchase $27.0 million of airtime for both national and regional television advertising in fiscal 2001.

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 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 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. Subsequently, the Company replied to the Ohio Attorney General with another revised draft. Comments on that draft were received from the Ohio Attorney General in February 2000, and the Company replied with another revised draft in March 2000. Since July 2000, the parties have been engaged in settlement discussions resulting in various revisions to the March 2000 draft, as they seek to resolve this matter.

The Company is continuing to meet with the Ohio Attorney General and the Ohio Environmental Protection Agency in an effort to complete negotiations of an amicable resolution of these issues. 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 parties have tentatively agreed to a civil penalty cash payment subject to the successful completion of negotiations on the remaining provisions of a judicial consent order. 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 should an amicable resolution of the State's enforcement action not be reached.

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. While negotiations continue, the Company has been voluntarily addressing a number of the historical on-site waste disposal areas with the knowledge of the Ohio Environmental Protection Agency. Interim measures consisting of capping two on-site waste disposal areas have been implemented.

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, 2000, 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 of Ohio 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 suspension 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, 2000. 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.

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 reduce emissions to both air and ground water. Additional work is being undertaken to further reduce emissions to groundwater and surface water. Scotts believes that it has adequately addressed the environmental concerns of the Environment Agency regarding emissions to air and groundwater. The Scotts Company (UK) Ltd. has retained an environmental consulting firm to research remediation designs. The Company and the Environment Agency are in discussions over the 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, 2000.

Other Environmental Matters

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, 2000.

The Company has accrued $8.9 million at September 30, 2000 for the environmental matters described in Note 15. The significant components of the accrual are: (i) costs for site remediation of $6.3 million; (ii) costs for asbestos abatement of $2.1 million; and (iii) fines and penalties of $0.5 million. The significant portion of the costs accrued as of September 30, 2000 are expected to be paid in fiscal 2001 and 2002; however, payments are expected to be made through fiscal 2003 and possibly for a period thereafter.

The Company believes that the amounts accrued as of September 30, 2000 are adequate to cover its known environmental expenses based on current facts and estimates of likely outcome. However, the adequacy of these accruals is based on several significant assumptions:

(i) that the Company has identified all of the significant sites that must be remediated;

(ii) that there are no significant conditions of potential contamination that are unknown to the Company;

(iii) that potentially contaminated soil can be remediated in place rather than having to be removed; and

(iv) that only specific stream sediment sites with unacceptable levels of potential contaminant will be remediated.

If there is a significant change in the facts and circumstances surrounding these assumptions, it could have a material impact on the ultimate outcome of these matters and the Company's results of operations, financial position and cash flows.

AgrEvo Environmental Health, Inc.

On June 3, 1999, AgrEvo Environmental Health, Inc. ("AgrEvo") (which is reported to have changed its name to Aventis Environmental Health Science USA LP) filed a complaint in the U.S. District Court for the Southern District of New York (the "New York Action"), against the Company, a subsidiary of the Company and Monsanto (now Pharmacia) 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 the 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, AgrEvo moved to dismiss the Company's counterclaims. On May 5, 2000, AgrEvo amended its complaint to add a claim for fraud and to incorporate the Delaware Action described below. Thereafter, the Company moved to dismiss the new claims, and the defendants renewed their pending motions to dismiss. On June 2, 2000, the court (i) granted the Company's motion to dismiss the fraud claim AgrEvo had added to its complaint; (ii) granted AgrEvo's motion to dismiss the Company's fraudulent-inducement counterclaim; (iii) denied AgrEvo's motion to dismiss the Company's counterclaims related to breach of representations and warranties; and (iv) denied defendant's motion to dismiss the antitrust claims. On July 14, 2000, the Company served an answer to AgrEvo's amended complaint and re-pleaded its fraud counterclaim. 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.

On June 29, 1999, AgrEvo also filed a complaint in the Superior Court of the State of Delaware (the "Delaware Action") 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. On January 31, 2000, the Delaware court stayed AgrEvo's action pending the resolution of a motion to amend the New York Action, and the resolution of the New York Action. The Company's subsidiaries intend to vigorously defend the asserted claims.

If the above actions are determined adversely to the Company, the result could have a material adverse effect on our results of operations, financial position and cash flows.

Central Garden & Pet Company

On June 30, 2000, the Company filed suit against Central Garden & Pet Company in the U.S. District Court for the Southern District of Ohio to recover approximately $17 million in its outstanding accounts receivable from Central Garden with respect to the Company's 2000 fiscal year. The Company's complaint was later amended to seek approximately $24 million in accounts receivable and additional damages for other breaches of duty. Pharmacia (formerly Monsanto) also filed suit against Central Garden in Missouri state court, seeking unspecified damages allegedly due Pharmacia under a four-year alliance agreement between Pharmacia and Central Garden.

On July 7, 2000, Central Garden filed suit against the Company and Pharmacia in the U.S. District Court for the Northern District of California (San Francisco Division) alleging various claims, including breach of contract and violations of federal antitrust laws, and seeking an unspecified amount of damages and injunctive relief. On October 26, 2000, after a notice hearing, the District Court dismissed all of Central Garden's breach of contract claims for lack of subject matter jurisdiction. On November 17, 2000, Central Garden filed an amended complaint in the District Court, re-alleging various claims for violations of federal antitrust laws and also alleging state antitrust claims under the Cartwright Act, Section 16726 of the California Business and Professions Code. On October 31, 2000, Central Garden filed an additional complaint against the Company and Pharmacia in the California Superior Court of Contra Costa County. The complaint seeks to assert the breach of contract claims previously dismissed by the District Court and additional claims under § 17200 of the California Business and Professional Code. On December 4, 2000, defendants Scotts and Pharmacia jointly filed a motion to stay this action based on the pendency of prior lawsuits (including the two described above) that involve the same subject matter. Defendants' motion to stay is set for hearing on January 19, 2001. The Company believes that Central Garden's federal and state claims are entirely without merit and intends to vigorously defend against them.

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 commercial nurseries, greenhouses, landscape services, and growers of specialty agriculture crops.

At September 30, 2000, 69% of the Company's accounts receivable was due from customers in North America. Approximately 88% of these receivables were generated from the Company's North American Consumer Business Group. The most significant concentration of receivables within this segment was from home centers, which accounted for 13% of the Company's receivables balance at September 30, 2000. 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, 2000.

The remaining 12% of North American accounts receivable was generated from the Company's North American Professional Business Group. Due to seasonality, the North American Professional segment accounts for a share of the Company's receivable balance at September 30, 2000 that is disproportionate to its share of total company sales for the year. As a result of the changes in distribution methods made in fiscal 1999 for the North American Professional Business Group, nearly all products are sold through distributors. Accordingly, nearly all of the North American Professional Business Group's accounts receivable at September 30, 2000 is due from distributors.

The 31% 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, 2000.

At September 30, 2000, the Company's concentrations of credit risk were similar to those existing at September 30, 1999 except that the North American Professional Business Group accounted for one-third 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
2000	22.9%	8.9%
1999	17.4%	11.6%
1998	16.8%	10.6%

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 2000, 1999 or 1998 net sales.

NOTE 17. OTHER EXPENSE (INCOME)

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

	2000	1999	1998
		(in millions)	
Royalty income	$ (5.1)	$(4.0)	$(3.4)
Gain on sale of ProTurf® business	(4.6)		
Asset valuation and write-off charges	1.8	1.2	2.3
Foreign currency losses	0.9	0.1	2.5
Other, net	1.0	(0.9)	(0.1)
Total	$(6.0)	$(3.6)	$ 1.3

NOTE 18. SUBSEQUENT EVENTS

On December 5, 2000, the Company entered into an Amended and Restated Credit Agreement (the "Amended Agreement"). Under the terms of the Amended Agreement, the Company entered into a new Tranche B Term Loan Facility with an aggregate principal amount of $260 million, the proceeds of which repaid the then outstanding principal amount of the original Tranche B and C facilities. The new Tranche B Term Loan Facility will be repaid in quarterly installments of $0.25 million beginning June 30, 2001 through December 31, 2006, quarterly installments of $63.5 million beginning March 31, 2007 through September 30, 2007 and a final quarterly installment of $63.8 million on December 31, 2007. The new Tranche B Term Loan Facility will bear interest at a variable rate that is less than the rates on the original Tranche B and C facilities. Under the terms of the Amended Agreement, the Revolving Credit Facility was increased from $500 million to $575 million and the net worth covenant under the original credit facility was amended to be measured only during the Company's second through fourth fiscal quarters. At the time the Company entered into the Amended Agreement, the amounts outstanding under the original Tranche B and C facilities were prepayable without penalty.

NOTE 19. 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 was 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 does not impact the commission earned on an annual basis.

In May 2000, the Financial Accounting Standards Board's Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-14, "Accounting for Certain Sales Incentives." This issue addresses the recognition, measurement, and income statement classification for various types of sales incentives

including: discounts, coupons, rebates and free products. The Company has not yet determined the impact of this standard; however, it may result in the reclassification of certain expenses from advertising and promotion to a reduction of net sales. EITF 00-14 is effective for periods beginning after June 30, 2001.

NOTE 20. SUPPLEMENTAL CASH FLOW INFORMATION

	2000	1999	1998
		(in millions)	
Interest paid (net of amount capitalized)	$88.3	$ 63.6	$ 31.5
Income taxes paid	10.0	50.3	38.6
Dividends declared not paid	0.0	2.5	0.0
Businesses acquired:			
Fair value of assets acquired, net of cash	4.8	691.2	197.3
Liabilities assumed	0.0	(149.3)	(45.9)
Net assets acquired	4.8	541.9	151.4
Cash paid	2.7	4.8	0.4
Notes issued to seller	2.2	35.7	0.0
Debt issued	$ 0.0	$ 501.4	$151.0

NOTE 21. SEGMENT INFORMATION

For fiscal 2000, the Company was divided into three reportable segments — North American Consumer, North American Professional and International. The North American Consumer segment consists of the Consumer Lawns, Consumer Gardens, Consumer Growing Media, Consumer Ortho and Consumer Canada Business Groups.

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 North American Professional segment is focused on a full line of horticulture products including controlled-release and water-soluble fertilizers and plant protection products, grass seed, and growing media. Products are sold to landscape service companies, commercial nurseries and greenhouses and specialty crop growers. Prior to June 2000, this segment also included the Company's ProTurf® business, which was sold in May 2000.

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.

		N.A. Consumer	N.A. Professional	International	Corporate	Total
				(in millions)		
Net Sales:						
	2000	$1,261.2	$127.6	$375.5	$ —	$1,764.3
	1999	1,097.0	159.4	391.9		1,648.3
	1998	733.7	179.4	199.9		1,113.0
Operating Income (Loss):						
	2000	$ 243.1	$ 1.7	$ 34.7	$ (69.3)	$ 210.2
	1999	203.1	20.5	47.8	(75.3)	196.1
	1998	117.3	23.5	25.0	(71.7)	94.1
Operating Margin:						
	2000	19.3%	1.3%	9.2%		11.9%
	1999	18.5	12.8	12.2	nm	11.9
	1998	16.0	13.1	12.5	nm	8.5
Depreciation and Amortization:						
	2000	$ 42.5	$ 4.1	$ 12.8	$ 6.9	$ 66.3
	1999	35.9	3.3	15.1	5.9	60.2
	1998	24.1	2.7	7.7	3.3	37.8
Capital Expenditures:						
	2000	$ 32.1	$ 9.8	$ 9.5	$ 21.1	$ 72.5
	1999	22.5	5.7	10.6	27.9	66.7
	1998	19.6	9.2	5.1	7.4	41.3
Long-Lived Assets:						
	2000	$ 681.4	$ 97.8	$271.3	$ 58.0	$1,108.5
	1999	649.0	98.5	322.7	57.7	1,127.9
Total Assets:						
	2000	$1,102.7	$151.8	$422.4	$ 84.5	$1,761.4
	1999	1,010.1	176.9	496.7	85.9	1,769.6

nm Not meaningful.

Operating income (loss) reported for the Company's three operating segments represents earnings before amortization of intangible assets, interest and taxes, since this is the measure of profitability used by management. Accordingly, Corporate operating loss for the fiscal years ended September 30, 2000, 1999 and 1998 includes amortization of certain intangible assets, corporate general and administrative expenses and certain "other" income/expense not allocated to the business segments. Total assets reported for the Company's operating segments include the intangible assets for the acquired businesses within those segments. Corporate assets primarily include deferred financing and debt issuance costs, corporate fixed assets as well as deferred tax assets.

NOTE 22. QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for fiscal 2000 and 1999. We have restated our financial statements for each of the first three quarters of fiscal 2000. In connection with the Roundup® marketing agreement, we were required to pay a marketing fee of $32 million. The earnings originally reported for those quarters reflected amortization of the marketing fee over a period of 20 years. However, we believe that it is unlikely that this agreement will continue beyond ten years. Accordingly, the financial statements for those quarters have been restated to correct for the error in the amortization period and now reflect amortization of the marketing fee over a period of ten years.

	1st Qtr (restated)	2nd Qtr (restated)	3rd Qtr (restated)	4th Qtr	Full Year
	(in millions except for share data)				
FISCAL 2000					
Net sales	$191.5	$720.7	$598.3	$253.8	$1,764.3
Gross profit	73.9	313.1	242.2	82.8	712.0
Income (loss) before extraordinary item	(30.8)	63.4	52.8	(12.3)	73.1
Net income (loss)	(30.8)	63.4	52.8	(12.3)	73.1
Basic earnings (loss) per common share	$ (1.32)	$ 2.27	$ 1.89	$ (0.44)	$ 2.39
Common shares used in basic EPS calculation	28.2	27.9	27.9	28.0	27.9
Diluted earnings (loss) per common share	$ (1.32)	$ 2.15	$ 1.77	$ (0.44)	$ 2.25
Common shares and dilutive potential common shares used in diluted EPS calculation	28.2	29.5	29.7	28.0	29.6

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Full Year
	(in millions except for share data)				
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
Common 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
Common shares and dilutive potential common shares used in diluted EPS calculation	18.3	30.3	30.9	18.3	30.5

NOTES:

Certain reclassifications have been made within interim periods.

The Company's business is highly seasonal with approximately 75% of sales occurring in the second and third fiscal quarters combined.

NOTE 23. FINANCIAL INFORMATION FOR SUBSIDIARY GUARANTORS AND NON-GUARANTORS

In January 1999, the Company issued $330 million of 8 5/8% Senior Subordinated Notes due 2009 to qualified institutional buyers under the provisions of Rule 144A of the Securities Act of 1993. The Company is in the process of registering an exchange offer for these Notes under the Securities Act.

The Notes are general obligations of the Company and are guaranteed by all of the existing wholly-owned, domestic subsidiaries and all future wholly-owned, significant (as defined in Regulation S-X of the Securities and Exchange Commission) domestic subsidiaries of the Company. These subsidiary guarantors jointly and severally guarantee the Company's obligations under the Notes. The guarantees represent full and unconditional general obligations of each subsidiary that are subordinated in right of payment to all existing and future senior debt of that subsidiary but are senior in right of payment to any future junior subordinated debt of that subsidiary.

The following information presents consolidating Statements of Operations, Statements of Cash Flows and Balance Sheets for the three years ended September 30, 2000. Separate audited financial statements of the individual guarantor subsidiaries have not been provided because management does not believe they would be meaningful to investors.

The Scotts Company
Statement of Operations
for the fiscal year ended September 30, 2000
(in millions)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$923.7	$443.7	$396.9		$1,764.3
Cost of sales	559.1	272.9	220.3		1,052.3
Gross profit	364.6	170.8	176.6		712.0
Gross commission earned from marketing agreement	34.3	0.9	4.0		39.2
Contribution expenses under marketing agreement	9.0	0.2	0.7		9.9
Net commission earned from marketing agreement	25.3	0.7	3.3		29.3
Advertising and promotion	111.6	47.4	50.1		209.1
Selling, general and administrative	183.2	24.7	94.8		302.7
Amortization of goodwill and other intangibles	10.6	5.3	9.4		25.3
Equity income in non-guarantors	(56.2)			56.2	
Intracompany allocations	(8.5)	1.0	7.5		
Other expenses (income), net	1.9	(8.1)	0.2		(6.0)
Income from operations	147.3	101.2	17.9	(56.2)	210.2
Interest expense	70.2		23.7		93.9
Income before income taxes	77.1	101.2	(5.8)	(56.2)	116.3
Income taxes	4.0	41.5	(2.3)		43.2
Net income	$ 73.1	$ 59.7	$ (3.5)	$(56.2)	$ 73.1

The Scotts Company
Statement of Cash Flows
for the fiscal year ended September 30, 2000
(in millions)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	$ 73.1	$ 59.7	$ (3.5)	$(56.2)	$ 73.1
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	16.0	8.0	5.0		29.0
Amortization	10.9	16.5	9.9		37.3
Equity income in non-guarantors	(56.2)			56.2	
Loss on sale of fixed assets	0.6	1.8	2.0		4.4
Gain on sale of business	(4.6)				(4.6)
Changes in assets and liabilities, net of acquired businesses:					
Accounts receivable	48.3	(43.5)	1.6		6.4
Inventories	(18.2)	12.5	11.5		5.8
Prepaid and other current assets	(13.0)	1.2	2.6		(9.2)
Accounts payable	(5.0)	17.9	6.5		19.4
Accrued taxes and other liabilities	59.0	(12.7)	(16.3)		30.0
Other assets	(1.8)	(6.5)	3.6		(4.7)
Other liabilities	3.1	(1.0)	(8.5)		(6.4)
Other, net	(10.2)	1.5	(0.3)		(9.0)
Net cash provided by operating activities	102.0	55.4	14.1		171.5
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in property, plant and equipment	(53.2)	(9.0)	(10.3)		(72.5)
Proceeds from sale of equipment			1.8		1.8
Investments in non-guarantors	(11.8)	(4.1)	(2.4)		(18.3)
Other net	0.5				0.5
Net cash used in investing activities	(64.5)	(13.1)	(10.9)		(88.5)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net (repayments) borrowings under revolving and bank lines of credit	(48.2)	4.5	(7.0)		(50.7)
Dividends on Class A Convertible Preferred Stock	(6.4)				(6.4)
Repurchase of treasury shares	(23.9)				(23.9)
Cash received from exercise of stock options	2.8				2.8
Intercompany financing	38.7	(45.2)	6.5		
Other, net	7.0		(8.0)		(1.0)
Net cash used in financing activities	(30.0)	(40.7)	(8.5)		(79.2)
Effect of exchange rate changes on cash			(1.1)		(1.1)
Net increase (decrease) in cash	7.5	1.6	(6.4)		2.7
Cash and cash equivalents, beginning of period	8.5	3.1	18.7		30.3
Cash and cash equivalents, end of period	$ 16.0	$ 4.7	$ 12.3	$	$ 33.0

The Scotts Company
Balance Sheet
As of September 30, 2000
(in millions, except share information)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash	$ 16.0	$ 4.7	$ 12.3		$ 33.0
Accounts receivable, net	103.2	44.6	68.2		216.0
Inventories, net	189.5	60.3	57.7		307.5
Current deferred tax asset	26.1	(1.0)			25.1
Prepaid and other assets	42.2	2.5	17.6		62.3
Total current assets	377.0	111.1	155.8		643.9
Property, plant and equipment, net	192.7	59.2	38.6		290.5
Intangible assets, net	81.2	420.2	241.7		743.1
Other assets	66.2	6.5	11.2		83.9
Investment in affiliates	840.3			$ (840.3)	
Intracompany assets		251.1		(251.1)	
Total assets	1,557.4	848.1	447.3	(1,091.4)	1,761.4
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Short-term debt	29.6	2.6	17.2		49.4
Accounts payable	81.6	26.3	45.1		153.0
Accrued liabilities	108.9	75.4	23.1		207.4
Total current liabilities	220.1	104.3	85.4	0.0	409.8
Long-term debt	556.5	3.4	253.5		813.4
Other liabilities	41.9	(0.3)	18.7		60.3
Intracompany liabilities	243.2		7.9	(251.1)	
Total liabilities	1,061.7	107.4	365.5	(251.1)	1,283.5
Commitments and Contingencies					
Shareholders' equity:					
Investment from parent		488.7	59.8	(548.5)	
Common shares, no par value share, $.01 stated value per share, issued 31.3 shares issued in 2000	0.3				0.3
Capital in excess of stated value	389.3				389.3
Retained earnings	196.8	252.0	39.8	(291.8)	196.8
Treasury stock, 3.4 shares at cost	(83.5)				(83.5)
Accumulated other comprehensive income	(7.2)		(17.8)		(25.0)
Total shareholders' equity	495.7	740.7	81.8	(840.3)	477.9
Total liabilities and shareholders' equity	$1,557.4	$848.1	$447.3	$(1,091.4)	$1,761.4

The Scotts Company
Statement of Operations
for the fiscal year ended September 30, 1999
(in millions)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$831.6	$410.9	$405.8		$1,648.3
Cost of sales	515.2	249.3	224.6		989.1
Gross profit	316.4	161.6	181.2		659.2
Gross commission earned from marketing agreement	28.6	1.2	0.5		30.3
Contribution expenses under marketing agreement	1.6				1.6
Net commission earned from marketing agreement	27.0	1.2	0.5		28.7
Advertising and promotion	101.5	38.7	48.8		189.0
Selling, general and administrative	174.3	18.8	88.1		281.2
Amortization of goodwill and other intangibles	5.1	9.4	9.3		23.8
Restructuring and other charges	1.4				1.4
Equity income in non-guarantors	(55.7)			$ 55.7	
Intracompany allocations	(19.7)	13.1	6.6		
Other income, net	0.4	(3.3)	(0.7)		(3.6)
Income from operations	136.1	86.1	29.6	(55.7)	196.1
Interest expense	55.3	0.2	23.6		79.1
Income before income taxes	80.8	85.9	6.0	(55.7)	117.0
Income taxes	11.7	34.2	2.0		47.9
Income before extraordinary item	69.1	51.7	4.0	(55.7)	69.1
Extraordinary loss on early extinguishment of debt, net of income tax benefit	5.9				5.9
Net income	$ 63.2	$ 51.7	$ 4.0	$(55.7)	$ 63.2

The Scotts Company
Statement of Cash Flows
for the fiscal year ended September 30, 1999
(in millions)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	$ 63.2	$ 51.7	$ 4.0	$(55.7)	$ 63.2
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	12.9	9.6	6.5		29.0
Amortization	12.8	8.5	9.9		31.2
Equity income in non-guarantors	(55.7)			55.7	
Extraordinary loss	5.9				5.9
Loss on sale of property	2.7	(1.0)	0.1		1.8
Changes in assets and liabilities, net of acquired businesses:					
Accounts receivable	4.1	19.6			23.7
Inventories	(27.9)	6.3			(21.6)
Prepaid and other current assets	(16.5)	1.9	(10.6)		(25.2)
Accounts payable	14.8	(0.2)	(3.9)		10.7
Accrued taxes and other liabilities	(10.5)	25.7	(25.4)		(10.2)
Other assets	(35.4)	0.7	(1.2)		(35.9)
Other liabilities	9.8	(3.0)	(4.6)		2.2
Other, net	(1.4)	0.4	4.4		3.4
Net cash provided by (used in) operating activities	(21.2)	120.2	(20.8)	0.0	78.2
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in property, plant and equipment	(48.1)	(7.9)	(10.7)		(66.7)
Proceeds from sale of equipment	1.0	0.5	0.0		1.5
Investments in acquired businesses, net of cash acquired	(350.1)		(156.1)		(506.2)
Other	(1.0)	1.5	(0.7)		(0.2)
Net cash used in investing activities	(398.2)	(5.9)	(167.5)		(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 8 5/8% Senior Subordinated Notes	330.0		0.0		330.0
Extinguishment of 9 7/8% 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	76.7	(109.1)	32.4		
Net cash provided by (used in) financing activities	423.0	(109.1)	200.0		513.9
Effect of exchange rate changes on cash		0.0	(0.8)	0.0	(0.8)
Net increase in cash	3.6	5.2	10.9	0.0	19.7
Cash and cash equivalents, beginning of period	4.9	(2.1)	7.8	0.0	10.6
Cash and cash equivalents, end of period	$ 8.5	$ 3.1	$ 18.7	$ 0.0	$ 30.3

The Scotts Company
Balance Sheet
As of September 30, 1999
(in millions, except share information)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash	$ 8.5	$ 3.1	$ 18.7		$ 30.3
Accounts receivable, net	130.5	1.1	69.8		201.4
Inventories, net	171.2	72.8	69.2		313.2
Current deferred tax asset	28.1	0.5	0.7		29.3
Prepaid and other assets	43.6	3.7	20.2		67.5
Total current assets	381.9	81.2	178.6	$ 0.0	641.7
Property, plant and equipment, net	156.5	60.3	42.6		259.4
Intangible assets, net	230.3	268.5	295.3		794.1
Other assets	64.7		9.7		74.4
Investment in affiliates	706.6			(706.6)	
Intracompany assets		294.6		(294.6)	
Total assets	1,540.0	704.6	526.2	(1,001.2)	1,769.6
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Short-term debt	26.2	1.5	28.7		56.4
Accounts payable	86.5	8.4	38.6		133.5
Accrued liabilities	93.3	27.9	36.5		157.7
Accrued taxes	(43.8)	60.2	2.9		19.3
Total current liabilities	162.2	98.0	106.7	0.0	366.9
Long-term debt	594.4		299.2		893.6
Other liabilities	42.1	0.7	23.0		65.8
Intracompany liabilities	289.3		5.3	(294.6)	0.0
Total liabilities	1,088.0	98.7	434.2	(294.6)	1,326.3
Commitments and Contingencies					
Shareholders' Equity:					
Class A Convertible Preferred Stock, no par value	173.9				173.9
Investment from parent		413.6	57.4	(471.0)	0.0
Common shares, no par value per share, $.01 stated value per share, 21.3 shares issued in 1999	0.2				0.2
Capital in excess of stated value	213.9				213.9
Retained earnings	130.1	192.3	43.3	(235.6)	130.1
Treasury stock, 2.9 shares at cost	(61.9)				(61.9)
Accumulated other comprehensive income	(4.2)		(8.7)		(12.9)
Total shareholders' equity	452.0	605.9	92.0	(706.6)	443.3
Total liabilities and shareholders' equity	$1,540.0	$704.6	$526.2	$(1,001.2)	$1,769.6

The Scotts Company
Statement of Operations
for the fiscal year ended September 30, 1998
(in millions)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$461.3	$444.6	$207.1		$1,113.0
Cost of sales	291.6	306.5	116.9		715.0
Gross profit	169.7	138.1	90.2		398.0
Advertising and promotion	55.8	27.5	21.1		104.4
Selling, general and administrative	101.4	24.5	44.0		169.9
Amortization of goodwill and other intangibles	0.1	8.8	4.0		12.9
Restructuring and other charges		12.9	2.5		15.4
Equity income in non-guarantors	(37.7)			$ 37.7	
Intracompany allocations	(11.6)	10.3	1.3		
Other expenses, net	5.7	(4.7)	0.3		1.3
Income from operations	56.0	58.8	17.0	(37.7)	94.1
Interest expense	20.5	0.6	11.1		32.2
Income before income taxes	35.5	58.2	5.9	(37.7)	61.9
Income taxes	(1.5)	24.0	2.4		24.9
Income before extraordinary item	37.0	34.2	3.5	(37.7)	37.0
Extraordinary loss on early extinguishment of debt, net of income tax benefit	0.7				0.7
Net income	$ 36.3	$ 34.2	$ 3.5	$(37.7)	$ 36.3

The Scotts Company
Statement of Cash Flows
for the fiscal year ended September 30, 1998
(in millions)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	$ 36.3	$ 34.2	$ 3.5	$(37.7)	$ 36.3
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	8.2	9.1	4.3		21.6
Amortization	2.7	9.1	4.4		16.2
Equity income in non-guarantors	(37.7)			37.7	
Extraordinary loss	0.7		0.0		0.7
Restructuring and other charges		14.4	4.9		19.3
Loss on sale of property	2.2	0.1	0.0		2.3
Changes in assets and liabilities, net of acquired businesses:					
Accounts receivable	(4.8)	(5.7)	1.9		(8.6)
Inventories	(3.4)	(1.8)	(0.5)		(5.7)
Prepaid and other current assets	(6.8)	4.6	0.1		(2.1)
Accounts payable	14.3	(4.6)	(0.9)		8.8
Accrued taxes and other Liabilities	(19.1)	10.6	(5.9)		(14.4)
Other assets		0.3			0.3
Other liabilities	(5.8)	4.1	1.6		(0.1)
Other, net	2.5	(2.5)	(3.6)		(3.6)
Net cash (used in) provided by operating activities	(10.7)	71.9	9.8	0.0	71.0
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in property, plant and equipment	(30.9)	(5.0)	(5.4)		(41.3)
Proceeds from sale of equipment	0.2	0.4			0.6
Investments in acquired businesses, net of cash acquired		(63.8)	(87.6)		(151.4)
Net cash used in investing activities	(30.7)	(68.4)	(93.0)		(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	(1.3)	(5.4)	6.7		
Other, net	1.0				1.0
Net cash provided by (used in) financing activities	44.7	(5.4)	79.1	0.0	118.4
Effect of exchange rate changes on cash			0.3		0.3
Net increase (decrease) in cash	3.3	(1.9)	(3.8)	0.0	(2.4)
Cash and cash equivalents, beginning of period	1.6	(0.2)	11.6		13.0
Cash and cash equivalents, end of period	$ 4.9	$ (2.1)	$ 7.8	$ 0.0	$ 10.6

The Scotts Company
Balance Sheet
As of September 30, 1998
(in millions, except share information)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash	$ 4.9	$ (2.1)	$ 7.8		$ 10.6
Accounts receivable, net	85.2	20.5	40.9		146.6
Inventories, net	66.5	81.4	29.8		177.7
Current deferred tax asset	20.4	0.4			20.8
Prepaid and other assets	8.4	1.7	1.4		11.5
Total current assets	185.4	101.9	79.9	$ 0.0	367.2
Property, plant and equipment, net	97.8	68.5	30.7		197.0
Intangible assets, net	12.1	273.0	150.0		435.1
Other assets	35.0	0.9			35.9
Investment in affiliates	652.0			(652.0)	0.0
Intracompany assets		219.1	4.5	(223.6)	0.0
Total assets	982.3	663.4	265.1	(875.6)	1,035.2
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Short-term debt	0.3	1.2	11.8		13.3
Accounts payable	57.1	8.6	12.1		77.8
Accrued liabilities	68.2	27.0	29.7		124.9
Accrued taxes	(26.9)	38.7	4.1		15.9
Total current liabilities	98.7	75.5	57.7		231.9
Long-term debt	223.0		136.2		359.2
Other liabilities	30.1	10.2	(0.1)		40.2
Intracompany liabilities	223.6			(223.6)	0.0
Total liabilities	575.4	85.7	193.8	(223.6)	631.3
Commitments and Contingencies					
Shareholders' equity:					
Class A Convertible Preferred Stock, no par value	177.3				177.3
Investment from parent		437.1	35.0	(472.1)	0.0
Common shares, no par value per share, $.01 stated value per share, issued 21.1 shares in 1998	0.2				0.2
Capital in excess of stated value	208.9				208.9
Retained earnings	76.6	140.6	39.3	(179.9)	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	577.7	71.3	(652.0)	403.9
Total liabilities and shareholders' equity	$982.3	$663.4	$265.1	$(875.6)	$1,035.2

REPORT OF MANAGEMENT

Management of The Scotts Company is responsible for the preparation, integrity and objectivity of the financial information presented in this Form 10-K. 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, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States of America. 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 of America 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 our opinion.

Columbus, Ohio
October 31, 2000

The Scotts Company

Shareholder Information

Price Range:

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

Fiscal year ended September 30, 2000	High	Low
First Quarter	41 1/4	35 1/4
Second Quarter	42	29 7/16
Third Quarter	41 1/2	32 11/16
Fourth Quarter	37 1/2	31

World Headquarters

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www.scotts.com

Annual Meeting

The annual meeting of shareholders will be held at The Westin Great Southern Hotel, 310 South High Street, Columbus, Ohio, on Thursday, January 18, 2001, at 10:00 a.m. (EST).

NYSE Symbol

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

The Scotts Company
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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 November 27, 2000 there were approximately 8,200 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 without charge 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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