1

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

(Mark One)

* X ) ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2000

OR

* ) TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_\_\_\_\_

Commission file number 1-13292

THE SCOTTS COMPANY

* --------------------------------------------------------------------------------

(Exact name of registrant as specified in its charter)

|  |  |
| --- | --- |
| OHIO | 31-1414921 |

- ---------------------------------------------------------------------------------------------

|  |  |
| --- | --- |
| (State or other jurisdiction of incorporation or | (I.R.S. Employer Identification |
| organization) | No.) |
| 41 SOUTH HIGH STREET, SUITE 3500, COLUMBUS, OHIO | 43215 |

- ---------------------------------------------------------------------------------------------

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

614-719-5500

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS

-------------------

NAME OF EACH EXCHANGE ON WHICH REGISTERED -----------------------------------------

Common Shares, without par value (28,049,151 Common Shares outstanding at November 1, 2000)

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No \_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

The aggregate market value of the common shares held by non-affiliates of the registrant at November 1, 2000 was $643,979,659.

DOCUMENTS INCORPORATED BY REFERENCE:

PORTIONS OF THE PROXY STATEMENT FOR REGISTRANT'S 2001 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD JANUARY 18, 2001, ARE INCORPORATED BY REFERENCE INTO PART III HEREOF.

2

PART I

ITEM 1. BUSINESS

GENERAL

The Scotts Company (with our subsidiaries, "we" or "Scotts") is among the most widely recognized marketers and manufacturers of products for lawns, gardens and horticulture. Our Turf Builder(R) (for consumer lawn care), Miracle-Gro(R) (for consumer garden care), Osmocote(R) (for professional horticulture) and Ortho(R) (for consumer herbicides and disease-control products) brands command market shares that we believe are more than double those of the next ranked competitors, in the referenced consumer or professional subgroup. In addition, under an agreement with Monsanto Company (now known as Pharmacia Corporation), we have exclusive domestic and international agency and marketing rights to Monsanto's consumer Roundup(R) herbicide products\*. In the United Kingdom, our brands include: Weedol(R) and Pathclear(R) consumer herbicides; the Evergreen(R) lawn fertilizer line; the Levington(R) line of lawn and garden products; and Miracle-Gro(R) plant fertilizer. Our brands in continental Europe include KB(R) and Fertiligene(R) in France and NexaLotte(R) and Celaflor(R) in Germany. We believe that our long history of technical innovation, reputation for quality and service and marketing tailored to the needs of do-it-yourself consumers, and professionals, have enabled us to maintain market share leadership in our markets while delivering consistent sales growth.

Our domestic operating subsidiaries include: Hyponex Corporation, Scotts-Sierra Horticultural Products Company, Republic Tool & Manufacturing Corp., and Scotts Manufacturing Company (formerly Scotts Miracle-Gro Products, Inc.). International operating subsidiaries include: Scotts Canada Ltd. (Canada), Scotts ASEF BVBA (Belgium), Scotts Horticulture Ltd. (Ireland), Scotts France SAS (France), Scotts Celaflor GmbH & Co. KG (Germany), Celaflor HG (Austria), ASEF BV and Scotts International BV (Netherlands), and The Scotts Company (UK) Ltd. and Corwen Home and Garden Limited (United Kingdom).

Do-it-yourself consumers, and professionals, purchase through different distribution channels and have different information and product needs. To address all of our customers' needs and the international portion of our business, we have seven business groups comprised of Consumer Lawns, Consumer Gardens, Consumer Growing Media, Consumer Ortho and Consumer Canada (together, the "North American Consumer Business Group"), the North American Professional Business Group and the International Business Group.

FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS

During fiscal 2000, we operated in three principal business segments: (1) the North American Consumer Business Group, which includes products of the Consumer Lawns, Consumer Gardens, Consumer Growing Media and Consumer Ortho groups, sold in the United States and Canada; (2) the North American Professional Business Group, including primarily horticultural products, sold in the United States and Canada; and (3) the International Business Group. The following chart shows, for fiscal 2000, each segment's contribution to consolidated sales and operating income before general corporate expenses:

|  |  |
| --- | --- |
| Percent of Fiscal | Percent of Fiscal 2000 |
| 2000 | Operating Income |
| Consolidated Sales | Before General Corporate Expenses |

- --------------------------------------------------------------------------------------------------------

|  |  |  |  |
| --- | --- | --- | --- |
| North American |  |  |  |
| Consumer | 72% | 87% |  |
| Business Group |  |
| North American |  |  |  |
| Professional | 7% | 1% |  |
| Business Group |  |
| International Business | 21% | 12% |  |
| Group |  |
| Financial information on our segments for | | the three years ended September |  |
| 30, 2000, is presented in Note 20 of the Notes | | to Consolidated Financial |  |
| Statements, which are included under Item 8 of | | this Form 10-K. |  |
| - ---------------- |  |  |  |

* Roundup(R) is a registered trademark of Monsanto Company (now known as Pharmacia Corporation).

----

2

3

NORTH AMERICAN CONSUMER BUSINESS GROUP

PRODUCTS

Scotts' consumer products include: lawn fertilizers, lawn fertilizer combination products and lawn control products, garden tools, walk-behind and riding mowers, grass seed, lawn spreaders and lawn and garden carts; garden and indoor plant care products; potting soils and other growing media products; and pesticides (including herbicides, insecticides and fungicides).

CONSUMER LAWNS PRODUCTS. Among Scotts' most important consumer products are lawn fertilizers, such as Scotts Turf Builder(R), and lawn fertilizer combination products, such as Scotts Turf Builder(R) with Plus 2(R) Weed Control and Scotts Turf Builder(R) with Halts(R) Crabgrass Preventer. Typically, these are patented, homogeneous, controlled-release products which provide complete controlled feeding for consumers' lawns for up to two months without the risk of damage to the lawn presented by less expensive controlled- and non-controlled-release products. Some of Scotts' products are specially formulated for geographical differences and some, such as Bonus(R) S (to control weeds in Southern grasses), are distributed to limited areas. Lawn control products prevent or control lawn problems and contain no fertilizer component. These control products include Scotts(R) Halts(R) Crabgrass Preventer and GrubEx(R) Season Long Grub Control. Scotts' lawn fertilizers, combination products and control products are sold in dry, granular form.

Scotts also sells numerous varieties and blends of high quality grass seed, many of them proprietary, designed for different uses and geographies. Our grass seed is sold under the Scotts Pure Premium(TM) and Scotts Quality lines.

Because Scotts' granular lawn care products perform best when applied evenly and accurately, we sell a line of lawn spreaders specifically manufactured and developed for use with our products. For fiscal 2000, this line included three sizes each of SpeedyGreen(R) rotary spreaders and of AccuGreen(R) drop spreaders, and the HandyGreen(R) II hand-held rotary spreaders, all marketed under the Scotts(R) brand name. Management estimates that for the period from January through August 2000, Scotts' share of the U.S. do-it-yourself consumer lawn fertilizer and combination products, grass seed (includes PatchMaster(R) products) and spreaders market was approximately 52%. Spreaders and lawn and garden carts are manufactured by our Republic Tool subsidiary.

Under a royalty-bearing licensing agreement, we have granted Union Tools, Inc. the right to produce and market a line of garden tools bearing the Scotts(R) trademark. We also have a royalty-bearing licensing agreement with American Lawn Mower Company for the production and marketing of a line of push-type walk-behind lawn mowers bearing the Scotts(R) trademark. Also, Scotts is a party to a licensing agreement with Home Depot U.S.A., Inc. and a number of manufacturers under which, in return for the payment of royalties, Home Depot markets a line of motorized, walk-behind lawnmowers and tillers bearing the Scotts(R) trademark. These products are sold exclusively through Home Depot retail stores. We do not believe that Scotts had a material share of the markets for these products in fiscal 2000.

Our OMS Investments, Inc. subsidiary is a party to another royalty-bearing licensing agreement with Home Depot and Deere & Company, under which Home Depot markets a line of high quality, riding/tractor lawnmowers bearing the Scotts(R) trademark, with the mowers currently manufactured by Deere. These mowers are sold exclusively through Home Depot retail stores in Canada and the United States.

The Consumer Lawns Business Group has used Scotts(R) and Miracle-Gro(R) consumer brand recognition to market "Scotts LawnService(R)". Scotts LawnService(R) provides applications of lawn fertilizer and control products, and tree/shrub care services. Through fiscal 2000, Scotts LawnService(R) serviced 11 markets and had 22 franchised outlets. The fiscal 2001 strategy will be to: expand the business aggressively within existing markets; enter into a few new markets through both company-owned and franchised operations; and make selective acquisitions of suitable lawn service companies.

CONSUMER GARDENS PRODUCTS. Scotts sells a complete line of water-soluble fertilizers under the Miracle-Gro(R) brand name. These products are primarily used for garden fertilizer application. We also produce and sell a line of boxed Scotts(R) plant foods, garden and landscape fertilizers, Osmocote(R) controlled-release garden fertilizers, hose-end feeders and houseplant fertilizer products.

The Consumer Gardens Business Group markets and distributes what we believe to be the country's leading line, by market share, of water-soluble plant foods. These products are designed to be dissolved in

----

3

4

water, creating a dilute nutrient solution which is poured over plants or sprayed through an applicator and rapidly absorbed by their roots and leaves.

Miracle-Gro(R) All-Purpose Water-Soluble Plant Food is the leading product in the Miracle-Gro(R) line, by market share. Other water-soluble plant foods in the product line include Miracid(R) for acid loving plants, Miracle-Gro(R) for Roses, Miracle-Gro(R) for Tomatoes, Miracle-Gro(R) for Lawns and Miracle-Gro(R) Bloom Booster(R) for flowers. This group also sells a line of hose-end applicators for water-soluble plant foods, through the Miracle-Gro(R) No-Clog-4 in 1(R) Garden and Lawn Feeder line, which allows consumers to apply water-soluble fertilizers to large areas quickly and easily with no mixing or measuring required. The Consumer Gardens Business Group also markets a line of products for houseplant use including Liquid Miracle-Gro(R), African Violet Food, Plant Food Spikes, Leaf Shine and Orchid Food.

We believe that for the period from January through August 2000, Scotts' share of the garden fertilizer market was 62%, and its share of the indoor plant foods market was approximately 33%.

CONSUMER GROWING MEDIA PRODUCTS. The Consumer Growing Media Business Group sells a complete line of growing media products for indoor and outdoor uses under the Miracle-Gro(R), Scotts(R), Hyponex(R) and Earthgro(R) brands, and other labels. These products include retail potting soils, garden soils, topsoil, manures, sphagnum peat and decorative barks and mulches.

We believe that for the period from January through August 2000, we had approximately a 54% market share of the consumer potting soil market, and approximately a 67% market share of the consumer garden soil market.

CONSUMER ORTHO PRODUCTS. The Consumer Ortho Business Group markets weed control, insect control and plant disease control products under the Ortho(R) brand name. The Ortho(R) product line includes over 150 different items that solve outdoor pest problems faced by consumers. Ortho(R) products are available in aerosol, liquid ready-to-use, concentrated, granular and dust forms in a wide variety of sizes and delivery systems.

The Consumer Ortho Business Group's weed control products are led by the Weed-B-Gon(R) herbicide -- which we believe is the leading selective consumer herbicide brand in the United States, by market share. In addition, the Consumer Ortho Business Group sells products in the brush control segment (Brush-B-Gon(R)) and total vegetation control segment (Triox(R)) of the weed control market.

The Consumer Ortho Business Group markets insect control products for outdoor and indoor use. Outdoor insect control products include general insect control under the Ortho(R), Bug-B-Gon(R), Diazinon Ultra(R), Diazinon Plus(R), Malathion 50 Plus(R), Isotox(R) and Orthene(R) brand names. Because consumer satisfaction depends on easy and accurate application of these products, this group also markets a line of applicators under the Ortho(R), Lock 'N Spray(R), Spray-ette(R), Dial 'n Spray(R), Whirlybird(R) and Pull 'N Spray(R) brands.

The Ortho(R) outdoor line also includes specialty insect control products under the Ortho(R), RosePride(R), Ortho-Klor(R), Ant-Stop(R) and Orthene(R) Fire Ant control brands. Specialty outdoor products include a line of snail and slug controls under the Bug-Geta(R) and Bug-Geta(R) Plus brand names. There is also a line of indoor insect control products under the Ortho(R) Home Defense(R), Flea-B-Gon(R) and Ant-Stop(R) brand names.

Separately, the Ortho(R) product line includes items that control common diseases on lawns, roses, ornamental and vegetable gardens, and sensitive trees and shrubs. Several of these disease control products also control insects. These products are sold under the Ortho(R), Orthenex(R), Funginex(R) (owned by American Cyanamid Company) and Daconil 2787(R) (owned by GB Biosciences Corporation) brand names. The group also markets a limited line of fertilizers under the Greensweep(R) and Up-Start(R) brands.

The Ortho(R) product line is typically formulated with proprietary active ingredients sourced from some of the world's largest agricultural and specialty chemical manufacturers. A number of the packaging systems used in the line are unique, including the Pull 'N Spray(R) system and Lock 'N Spray(R) hose-end dispensing system.

We believe that for the period from January through August 2000, brands marketed by this group had a combined share of the U.S. consumer lawn and garden control products segment of approximately 47%.

----

4

5

This group also acts as the exclusive agent to market and manage Monsanto's (now Pharmacia's) consumer Roundup(R) brand of non-selective weed control products in the United States. Roundup(R) is sold in aerosol, liquid ready-to-use, concentrated and super-concentrated forms. We believe Roundup(R) is the leading brand of consumer non-selective weed control products, by market share, in the United States, Germany, France, Australia, Denmark, Sweden, Norway and Belgium. See "Matters Relating to Scotts Generally -- Roundup Marketing Agreement, -- Commission Structure, -- Term, -- Termination, -- Termination Fee, -- Sale of Roundup and -- Marketing Fee."

CONSUMER CANADA. For fiscal 2000, Scotts established a separate business office in Canada to manage and further develop the Green Cross(R) brand of pesticide products there, and to integrate Scotts' lawns, gardens and growing media businesses with the Green Cross(R) business acquired in the acquisition of the consumer Ortho business in January 1999. This office operates as Scotts Canada Ltd.

MARKET

We believe that our leading market share position in the U.S. consumer do-it-yourself lawn care and garden markets has been the result of our strong marketing and advertising programs, sophisticated technology, the superior quality and value of our products and service provided to customers. Scotts seeks to maintain and expand its market position by emphasizing these qualities and taking advantage of the name and reputation of its many strong brands such as Scotts(R), Miracle-Gro(R), Ortho(R) and Hyponex(R).

We have the leading market share in the lawn, garden and growing media sections of the growing lawn and garden market. Census data indicates that the consumer segment age of 40 and older, who represent the largest group of lawn and garden product users, will grow by 18% from 2000 to 2010, a growth rate more than twice that of the total population.

Drawing upon our strong research and development capabilities, we intend to continue to develop and introduce new and innovative lawn and garden products. We believe that our ability to introduce successful new consumer products has been an important element in our growth. New consumer products in recent years include:

FISCAL 1998

the No-Clog-4 in 1(R), which allows for sprinkler feeding of fertilizer for gardens and lawns; a new line of potting mix and soil amendment products under the Miracle-Gro(R) brand; and an expanded assortment of professional nursery quality potting mixes for consumers under the Scotts Pro Gro(R) brand

FISCAL 1999

Miracle-Gro(R) Flower Seeding Mix, a pre-mixed combination of flower seed, fertilizer and mulch; Miracle-Gro(R) Bloom Booster(R), a fertilizer for flowers; and three varieties of Miracle-Gro(R) Tree and Shrub Fertilizer Spikes, a fertilizer for outdoor trees and shrubs

FISCAL 2000

Turf Builder(R) with Micromax(R) micronutrients; the Pure Premium(TM) line of Scotts(R) grass seed for consumer use; Miracle-Gro(R) Garden Weed Prevent and Miracle-Gro(R) Garden Weed Prevent and Plant Food, which contain a pre-emergent herbicide for outdoor gardening; and a premium line of outdoor garden soils under the Miracle-Gro(R) brand.

In fiscal 2001, we plan to introduce: a premium Turf Builder(R) grass seed, marketed exclusively by North America's largest home center organization; Miracle-Gro(R) water-soluble plant food for Azaleas, Camellia and Rhododendrons; Miracle-Gro(R) Moisture Control(TM) Potting Mix, a premium potting mix that retains water for a longer period of time; Miracle-Gro(R) Enriched Sphagnum Peat Moss, a premium peat moss product; and a line of improved indoor aerosol pest control products under the Ortho(R) brand.

Scotts also seeks to capitalize upon the competitive advantages stemming from our market share positions and ability to act as a nationwide supplier of a full line of consumer lawn and garden products. We believe that this gives us an advantage in selling to retailers, who value the efficiency of dealing with a limited number of suppliers with high-recognition consumer brands.

----

5

6

During fiscal 2000, Scotts continued to strengthen its relationship with key retailers by maintaining business development teams at Home Depot, Kmart, Lowe's, Wal\*Mart, the U.S. military and hardware co-operatives. The business development teams work closely with these retailers, who represent 78% of the sales volume for the North American Consumer Business Group. The teams assist in all areas of business including category management, best practices development, product mix, merchandising, shelving and pricing. Additionally, Scotts is a source of consumer data that assists retailers in identifying retail trends, which can lead to increased store sales.

Scotts formed a North American sales management integration team in fiscal 2000 to coordinate customer programs, customer service and retailer education programs, offered by all business groups within the North American Consumer Business Group. For fiscal 2001, this team will integrate sales, merchandising and in-store counseling efforts across all of these business groups.

MARKETING, PROMOTION AND BUSINESS STRATEGY

For fiscal 2000, Consumer Lawns products were sold by an approximate 100-person direct sales force to the headquarters of national, regional and local retail chains. This sales force, most of whom have college degrees and prior sales experience, also recruited and supervised approximately 335 seasonal part-time merchandisers and 65 part-time year-round merchandisers in connection with Scotts' emphasis on in-store retail merchandising of lawn and garden products, a strategy Scotts intends to continue for fiscal 2001. Most retail sales of Scotts' lawn products occur on weekends during the spring and fall. The Consumer Lawns Business Group also employs distributors on a selective basis.

For fiscal 2000, the Consumer Gardens Business Group utilized a 10-person sales force for sales to a network of hardware and lawn and garden wholesale distributors, with some sales made directly to retailers. Most retail sales of Consumer Gardens products occur on or near weekends during Spring and early Summer. For fiscal 2000, the sales force for Consumer Gardens and Ortho(R) products were combined in some geographic areas, for sales to retail home center stores.

For fiscal 2000, the Consumer Growing Media Business Group utilized a 20-person direct sales force to cover the headquarters of national and regional chains, local accounts of significant size and distributors who sell to smaller accounts. The Consumer Growing Media Business Group's sales force hired and directed a network of outside merchandising service companies to provide seasonal in-store retail merchandising and re-order support on a national basis. Most retail sales of Consumer Growing Media commodity landscape products occur on weekends during late spring, while value-added products sell year-round.

For fiscal 2000, Ortho(R) and Roundup(R) branded products were sold to the headquarters of the largest 25 retail customers through an approximate

120-person direct sales force, who worked with the Consumer Ortho Business Group's largest customers to secure retail placement for Ortho(R) and Roundup(R) brands as well as ongoing promotional and cooperative advertising support. This sales force recruited and supervised approximately 90 seasonal part-time merchandisers and 100 part-time year-round merchandisers.

Prior to fiscal 2000, Ortho(R) and Roundup(R) products were distributed under an exclusive distribution agreement with Central Garden & Pet Company. Scotts assumed the agreement with Central Garden as part of the Ortho acquisition in January 1999. After the Central Garden agreement expired in September 1999, Scotts began distributing Ortho(R) and Roundup(R) products in a manner similar to its other lawn and garden products. This system involved a combination of distributors, of which the largest was Central Garden, as well as direct sales by Scotts to some major retailers. For fiscal 2001, Scotts has terminated its distribution arrangement with Central Garden, and structured a new distribution network for all North American business groups, in which Scotts will take orders from, and distribute and ship directly to or indirectly through regional distribution centers to, major retail customers. See "Matters Relating to Scotts Generally -- Distribution".

The Consumer Lawns Business Group continues to support independent retailers with a special line of products, marketed under the Lawn Pro(R) name. These products include the 4-Step program, introduced in 1984, which encourages consumers to purchase four products at one time (fertilizer plus crabgrass preventer, fertilizer plus weed control, fertilizer plus insect control and a special fertilizer for fall application). Scotts promotes the 4-Step program as providing consumers with all their annual lawn care needs for, on average, less than one-third of what a lawn care service would cost. Scotts believes the

----

6

7

Lawn Pro(R) program has helped Scotts to grow its business with independent retailers while they face increasing competition from mass merchandisers and home improvement centers. The Consumer Growing Media Business Group similarly markets a special line of growing media products under the 1881 Select(R) label, to independent retailers on a regional basis.

Scotts supports its sales efforts with extensive advertising and promotional programs, in furtherance of a consumer "pull" marketing strategy. Advertising primarily airs on national and regional television and radio programming with supplemental efforts in key markets via spot TV, radio and print. Because of the importance of the spring sales season in the marketing of consumer lawn and garden products, Scotts focuses advertising and promotional efforts on this period. In addition to creating product awareness, advertising and other promotional efforts encourage consumers to make their lawn and garden purchases in the early months of spring to moderate weather-related risk. The Consumer Lawns Business Group also utilizes radio and television advertising to build consumer product usage in the Fall, a recommended time to plant grass seed and plants. That group also promotes a Turf Builder(R) annual program, which encourages consumers to purchase their entire year's supply of Turf Builder(R) products in early spring, for application in the early spring, late spring, summer and fall. Advertising and retail customer promotional efforts, including feature displays, coincide with periods of high seasonal demand.

The percentage of North American Consumer Business Group sales to mass merchandisers, warehouse-type clubs, home improvement centers and large buying groups continues to increase as a percentage of sales. The top ten accounts (which include two buying groups of independent retailers) represented 79% of the North American Consumer Business Group sales in fiscal 1999 and 80% in fiscal 2000.

An important part of Scotts' sales effort is its national toll-free Consumer Helpline, on which its Consumer Service consultants answer questions about Scotts' products and give general lawn and garden advice to consumers. With the fiscal 1999 Ortho acquisition, the Consumer Services divisions at Scotts and Ortho were integrated. Scotts' consultants responded to approximately 810,000 telephone and written inquiries in fiscal 2000.

Backing up Scotts' marketing effort is its well-known Scotts No-Quibble Guarantee(R), instituted in 1958, which promises consumers a full refund if for any reason they are not satisfied with the results after using Scotts' lawn, garden and growing media products. Refunds under this guarantee have consistently amounted to less than 0.4% of net sales for the North American Consumer Business Group on an annual basis.

Scotts has an Internet web site at www.scottscompany.com, which provides lawn care and gardening information for consumers, and special sections for the North American Professional Business Group's customers, along with corporate and investment information. Do-it-yourself consumer topics include basic lawn care and gardening tips, problem solving, frequently asked questions, houseplant care, landscaping with trees and shrubs and product guides. An arrangement with the National Gardening Association (NGA) provides access to a database of gardening questions with answers by NGA's staff horticulturists. The site also provides an e-mail link to Scotts' Consumer Helpline for answers to lawn care questions. The Professional Horticulture section points nursery and greenhouse growers to their nearest distributor, delivers the latest news from the Professional Horticulture business of Scotts, and directs users to customer service. For the period from January through September 2000, the site received approximately 2 million user sessions and 39,000 e-mails to Scotts' Consumer Helpline. This represents increases of 176% for the number of user sessions, and 120% for the number of e-mails, over the same period in 1999. A Lawn Care E-Mail Reminder Service was added to the site in March, with 90,000 homeowners registering for the service in the first seven months.

The fiscal 2001 marketing strategies for the Consumer Lawns Business Group are to continue the efforts begun in prior years to improve Scotts' relationship with consumers and retail customers, including: carefully directed consumer research, to increase understanding of its markets, sales trends and consumer needs; increased media advertising, with continuation of television advertising featuring real-life stories of individuals' experiences with Scotts(R) products, and of weekend radio advertising emphasizing that "this weekend" is the best time to apply selected Scotts products; simplification of the product line; addressing "just-in-time" customer purchasing through continued use of the "never-out" program by which Scotts builds pre-season inventory of select high-volume products, which enhances Scotts' ability to timely and

----

7

8

completely fill customer orders; and use of retail merchandisers to enhance communications with consumers at the point of sale.

The fiscal 2001 marketing strategies for the Consumer Gardens Business Group are to continue: the conducting of consumer and market research to analyze consumer attitudes and purchase decisions; implementation of packaging improvements and graphic re-design; cost-reduction and quality enhancement efforts throughout all product lines; and increased national network television advertising. Growth is expected by increasing the frequency of use among current users.

The fiscal 2001 strategy for the Consumer Growing Media Business Group is to expand its market share of the potting soil and garden soil markets and increase the size of these markets, while maintaining a network of low-cost production facilities for the more commodity-oriented products such as topsoil, manures and barks/mulches. Scotts expects to grow its share of the potting and garden soil markets by: developing products and national marketing programs which utilize its Miracle-Gro(R) and Scotts(R) brand names on high-quality, higher margin growing media products such as potting mixes, with innovative and consumer-preferred packaging; expanding distribution of these products; and conducting consumer research to better understand market needs.

The fiscal 2001 strategy for the Consumer Ortho Business Group is to increase the size of the markets in which it competes and to capture a share of this growth greater than its market share, through: the effective use of media advertising; improved product availability and consumer communication at retail point-of-purchase; and product and packaging improvements to make the products easier to apply with good results. Growth is expected by attracting new users to the categories and by increasing the frequency of use among current users.

COMPETITION

The consumer lawn and garden market is highly competitive. Consumers have a choice of do-it-yourself lawn care or use of a lawn service. In the do-it-yourself lawn care and consumer garden markets, Scotts' products compete primarily against "control-label" products produced by various suppliers and sold by such companies as Home Depot (Vigoro(R)), Lowe's (Sta-Green(R)), Wal\*Mart (Sam's American Choice(R)), and Kmart (KGro(R)). "Control-label" products are those sold under a retailer-owned label or a supplier-owned label, which are sold exclusively at a specific retail chain. These products compete across the entire range of Scotts' consumer product line. Some of Scotts' consumer products compete against nationally distributed branded fertilizers, pesticides and combination products marketed by such companies as United Industries Corporation (Peters(R) water-soluble fertilizers for the consumer market), Pursell Industries (Vigoro(R), Sta-Green(R)), the Bayer/Pursell Industries joint venture (Advanced Garden(TM), Advanced Lawn(TM)), Central Garden & Pet (Pennington(R) Seed), Lesco (Lesco lawn fertilizers), Schultz Co. (Schultz(R) garden fertilizers and potting soils) and Lebanon Chemical Corp. (Greenview(R) and Preen(R)). Competitors in Canada include The Nu-Gro Corporation, So Green and IMC Vigoro.

Based on current usage and attitude surveys, management estimates that approximately 15% of all homeowners with lawns use a lawn service. The most significant competitors for the consumer market which uses a lawn service are lawn care service companies. Tru Green-ChemLawn(R), a division of Service Master, is the major national lawn service provider. Service Master is significantly larger than Scotts.

Most competitors to the Consumer Lawns and Consumer Gardens Business Groups sell their products at prices lower than those of Scotts, with the exception of lawn care service companies. Scotts competes primarily on the basis of its strong brand names, consumer advertising campaigns, quality, value, service, convenience and technological innovation. Scotts' competitive position is also supported by its national sales force and its unconditional guarantee.

In addition to nationally distributed, branded competitive products, Scotts' Consumer Growing Media Business Group faces competition from regional competitors who are able to compete very effectively on the basis of price for commodity products.

The Consumer Ortho Business Group operates in highly competitive markets against a large number of national and regional brands as well as retailer-supported private or "control" labels. Given the large number of distinct market segments and product types coupled with limited shelf space, retailer customers often are forced to limit listings in any one product to two or three manufacturers. This typically means

----

8

9

one to two national brands, a regional brand and/or a private label offering. Ortho's principal national competitors include: United Industries Corporation (Spectracide(R), Hot Shot(R)), the Bayer/Pursell Industries joint venture (Advanced Garden(TM), Advanced Lawn(TM) pesticide line), Central Garden (Amdro(R)) and Enforcer Products, Inc. (Enforcer(R)). Regional competitors include: The Chas. H. Lilly Co. (Lilly-Miller(R)), Green Light Company (Green Light(R)), Sunnyland, Bonide Products, Inc. (Bonide(R)) and Farnam Companies, Inc. (Security(R) and Finale(R)). Customers with significant private label programs include: Wal\*Mart, Kmart, Home Depot, Lowe's, TruServ and Ace Hardware.

Roundup(R) competitors include United Industries Corporation (Spectracide(R)), Enforcer Products, Inc. (Enforcer(R)), Farnam Companies, Inc. (Security(R) and Finale(R)) and private label products.

No assurance is given that new or existing competitors will not erode Scotts' share of the consumer lawn and garden market and its profit margins in the future.

BACKLOG

For fiscal 2000, the majority of annual consumer product orders were

received from retailers during the months of October through April and were

shipped during the months of January through April. For fiscal 2001, direct

distribution to retailers by Scotts is expected to shift order placement by

retailers to the months of December through April for delivery during the months

of January through May. As of November 24, 2000, orders on hand for retailers

(includes orders for Consumer Growing Media products) totaled approximately

$14.2 million compared to approximately $67.1 million on the same date in fiscal

1999 (excludes Consumer Growing Media products, which, before fiscal 2000, and

the introduction of nationally-distributed, branded products, were normally

ordered in-season on an "as-needed" basis). All such orders are expected to be

filled in fiscal 2001.

NORTH AMERICAN PROFESSIONAL BUSINESS GROUP

MARKET

Scotts sells its professional products to commercial nurseries, greenhouses, landscape services and specialty crop growers. Our Professional Business Group's core business is Horticulture, in primarily the nursery and greenhouse markets. Professional customers are major commercial nursery/greenhouse operations such as Monrovia, Hines, Imperial, Flowerwood, McCorkle's and Baucom's. This group's other core business, North American ProTurf(R), the professionally managed turf market, was sold to The Andersons, Inc. in the United States and to The Nu-Gro Corporation in Canada, in May 2000. Under the sale agreements, the buyers acquired the rights to selected professional turf trademarks and product inventories. The parties entered into a supply agreement under which Scotts will use its proprietary manufacturing processes to produce value-added turf products for the buyers. Of the 36 employees working primarily in the ProTurf(R) business, 33 remained with the business and became employees of the new owners.

For fiscal 2001, the Professional Business Group will be renamed the North American Horticulture Business Group, and become part of the Worldwide Professional Group.

Scotts sells products to thousands of nursery, greenhouse and specialty crop growers through a network of approximately 75 horticultural distributors. We estimate that our leading market share of the North American horticultural market was approximately 28% in fiscal 2000.

We believe that the increasing acceptance of controlled-release fertilizers in horticultural/agricultural applications due to performance advantages, labor savings and water quality concerns should contribute to sales growth in the horticulture market. However, competitive product technologies may also make inroads into the horticultural markets.

PRODUCTS

Our professional horticultural products, marketed under such brand names as Aqua-Gro(R) (owned by Aquatrols Corporation of America, Inc.), Osmocote(R), Miracle-Gro(R), Metro-Mix(R), Banrot(R), Rout(R) and Peters(R), include a broad line of sophisticated controlled-release fertilizers, water-soluble fertilizers, pesticide products (herbicides, insecticides and fungicides), wetting agents and growing media products. The fertilizer lines utilize a range of proprietary controlled-release fertilizer technologies, including Poly-S(R),

----

9

10

Osmocote(R) and ScottKote(R), and patented, proprietary water-soluble fertilizer technologies, including Miracle-Gro Excel(R). Scotts applies these technologies to meet a wide range of professional customer needs, ranging from quick-release greenhouse fertilizers to extended-release nursery fertilizers that last up to a year or more.

To secure uninterrupted supply and consistent costs of raw materials, the Horticulture group has entered into alliances with suppliers. Scotts works closely with basic pesticide manufacturers to secure access to, and if possible, exclusive positions on, advanced control chemistry which can be formulated on granular carriers or formulated as a liquid application. In fiscal 1998, Scotts signed an agreement with AgrEvo USA Company for the exclusive domestic distribution rights to various AgrEvo active ingredients for the professional horticulture market. These active ingredients were used to create Scotts(R) branded fungicides and insecticides such as Contrast(TM), Closure(TM) and Ovation(TM), three new products launched in fiscal 1999 and 2000. This agreement is currently the subject of litigation. See "ITEM 3. LEGAL PROCEEDINGS." Scotts expects the plant protection product group to represent up to 15% of Horticulture sales by fiscal 2002.

The professional horticulture line also includes an established line of soil-less mixes in which controlled-release and control products, and water-soluble fertilizers and wetting agents, can be incorporated or applied, respectively, to customize potting media for nurseries and greenhouses.

BUSINESS STRATEGY

Our North American Professional Business Group focuses sales efforts on the middle and high ends of the professional market and generally does not compete for sales of commodity products. Demand for Scotts' professional products is primarily driven by product quality, performance and technical support. Scotts seeks to meet these needs with a range of sophisticated, specialized products and technically competent sales personnel and managers to service customers with recommendations and advice.

A primary focus of the North American Professional Business Group's strategy is to provide innovative high-value products to its professional horticultural customers. For fiscal 2000, in the horticulture market, the group continued its expansion into the market with Osmocote(R) Pro, a modification of Osmocote(R) timed-release fertilizer with IBDU fertilizer for U.S. markets, which was a result of a marketing agreement reached with Nu-Gro, Inc. Scotts' fertilizer technology is expected to lead to further new combination product introductions in fiscal 2001 and beyond.

MARKETING AND PROMOTION

For fiscal 2000, the North American Professional Business Group's horticultural sales force consisted of approximately 30 territory managers. Most territory managers have degrees in agronomy, horticulture or similar disciplines, and are well regarded in the industry. Several hold advanced degrees. Territory managers work with greenhouse and nursery managers and other landscape professionals. In addition to marketing Scotts' products, Scotts' territory managers provide consultation, testing services and advice regarding maintenance practices, including individualized comprehensive programs incorporating various products for use at specified times throughout the year. The North American Professional Business Group is served through a network of distributors.

To reach potential purchasers, Scotts uses trade advertising and direct mail and sponsors seminars throughout the country. In addition, Scotts maintains a special toll-free number for its professional customers. The professional customer service department responded to over 50,000 telephone inquiries in fiscal 2000 (excludes calls for the ProTurf(R) business, which was sold in May 2000).

COMPETITION

In the professional horticulture markets, Scotts faces a broad range of competition from numerous companies ranging in size from multi-national chemical and fertilizer companies such as DowAgroSciences Company, Uniroyal and Chisso-Asahi, to smaller specialized companies such as Pursell Technologies, Inc., SunGro (a Division of Hines Horticultural), and Fafard, which are local fertilizer and soil manufacturers and blenders. In addition, the higher margins available for sophisticated products to treat high-value crops continue to attract large and small chemical producers and formulators, some of which have significant financial resources and research departments. The influence of mass merchandisers, with significant

----

10

11

buying power, has increased the cost consciousness of horticulture growers who sell much of their production volume through mass merchandisers, to the consumer. While Scotts believes that its reputation, ornamental market focus, expertise in product development and sales and distribution network should enable it to continue to maintain and build its share of the professional market, there can be no assurance that we will be able to maintain market share or margins against new or existing competitors.

BACKLOG

A large portion of professional horticultural product orders is received during the months of November through March and is filled during the months of December through May. As of November 24, 2000, orders on hand from professional horticultural customers totaled approximately $9.5 million compared with $10.0 million on the same date in 1999. All of these orders are expected to be filled in fiscal 2001.

BRANDED PLANTS BUSINESS SUBGROUP

In May 2000, the Branded Plants Business subgroup was formed within the North American Professional Business Group to develop the green goods market segment, which includes turf, seeds, annual and perennial flowers, cut flowers, shrubs and ground covers. The subgroup's focus is on development of superior turf and ornamental plants through both conventional and biotech breeding methods. See "Matters Relation to Scotts Generally -- Research and Development". Potential sales of branded plants to consumers through retail channels, and sales of turf seeds to professional horticultural customers, are also managed by this subgroup. For fiscal 2001, this subgroup will become a business unit within the North American Consumer Business Group. This subgroup is not expected to generate significant product sales until fiscal 2004. However, action or inaction by governmental regulatory agencies could significantly or permanently delay or inhibit bringing these products to market.

INTERNATIONAL BUSINESS GROUP

MARKET

The International Business Group regularly sells its products to both consumer and professional users in over 40 countries. We believe that growth potential should exist in both markets. This group also manages and markets consumer Roundup(R) internationally. We have established business entities in the markets with significant potential, which include Australia, the United Kingdom, the Benelux countries, Germany, France, Spain and Italy.

Consumer lawn and garden products are sold under Scotts' various trademarks, including the Scotts(R) label, in Australia, the European Union, New Zealand and South America. In addition, products bearing the Miracle-Gro(R) trademark are marketed in the Caribbean, Australia, New Zealand, the Netherlands and the United Kingdom. Scotts' Hyponex(R) line of products is present in Japan as a result of a long-term agreement with Hyponex Japan Corporation, Ltd., an unaffiliated entity.

Professional markets include both the horticulture and turf industries. The International Business Group markets professional products in Africa, Australia, the Caribbean, the European Union, Japan, Latin America, Mexico, the Middle East, New Zealand, South America and Southeast Asia. Horticultural products mainly carry the Scotts(R), Sierra(R), Peters(R) and Osmocote(R) labels. Turf products primarily use the Scotts(R) trademark.

Consumer products are sold by an approximate 200-person sales force and professional products are sold by an approximate 94-person sales force.

We believe that we have leading market share positions in the United Kingdom in a number of lawn and garden market categories. Our major consumer brands there include Miracle-Gro(R) plant fertilizers, Weedol(R) and Pathclear(R) herbicides, EverGreen(R) lawn fertilizer, Levington(R) growing media, and Bug Gun(R) insecticides.

We believe that Scotts is continental Europe's largest producer of consumer lawn and garden products. We manufacture and sell a full line of consumer lawn and garden pesticides, fertilizers and growing media in France, Germany, the Benelux countries, Austria, Italy and Spain. Brands include KB(R) and Fertiligene(R) in France; Celaflor(R) and NexaLotte(R) in Germany; and ASEF in the Netherlands.

----

11

12

In October 1998, we acquired from an agency of the Irish government, Bord na Mona, plc, the Shamrock(TM) trademark, a brand used to market peat products in the United Kingdom and Ireland. We also acquired the rights to a horticultural peat supply agreement with Bord na Mona as supplier, which included an option to supply the Shamrock(TM) brand of peat in continental European markets. Under the agreement, Bord na Mona will mix and package peat and other growing media products for Scotts. This acquisition secures our access to high quality peat resources for both the consumer and professional markets in the United Kingdom and Ireland. In March 2000, we exercised the above option and completed the purchase of the exclusive worldwide distribution rights for horticultural peat and peat products manufactured by Bord na Mona. Under the terms of the new long term supply agreement (which replaced the original agreement), we will market and distribute a range of peat-based products, manufactured and packaged by Bord na Mona, throughout Europe and the rest of the world. Currently, the products are marketed in the professional grower sector. We also intend to use the peat to supply our consumer growing media business in Europe.

In fiscal 1999, in connection with efforts to successfully integrate several acquisitions, we divided management of our international operations into four zones, as follows: Zone 1 (the consumer business in the United Kingdom and Ireland); Zone 2 (the consumer business in France, Belgium and Holland); Zone 3 (the consumer business in Germany, Austria and Australia); and Zone 4 (the professional business). For fiscal 2001 going forward, the international consumer and professional businesses will be divided into two new groups, Worldwide Professional and International Consumer. The Worldwide Professional Group will include the North American Horticulture Business subgroup.

BUSINESS STRATEGY

A significant portion of Scotts' sales and earnings is derived from customers in foreign countries. The headquarters office for the International Business Group is located near Lyon, France, in Ecully. The Professional subgroup of the International Business Group maintains a separate office in Waardenburg, Netherlands. Scotts' managers travel abroad regularly to visit its facilities, distributors and customers. Scotts' own employees manage its affairs in Europe, Australia, Malaysia, Mexico, Brazil and the Caribbean. The International Business Group plans to further develop its international business in both the consumer and professional markets. We believe that the technology, quality and value that are widely associated with our domestic and acquired brands should be transferable to the global marketplace.

We believe the International Business Group is positioned to obtain an increased share of the international market. We have a broad, diversified product line made up of value-added fertilizers which can be targeted to the market segments of consumer, turf, horticulture and high value agricultural crops. Also, we have the capability to sell worldwide through our extensive distributor network. However, there can be no assurance that we can maintain market share or margins against new or existing competitors, or that we can obtain an increased share of the international market.

Any significant changes in international economic conditions, expropriations, changes in taxation and regulation by U.S. and/or foreign governments could have a substantial effect upon the international business of Scotts. We believe, however, that these risks are not unreasonable in view of the opportunities for profit and growth available in foreign markets. Our international earnings and cash flows are subject to variations in currency exchange rates, which derive from sales and purchases of our products made in foreign currencies. For a discussion of how Scotts manages its foreign currency rate exposure, see "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- Liquidity and Capital Resources."

COMPETITION

The International Business Group's consumer business faces strong competition in the lawn and garden market, particularly in Australia and the European Union. The lead competitor in Australia is Yates. Competitors in the European Union include Bayer, COMPO (Kali und Salz) and various local companies. We have historically responded to competition with superior technology, excellent trade relationships, competitive prices, broad distribution and strong advertising and promotional programs.

The international professional market is very competitive, particularly in the controlled-release and water-soluble fertilizer segments. Numerous U.S. and European companies are pursuing these segments

----

12

13

internationally, including Pursell Industries, Lesco, COMPO, Norsk Hydro, Haifa Chemicals, Kemira and private label companies. Historically, our response to competition in the professional markets has been to adapt our technology to solve specific user needs which are identified by developing close working relationships with key users.

MATTERS RELATING TO SCOTTS GENERALLY

ROUNDUP MARKETING AGREEMENT

On September 30, 1998, Scotts entered into an agency and marketing agreement with Monsanto Company (now known as Pharmacia Corporation) and became Monsanto's exclusive agent for the marketing and distribution of consumer Roundup(R) products in the consumer lawn and garden market within the United States and other specified countries, including Australia, Austria, Canada, France, Germany and the United Kingdom. In addition, if Monsanto develops new products containing glyphosate, the active ingredient in Roundup(R), or other non-selective herbicides, Scotts has specified rights to market these products in the consumer lawn and garden market. Glyphosate was subject to a U.S. patent that expired in September 2000, is no longer subject to patent in Europe and is not subject to patent in Canada.

Under the marketing agreement, Scotts and Monsanto jointly develop global consumer and trade marketing programs for Roundup(R). Scotts has assumed responsibility for sales support, merchandising, distribution and logistics. Monsanto continues to own the consumer Roundup(R) business and provides significant oversight of its brand. In addition, Monsanto continues to own and operate the agricultural Roundup(R) business. A Steering Committee comprised of two Scotts designees and two Monsanto designees has ultimate oversight over the consumer Roundup(R) business. In the event of a deadlock, the president of Monsanto's agricultural division is entitled to the tie-breaking vote.

COMMISSION STRUCTURE

Scotts is compensated under the marketing agreement based on the success of the consumer Roundup(R) business in the markets covered by the agreement. In addition to recovering out-of-pocket costs on a fully burdened basis, Scotts receives a graduated commission to the extent that the earnings before interest and taxes of the consumer Roundup(R) business in the included markets exceed specified thresholds. To the extent that these earnings are less than the first commission threshold set forth below, Scotts will not receive any commission. Net commission is equal to the commission set forth in the following chart less the contribution payment Scotts is required to make, as described below. The net commission is the amount that Scotts actually recognizes on its income statements.

----

13

14

The commission structure is as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | If Earnings Are |  |  |
|  |  |  | Between the First |  |  |
|  |  |  | and Second | If Earnings Are |  |
|  |  |  | Commission |  |
|  |  |  | Thresholds, the | Greater than the |  |
|  |  |  | Commission Equals | Second Commission |  |
|  |  |  | the Following | Threshold, the |  |
|  |  |  | Percentage of the | Commission Equals the |  |
|  | First | Second | Difference Between | Following Amount Plus |  |
|  | the Earnings and | 50% of the Amount of |  |
| Year | Commission | Commission | the First Commission | the Earnings |  |
| Threshold | Threshold | Threshold | Above $80 Million |  |

- -----------------------------------------------------------------------------------

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 1999-2000 | $30,000,000 | $80,000,000 | 44% | $22,000,000 |
| 2001 | $31,250,000 | $80,000,000 | 40% | $19,500,000 |
| 2002 | $32,531,250 | $80,000,000 | 40% | $18,987,500 |
| 2003 | $33,844,531 | $80,000,000 | 40% | $18,462,188 |
| 2004 | $35,190,645 | $80,000,000 | 40% | $17,923,742 |
| 2005 | $36,570,411 | $80,000,000 | 40% | $17,377,836 |
| 2006 | $37,984,471 | $80,000,000 | 40% | $16,806,212 |
| 2007 | $39,434,288 | $80,000,000 | 40% | $16,226,285 |
| 2008 | $40,920,145 | $80,000,000 | 40% | $15,631,942 |
| 2009+ | $30,000,000 | $80,000,000 | 40% | $20,000,000 |

Earnings for purposes of the marketing agreement for the 1999 fiscal, or program, year were increased by $15 million for purposes of calculating Scotts' commission.

The agreement also requires Scotts to make fixed annual payments to Monsanto as a contribution against the overall expenses of the Roundup(R) 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.

Specifically, Scotts will apply toward the deferral 50% of the amount by which Scotts' net commission exceeds the following levels:

Year Net Commission Level

- ------------------------------------------------------------------------------

|  |  |
| --- | --- |
| 2001 | $32,500,000 |
| 2002 | $28,100,000 |
| 2003 | $26,700,000 |
| 2004 | $30,500,000 |
| 2005 | $34,600,000 |
| 2006 | $38,900,000 |
| 2007 | $43,500,000 |
| 2008 | $49,000,000 |

----

14

15

TERM

The marketing agreement has no definite term, except as it relates to European Union countries. However, as described below, for a period of 20 years Scotts may be entitled to receive a termination fee if Monsanto terminates the marketing agreement upon a change of control of Monsanto or the sale of the consumer Roundup(R) business. With respect to the European Union countries, the initial term of the marketing agreement extends through September 30, 2005. After September 30, 2005, the parties may agree to renew the agreement with respect to the European Union countries for three successive terms ending on September 30, 2008, 2015 and 2018, respectively. However, if Monsanto does not agree to any of the extension periods with respect to the European Union countries, the first commission threshold set forth in the table outlining the commission structure above, will become $0.

TERMINATION

Monsanto has the right to terminate the marketing agreement upon a specified event of default by Scotts or upon a change of control of Monsanto or the sale of the consumer Roundup(R) business, so long as the termination after a change of control of Monsanto or the sale of the Roundup(R) business occurs later than September 30, 2003. The events of default by Scotts that could give rise to termination by Monsanto include:

* "Material Breach" which is not cured within 90 days after written notice from Monsanto and which is not remediable by the payment of damages or by specific performance;
* "Material Fraud" which was engaged in with the intent to deceive Monsanto and which is not cured, if curable, within 90 days after written notice from Monsanto;
* "Material Willful Misconduct" which is not cured, if curable, within 90 days after written notice from Monsanto;
* "Egregious Injury" to the Roundup(R) brand that is not cured, if curable, within 90 days after written notice from Monsanto, unless the egregious injury resulted from the exercise by Monsanto of its tie-breaking right with respect to deadlocked actions by the Steering Committee or was caused primarily by an act or omission of Monsanto;
* Scotts' becoming insolvent;
* the acquisition of Scotts, by merger or asset purchase, or the acquisition of more than 25% of Scotts' voting securities, without Monsanto's prior written approval, by a competitor of Monsanto or by an entity that Monsanto reasonably believes will materially detract from or diminish Scotts' ability to fulfill Scotts' duties and obligations under the agreement; or
* the assignment by Scotts of all, or substantially all, of Scotts' rights or obligations under the agreement.

In addition, Monsanto may terminate the marketing agreement within the North America, U.K., France or "Rest of the World" regions for specified declines of the consumer Roundup(R) business. For purposes of determining Monsanto's rights under the agreement, Scotts' performance is based on sales of Roundup(R) to the ultimate consumers of the product, rather than on sales to retailers or distributors. Scotts will measure sales to consumers by looking at point-of-sale unit movement at selected, top-20 Roundup(R) customers in the affected region.

More specifically, Monsanto may terminate the marketing agreement within one of the regions if:

* sales to consumers decline cumulatively over a three fiscal year period in the region; or
* sales to consumers decline by more than five percent in two consecutive fiscal years within the region.

However, Monsanto may not exercise this termination right if Scotts can demonstrate that the 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 Scotts' failure to perform its duties under the agreement. Monsanto would also not be able to terminate the agreement if the decline were caused by Monsanto's exercise of its right to break ties with respect to deadlocked decisions of the Steering Committee.

----

15

16

Scotts has rights similar to Monsanto's to terminate the agreement upon a material breach, material fraud or material willful misconduct by Monsanto. In addition, Scotts may terminate the marketing agreement upon Monsanto's sale of the consumer Roundup(R) business, although then Scotts would lose the termination fee described below.

TERMINATION FEE

Except to the extent described below, if Monsanto terminates the marketing agreement upon a change of control of Monsanto or the sale of the consumer Roundup(R) business, Scotts will be entitled to receive a significant termination fee. Scotts will also be entitled to receive a termination fee if it terminates the marketing agreement upon a material breach, material fraud or material willful misconduct by Monsanto.

The termination fee will be calculated in accordance with the following schedule:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| If Termination Occurs | The Termination | | Fee |  |
| Payable | to |  |  |
| Prior to September 30, | Scotts will be | Equal to: | |  |

- ---------------------------------------------------------------------------------

|  |  |
| --- | --- |
| 2003 | \*$150,000,000 |
| 2004 | $140,000,000 |
| 2005 | $130,000,000 |
| 2006 | $120,000,000 |
| 2007 | $110,000,000 |
| 2008 | $100,000,000 |

- ---------------

* Neither Monsanto nor a successor to the consumer Roundup(R) business may terminate the marketing agreement prior to September 30, 2003 upon a change of control or a sale of the consumer Roundup(R) business. If Monsanto or a successor were to do so despite such prohibition, the termination fee payable to Scotts would be $185 million.

Between October 1, 2009 and September 30, 2018, if Monsanto terminates the marketing agreement upon a sale of the consumer Roundup(R) business or if a successor terminates the agreement following a change of control of Monsanto, the termination fee will be equal to the greater of (i) a percentage (as specified in the agreement) of the portion of the purchase price of the consumer Roundup(R) business in excess of a specified amount and (ii) $16 million.

In addition, if the marketing agreement is terminated for any reason other than because of egregious injury, material fraud or material willful misconduct by Scotts, Monsanto will forfeit recovery of any unpaid portion of the $40 million deferral of contribution payments described above.

SALE OF ROUNDUP

Monsanto has agreed to provide Scotts with notice of any proposed sale of the consumer Roundup(R) business, allow Scotts to participate in the sale process and negotiate in good faith with Scotts with respect to a sale. If the sale is run as an auction, Scotts will further be entitled to a 15-day exclusive negotiation period following the submission of all bids to Monsanto. During this period, Scotts may revise its original bid, but Scotts will not have the right to review the terms of any other bids.

In the event that Scotts acquires the consumer Roundup(R) business in such a sale, it will receive credit against the purchase price in the amount of the termination fee that would otherwise have been paid to Scotts upon termination by Monsanto of the marketing agreement upon the sale.

If Monsanto decides to sell the consumer Roundup(R) business to another party, Scotts must let Monsanto know within 30 days after receipt of notice of the purchaser whether Scotts intends to terminate the marketing agreement and forfeit any right to a termination fee or whether Scotts will agree to perform its obligations under the agreement on behalf of the purchaser, unless and until the purchaser terminates Scotts and pays the applicable termination fee.

----

16

17

MARKETING FEE

Upon execution of the marketing agreement, Scotts paid Monsanto a fee of $32 million in consideration for the rights obtained under the marketing agreement with respect to North America.

PATENTS, TRADEMARKS AND LICENSES

The "Scotts(R)", "Miracle-Gro(R)", "Hyponex(R)" and "Ortho(R)" brand names and logos, as well as a number of product trademarks, including "Turf Builder(R)", "Osmocote(R)" and "Peters(R)", are federally and/ or internationally registered and are considered material to Scotts' business. Scotts regularly monitors its trademark registrations, which are generally effective for ten years, so that it can renew those nearing expiration. In 1989, Scotts assigned rights to selected Hyponex trademarks to Hyponex Japan Corporation, Ltd., an unaffiliated entity. In July 1995, Scotts-Sierra granted an exclusive license to use the Peters(R) trademark in the U.S. consumer market, to Peters Acquisition Corporation, now owned by United Industries Corporation, for the life of the mark. In connection with the sale of Scotts' ProTurf(R) business, Scotts entered into several trademark licensing agreements with The Andersons, Inc. and The Nu-Gro Corporation. Under these agreements, certain Scotts' trademarks formerly used in the ProTurf(R) business (including the ProTurf(R), Contec(R) and Accupro(TM) marks), are licensed to Andersons in the United States and to Nu-Gro in Canada, for five years, after which time the licensees may purchase those marks in accordance with the terms of the various license agreements. The buyers were granted a long-term license to use the Peters Professional(R) and Starter(R) trademarks in the U.S. professional turf market.

As of September 30, 2000, Scotts held over 90 issued patents, covering fertilizer and chemical compositions and processes, grasses and application devices. Many of these patents have issued in numerous countries around the world, bringing Scotts' total worldwide patents to 269. Worldwide patents are subject to annual renewal, with patent protection generally extending to 20 years from the date of filing. Many of Scotts' patents extend well into the next decade. In addition, Scotts continues to file new patent applications each year. Currently, Scotts has over 160 pending patent applications worldwide. Scotts also holds exclusive and non-exclusive patent licenses from various raw material suppliers, permitting the use and sale of additional patented fertilizers and pesticides.

During fiscal 2000, Scotts was granted a number of new U.S. patents. Two separate patents were granted covering coated fertilizer technologies to support the Osmocote(R) line of products. These represent the first patented advances in Osmocote(R) since 1987. Two U.S. patents were also issued covering the unique packaging/application device for the new Miracle-Gro(R) Garden Weed Prevent (now known as Miracle-Gro(R) Garden Weed Preventer(TM)), a product successfully introduced in fiscal 2000. Internationally, patents were granted covering Poly-S(R) coated fertilizer technology in Europe, Israel and the Russian Federation. In addition, a use patent was granted in the Russian Federation covering the use of controlled-release fertilizers as improved nutrient sources for aquaculture.

One of Scotts' methylene-urea patents, which is deemed material to Scotts' business, will expire in July 2001. This product composition patent covers Scotts Turf Builder(R), Scotts Turf Builder(R) with Plus 2(R) Weed Control and Scotts Turf Builder(R) with Halts(R) Crabgrass Control, among other products. These products are also the subject of a separate patent extending to 2010, which covers the current and preferred manufacturing method for producing these products. Although the product possibly could be manufactured by an alternative method, we believe that the higher manufacturing costs to replicate this product and the strength of the Scotts(R) brand, should lessen the likelihood of product duplication by any competitor.

In May 2000, Scotts sold its North American ProTurf(R) business to The Andersons, Inc. in the U.S. and The Nu-Gro Corporation in Canada. The sale included an exclusive "field of use" license of two Scotts patents. These patents cover certain professional rotary spreaders and technology supporting fertilizer/ growth regulator combination products. Under the license agreements, Scotts retains rights to use these patents outside the North American professional turf business.

Glyphosate, the active ingredient in Roundup(R), was subject to a patent in the United States that expired in September 2000. Scotts cannot predict the success of Roundup(R) 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(R) in such countries have continued to increase despite the lack of patent protection, sales in the

----

17

18

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(R) marketing agreement.

RESEARCH AND DEVELOPMENT

Scotts has a long history of innovation dating from the 1928 introduction of Turf Builder(R), through the development, design and construction of its newest state of the art methylene-urea fertilizer production facility in Marysville, Ohio. Commissioned in 1999, this facility produced the new and improved Turf Builder(R) with Micromax(R) micronutrients for fiscal 2000. Scotts' continued commitment to innovation has produced a portfolio of 269 patents worldwide, covering most of its fertilizers and many of its grasses and application devices.

Scotts operates what it believes to be a premier research and development organization in the consumer lawn and garden industry. Headquartered in the Dwight G. Scott Research Center for North America in Marysville, Ohio ("Scotts R&D"), Scotts R&D's mission is to develop and enhance easy to use lawn and garden products for consumers. This is accomplished through a comprehensive and consolidated view of innovation including Scotts R&D divisions such as: product development (agronomic performance/efficacy evaluation); process/formulation development (design of manufacture); packaging and durables development (new structures, forms, dispensing and application devices); and regulatory and environmental affairs (product registration, industry and government relations). Scotts R&D's consolidated effort harnesses the synergies among all Scotts technologies which we believe results in optimization for the lawn and garden consumer, from seed, soil and fertilizer to weed/pest control.

Scotts R&D operates six research field stations strategically located throughout the United States in Ohio, Florida, Texas, California, New Jersey and Oregon, covering 212 acres. These facilities allow for evaluation of regional product requirements (different soil, climatic and pest conditions) and provide flexibility for year-round testing. The facilities also provide regional technical support and training for sales personnel.

Scotts R&D underwent significant change in fiscal 1999 and 2000 with the relocation to Marysville, Ohio of the durable goods/application device development group from Republic Tool's Carlsbad, California facility and the relocation of the Ortho research and development group from San Ramon, California. Product development efforts were reorganized in fiscal 1999 for better alignment with the business group marketing departments. In fiscal 2000, Scotts R&D "relationship managers" were assigned to each business group within Scotts for greater efficiency in the management of complex project portfolio activity.

Since 1992, Scotts' entire line of controlled-released fertilizers has been reformulated or upgraded with new technology. These include: patented Poly-S(R), ScottKote(R) and methylene-urea; and Osmocote(R) patterned release, polymer-encapsulated technology. These technologies service the turfgrass, garden, horticultural and specialty agricultural markets both domestically and internationally. Process development efforts continue to focus on process innovation, capacity increase, quality enhancement and cost reduction. The fiscal 2000 impact of this work resulted in improvements ranging from Miracle-Gro(R) Tree Spikes (cost reduction and quality improvement) to controlled-release fertilizer for professional horticultural container-grown plants (improved performance, cost reduction and quality improvement). Application of Scotts' expertise in process/formulation development is expected to provide significant future benefit to the Consumer Ortho and Consumer Gardens Business Groups by way of cost reduction, quality enhancement and operating efficiency improvement.

In fiscal 1998, Scotts' consumer lawn fertilizer packaging was converted to high quality plastic that has since become the industry standard. Scotts R&D applied learning gained in that conversion to subsequently convert the North American Professional Business Group's fertilizer line in fiscal 1999 and 2000. The Consumer Ortho Business Group converted packaging for granular control products in fiscal 2000, achieving a cost reduction of $1 million per year while improving appearance, durability and shipping characteristics. Also new in fiscal 2000 was the sliding reclosure feature on Miracle-Gro(TM) Potting Soil, a consumer convenience-oriented improvement.

Scotts R&D expects to benefit from the consolidation of resources as a result of the relocation to Marysville of the Ortho research and development functions in fiscal 2000. Continued efforts will include package/dispensing innovation, consumer ease of use and reduction of consumer exposure. Examples in

----

18

19

fiscal 1999 include the successful introduction of Pull 'N Spray(R) and Lock 'N Spray(R) in the Roundup(R) and Ortho(R) product lines, both unique combined packaging/application systems. Work on improved, second-generation versions of these products is underway.

Scotts R&D maintains an aggressive active ingredient access and evaluation program, critical to the introduction of new and improved products. Over 100 new formulations are prepared and evaluated each year in over 1,000 tests. Combined with Scotts' brands and market/sales position, this capability has allowed Scotts to gain exclusive and semi-exclusive access to new active ingredients from major chemical suppliers. Examples in consumer products are: bifenthrin insecticide (FMC Corporation); halofenozide insecticide (RohMid LLC); and pendimethalin herbicide (American Cyanamid Company). Examples in professional products are: myclobutanil fungicide (Rohm & Haas Company); paclobutrazol turf growth regulator (Zeneca Professional Products); etridiazole fungicide (C&K Witco); and flutolanil fungicide, propamocarb fungicide, deltamethrin insecticide, bendiocarb insecticide, clofentezine miticide and buprofezin insecticide (AgrEvo Environmental Health). In addition to traditional pest control chemistry, Scotts R&D continually evaluates emerging technologies, searching for new, environmentally sound products that can provide consumers with effective alternatives for solving their pest control needs.

Since 1997, Scotts has maintained a dedicated turfgrass genetic engineering laboratory in its existing Scotts R&D facility in Marysville, to develop turfgrass varieties with improved characteristics such as resistance to disease, insects and herbicides. In January 1998, Scotts acquired an 80.8% interest in Sanford Scientific, Inc., a research company in the rapidly growing field of genetic engineering of plants. Sanford Scientific has developed and licensed a broad portfolio of genes and genetic process technology. It holds the exclusive, worldwide license to use biolistic ("gene gun") technology in the commercial development of genetically transformed woody ornamental plants, ground covers, trees and shrubs, and the non-exclusive worldwide license for use with turfgrass, ornamental flowers, houseplants and vines. Biolistic technology involves the delivery of desirable genetic characteristics by high-velocity injection into cells. The technology is widely used in medical research and agricultural fields for applications ranging from immunization and cancer treatment to creation of new agricultural crop varieties, including corn and soybeans. The biolistic approach to genetic engineering of plants has important advantages over other transformation technologies. For some plant species, transformation using the gene gun is largely considered the only commercially viable method of inserting new gene traits into plants. In addition, Sanford Scientific has developed and licensed a broad portfolio of genes and genetic process technology with commercial potential.

Gene gun technology augments Scotts' genetic improvement program by allowing researchers to create desirable varieties of plants with value-added traits beyond the capabilities of conventional plant breeding techniques. Targets of Scotts' research effort include disease and insect resistance, herbicide tolerance and other consumer-relevant traits, such as turfgrasses that require less mowing and flowers with longer-lasting blooms. Management believes that some of these traits could produce plants requiring fewer horticultural inputs such as water and insect control applications. Those plants could then be marketed as having a favorable environmental impact. Scotts expects that it will commercialize selected plants with these traits, within a few years.

Scotts acquired its interest from Sanford Scientific founder and president Dr. John Sanford, who retained a 19.2% interest and remains involved with Sanford Scientific, as a member of Sanford Scientific's Board of Directors. He also provides consulting services to Sanford Scientific, under an agreement that continues through January 31, 2002. Dr. Sanford led the team of Cornell University scientists who invented the gene gun technology in the 1980's, and he continues as a leading expert in the field. Sanford Scientific operates an advanced genetic research facility in upstate New York, and actively collaborates with other leading genetic scientists.

Exclusive access to this technology is a key element in Scotts' program to create value by combining Scotts' brands and Sanford Scientific's biolistic transformation process with proven genes licensed from technology partners. Consistent with this strategy, in August 1998, Scotts completed an agreement with Rutgers University, the State University of New Jersey. Under this agreement, Scotts funds, through research support and future royalties, a combined effort by Rutgers' plant biotechnology and turfgrass breeding programs to develop improved transgenic bentgrass varieties. In return, Scotts has exclusive rights to market all Rutgers' patented transgenic bentgrass varieties developed through 2005, likely extending to 2015. Rutgers' development program will utilize the biolistic process and other enabling

----

19

20

technologies under license to Sanford Scientific to insert and activate genes that are proprietary to Rutgers University. Any superior bentgrass varieties that result from the program are expected to be commercialized in the golf course market.

Scotts is party to an agreement with Monsanto (now known as Pharmacia) to bring further benefits of biotechnology to the turfgrass and ornamental plants business. Under the terms of the agreement, Scotts and Monsanto agree to share technologies, including Monsanto's extensive genetic library of plant traits and Scotts' proprietary gene gun technology to produce improved transgenic turfgrasses and ornamental plants. Scotts and Monsanto will work with each other on a global basis to develop these biotechnology products in the professional and consumer markets. Each company will bring its leading brands, marketing skills and technological expertise to create new products. In addition to sales by Scotts, the companies plan to license the new products to other marketing partners in the turf and ornamental industry. The collaborative alliance will focus on providing professional and consumer benefits such as turfgrass that requires less mowing and water, ornamental plants that last longer and produce larger and more plentiful blooms, and plants that will allow for better weed control. Scotts has been working since 1997 on Roundup Ready(R) turfgrass, which is tolerant to Monsanto's Roundup(R), under a research agreement with Monsanto. The current alliance expands that relationship to cover new applications for Roundup Ready(R) technology as well as other improvements to ornamental plants.

In addition to Scotts R&D for North America, the International Business Group conducts research and development in Levington, the United Kingdom; Lyon, France; Ingelheim, Germany; Heerlen, Netherlands; and Sydney, Australia. The Levington site supports consumer and professional formulation and testing of lawn and garden fertilizers, pesticides and growing media. The Lyon and Ingelheim sites support consumer household insecticide formulation and testing, as well as lawn and garden fertilizers, pesticides and growing media. The Heerlen facility supports professional formulation, testing and process development of turf and horticultural fertilizers, and testing of pesticide products. The Sydney site supports consumer and professional testing and technical service of fertilizer and pesticide products. The Scotts Company (UK) Ltd. leases a research facility and trial station in the United Kingdom for formulating plant protection products for the consumer and professional markets.

Research and development expenses were approximately $24.1 million (1.4% of net sales) for fiscal 2000 including environmental and regulatory expenses. This compares to $21.7 million (1.3% of net sales) and $14.8 million (1.3% of net sales) for fiscal 1999 and 1998.

SEASONALITY

Scotts' business is highly seasonal with approximately 75% of net sales occurring in the second and third fiscal quarters combined for fiscal 2000, and 74% for fiscal 1999 (including Ortho(R) products, but excluding Roundup(R) products.) Please also see the discussion in "North American Consumer Business Group -- Backlog" and "North American Professional Business Group -- Backlog."

The products marketed by the Consumer Ortho Business Group are highly seasonal. However, they are not necessarily driven by the same weather variables as are the other products of Scotts. For example, insect populations (and corresponding control product sales) tend to thrive when wet springs yield to hot, humid summers. In contrast, fertilizer sells best in drier springs.

OPERATIONS

PRODUCTION FACILITIES

The manufacturing plant for consumer and professional fertilizer products marketed under the Scotts(R) label is located in Marysville, Ohio. Manufacturing for these products is also conducted by approximately 40 contract manufacturers. Demand for Turf Builder(R), Poly-S(R) and other products results in Scotts expanding operations (generally from October through May) of its fertilizer processing and packaging lines from five days per week, three-shift operations to seven days, three-shift operations when necessary to prepare for the peak demand periods. Scotts currently operates its three Turf Builder(R) lines seven days per week, year round, and began construction of a fourth Turf Builder(R) production line, to meet capacity needs for those products. Scotts-Sierra controlled-release fertilizers are produced in Charleston, South Carolina; Milpitas, California; and Heerlen, Netherlands. Expansion at each facility has been completed to permit the blending of products which utilize both Scotts and Scotts-Sierra proprietary technology. Production

----

20

21

schedules at Scotts-Sierra's facilities vary to meet demand. Seed blending and packaging are outsourced to various packaging companies located on the West Coast near seed growers. Consumer growing media products are processed and packaged in 25 locations throughout the United States. Scotts operates two composting facilities where yard waste (grass clippings, leaves and twigs) is converted to raw materials for Scotts' growing media products. Scotts also utilizes approximately 30 contract production locations for growing media products. Professional horticultural growing media products are processed and packaged at two U.S. locations. Scotts' lawn spreaders and specialty hose sprayers are produced at the Republic facility in Carlsbad, California. Scotts will be relocating the operations of that facility to Temecula, California in 2001. Republic Tool adjusts assembly capacity from time to time, to meet demand. Both the Consumer Growing Media business and Republic Tool vary production schedules to meet demand. The majority of Miracle-Gro(R) water-soluble fertilizers is contract-manufactured in three facilities located in Ohio, Texas and Florida.

Granular and water-soluble fertilizers, liquid herbicides and pesticides and growing media for the U.K. market, are produced in East Yorkshire (Howden, Hatfield and Swinefleet) and Bramford (Suffolk), in the United Kingdom.

Bramford is the headquarters for U.K. operations and for the U.K. professional business. The site houses a modern fertilizer granulation plant with automated packing lines, liquid fertilizer production and bottling facilities. In addition, there are facilities for formulating and bottling a wide range of liquid plant protection products including herbicides, insecticides and fungicides. Bramford produces a wide range of products for both the consumer and professional businesses in Europe. These include the EverGreen(R) line of consumer lawn products and Greenmaster(R) products for the professional turf market. The Hatfield and Swinefleet factories contain modern facilities for the screening and blending of peat, together with various additives to produce a wide range of growing media. Peat to supply the facilities is harvested on both sites and brought in from satellite sites in Northwest England and Scotland. These facilities produce the Levington(R) brand of compost for both the consumer and professional businesses. Peat from Ireland is imported to produce the Shamrock(TM) range of growing media. Granular and water-soluble fertilizers and pesticides are produced at Howden and growing media is produced at Swinefleet and Hatfield.

At Hautmont, France, growing media and fertilizers for the consumer market are blended and bagged, and at Bourth, France, pesticide products for the consumer market are formulated, blended and packaged. Production schedules at Hautmont vary from one shift to two shifts to meet demand, while Bourth maintains two shifts year-round.

Liquid and granular ingredients made primarily for Ortho(R) and Roundup(R) products are manufactured at Scotts' Fort Madison, Iowa facility and at several contract facilities. The plants adjust to seasonal demands expanding from two shifts five days per week to three shifts five days per week during peak season.

Resin used for producing Osmocote(R) controlled-release fertilizer in the United States is manufactured by Sunpol Resins and Polymers, Inc. (formerly Sierra-Sunpol Resins, Inc.).

Management believes that each of its facilities is well-maintained and suitable for its purpose. However, due to the seasonal nature of Scotts' business, Scotts' plants operate at maximum capacity during the peak production periods. Therefore, an unplanned serious production interruption could have a substantial adverse affect on Scotts' sales of the affected product lines.

CAPITAL EXPENDITURES

Capital expenditures totaled $72.5 million and $66.7 million for fiscal 2000 and 1999. Of the major expenditures for fiscal 2000, approximately $14.3 million was spent on the implementation of the Enterprise Resource Planning information services program, $15.0 million for engineering, equipment purchases and initial construction of the fourth Turf Builder(R) production line and associated packaging line additions, and over $8.2 million for the North American Headquarters expansion required for consolidation of Ortho and Miracle-Gro operations. The expansion of our research and development facilities to accommodate Ortho and biotechnology activities increased research and development spending by $2 million over prior years. Automation of packaging lines at several growing media plants increased spending by nearly $5 million over prior years. The additional production capacity for Osmocote(R) products in Europe added $1.0 million to current spending. Scotts estimates that capital spending will approximate

----

21

22

$75-80 million for fiscal 2001. Completion of the fourth Turf Builder(R) line and packaging line additions will involve $28.9 million of spending next year, with an additional $5 million planned for ongoing automation of the growing media plants. Planned research and development expenditures of $8 million in fiscal 2001, will include the beginning of a major greenhouse expansion project to support increased activities in the biotechnology and branded plants areas.

PURCHASING

The key ingredients in Scotts' fertilizer and control products are various commodity and specialty chemicals including phosphates, urea, potash, herbicides, insecticides and fungicides. Scotts obtains its raw materials from various sources, which Scotts presently considers to be adequate. No one source is considered to be essential to any of Scotts' business groups or to its business as a whole. Scotts has never experienced a significant interruption of supply.

Raw materials for the Consumer Gardens Business Group's water-soluble fertilizer products, include phosphates, urea and potash. Scotts considers its sources of supply for these materials to be adequate. All of the liquid Miracle-Gro(R) fertilizer products sold by Scotts in North America are produced under contract by independent fertilizer blending and packaging companies.

The North American Horticulture Business subgroup purchases granular, homogeneous fertilizer substrates to be coated and the resins for coating. These resins are primarily supplied domestically by Sunpol Resins and Polymers, Inc.

Sphagnum peat, bark, peat, humus and manure constitute the Consumer Growing Media Business Group's most significant raw materials. At current production levels, Scotts estimates its peat reserves to be sufficient for its near-term needs in all locations. Bark products are obtained from sawmills and other wood residue producers and manure is obtained from a variety of sources, such as feed lots and farming operations.

Raw materials for Republic Tool's durables operation include various engineered resins and metals, all of which are available from a variety of vendors.

The Consumer Ortho Business Group's primary raw materials are pesticides similar to those used by the agriculture industry. No single chemical is essential in this market and all materials or suitable substitutes are expected to remain readily available.

For fiscal 2000, the International Business Group was comprised of Professional and Consumer subgroups, which offer products that are very similar to those marketed by the North American Professional and Consumer Business Groups. The raw materials are therefore similar to the materials used by those groups. Scotts believes that its raw materials sources for the International Business Group are sufficiently varied and anticipates no significant raw material shortages. Both the North American Consumer Business Group and the International Consumer Business subgroup contract with essentially the same major chemical and packaging companies, through short- and long-term supply agreements, for the supply of specialty chemicals, fertilizers and packaging materials. The North American Professional Business Group and the International Professional Business subgroup contract with local major producers, through short- and long-term supply agreements, for the supply of sphagnum peat, peat and humus, which constitute the most significant raw materials for these businesses. Long-term supply arrangements for peat and owned peat reserves in the United Kingdom are expected to be sufficient for the International Business Group's near-term needs, at current production levels. Packaging materials are supplied by major packaging companies, through short- and long-term supply arrangements, which Scotts considers adequate for its supply needs.

DISTRIBUTION

The primary distribution centers for Consumer Lawns' products are located near Scotts' North American headquarters in central Ohio. Scotts' expansion of its Marysville distribution facility was completed in December 1997. Scotts also uses nine primary regional distribution centers located in strategic markets across the United States. These third-party operations service customers directly during the in-season period. Scotts' products are shipped by rail and truck. While the majority of truck shipments are made by contract carriers, a portion is made by Scotts' own fleet of leased trucks.

----

22

23

Consumer Gardens' products are warehoused and shipped from three primary contract packagers located throughout the United States. In addition to the contract packagers, Consumer Gardens' products ship directly to customers from the same nine regional distribution centers as Consumer Lawns' products during the in-season period. Consumer Gardens' products ship via common carrier directly to customers and to lawn and garden distributors. Inventories of Consumer Gardens' U.K. products for the European market, which are produced at the East Yorkshire (Howden) and Bramford (Suffolk) facilities, are distributed through a public warehouse in Daventry, the United Kingdom. Professional products for the U.K. market are warehoused and shipped from the Daventry and Chasetown, U.K. locations.

Most growing media products have low sales value per unit of weight, making freight costs significant to profitability. Therefore, the Consumer Growing Media Business Group has located all of its 25 plant/ distribution locations near large metropolitan areas in order to minimize shipping costs and to be near raw material sources. This group uses its own fleet of approximately 70 trucks as well as contract haulers to transport its products from plant/distribution points to retail customers. Large-bag outdoor landscaping products and much of the indoor potting soil products are shipped directly to retail stores. A portion of Scotts' indoor potting soil and additive products is shipped to retailers' distribution centers for redistribution to their stores. In the United Kingdom, growing media is packaged at Hatfield and Swinefleet and shipped directly to customers in the United Kingdom. Growing media is also produced in Hautmont, France and Didam, Netherlands, and shipped directly to customers.

Scotts' Ortho(R) and Roundup(R) products are produced and shipped from two primary manufacturing facilities, one owned by Scotts and located in Fort Madison, Iowa and another at a contract packager located in Sullivan, Missouri. Ortho(R) and Roundup(R) products are shipped via common carrier through the same nine distribution centers used by the Consumer Lawns and Consumer Gardens Business Groups. Products ship directly from these centers to customers and to various lawn and garden distributors across the United States.

Professional horticultural products are produced at two fertilizer and two growing media manufacturing facilities located in the United States and one fertilizer manufacturing facility located in Heerlen, Netherlands. The majority of shipments are via common carriers through distributors in the United States and a network of public warehouses in Europe.

Republic Tool-produced, Scotts(R) branded spreaders are shipped via common carrier to regional warehouses serving Scotts' retail network. A portion of Republic Tool's spreader line and its private label lines is sold free-on-board (FOB) Carlsbad with transportation arranged by the customer. During fiscal 2001, plans are to consolidate all finished goods inventory into one new location with the manufacturing activities. Construction of this new facility is underway.

Fertilizers and pesticide products manufactured in Bourth, France are shipped to customers via a central distribution center located in Oleno, France.

SIGNIFICANT CUSTOMERS

Home Depot and Wal\*Mart represented approximately 22.9% and 8.9% of Scotts' net sales in fiscal 2000. Kmart's net sales represented 8.2% of Scotts' fiscal 2000 net sales. After allocating buying groups' sales to Wal\*Mart, Wal\*Mart sales represented approximately 12.5% of Scotts' fiscal 2000 net sales. All three customers hold significant positions in the retail lawn and garden market. There continues to be intense competition between and consolidation within the retail outlets selling Scotts' products. The loss of any of these customers or a substantial decrease in the amount of their purchases could have a material adverse effect on Scotts' business.

EMPLOYEES

Scotts' corporate culture is a blend of the history, heritage and culture of Scotts and companies acquired over the past ten years. Scotts provides a comprehensive benefits program to all full-time associates. As of September 30, 2000, we employed approximately 2,975 full-time workers in the United States (includes Scotts and all subsidiaries) and an additional 1,093 full-time employees located outside the United States. As of September 30, 2000, full-time workers averaged approximately eight years employment with Scotts or its predecessors. During peak production periods, Scotts engages as many as 1,600 temporary workers in the United States. In the United Kingdom, during peak periods, as many as 84

----

23

24

temporary workers are engaged and European operations engage an average of 71 temporary workers annually.

Scotts' U.S. employees are not members of a union, with the exception of 25 of Scotts-Sierra's employees at its Milpitas facility, who are represented by the International Chemical Workers Union Council/United Food and Commercial Workers Union. Approximately 120 of Scotts' full-time U.K. employees at the Bramford (Suffolk) and East Yorkshire (Hatfield and Swinefleet) manufacturing sites are members of the Transport and General Workers Union, having full collective bargaining rights. A number of Scotts' full-time employees at the headquarters office in Lyon, France are members of the Confederation Generale des Cadres (CGC), Confederation Francaise Democratique du Travail (CFDT) and Confederation Generale du Travail (CGT), which number is confidential under French law. The average rate of union membership among employees in France is approximately 15%. A number of union and non-union full-time employees are members of work councils at three sites in Bourth, Hautmont and Lyon, France, and a number of non-union employees are members of work councils in Ingelheim, Germany. Work councils represent employees on labor and employment matters and manage social benefits.

In connection with the Ortho acquisition, Scotts made offers of employment to all but a very limited number of employees who worked primarily in the Ortho business of Monsanto. While a majority of sales personnel accepted, most of the corporate staff declined relocation. Through September 30, 2000, Scotts paid aggregate severance, benefits and outplacement costs of $5.4 million for U.S. employees based on Monsanto's severance policy. Scotts was reimbursed in the aggregate by Monsanto for $2.7 million of the costs of such termination payments.

In connection with the move of the North American Consumer Gardens Business Group from Port Washington, New York, to Ohio, Scotts made offers of employment to all of the employees who worked in Port Washington. Approximately 33% accepted offers to relocate. Scotts paid severance, benefits and outplacement costs totaling $1.4 million to employees that did not relocate.

ENVIRONMENTAL AND REGULATORY CONSIDERATIONS

Local, state, federal and foreign laws and regulations relating to environmental matters affect Scotts in several ways. In the United States, all products containing pesticides must be registered with the United States Environmental Protection Agency ("USEPA") (and in many cases, similar state and/or foreign agencies) before they can be sold. The inability to obtain or the cancellation of any such registration could have an adverse effect on Scotts' business. The severity of the effect would depend on which products were involved, whether another product could be substituted and whether Scotts' competitors were similarly affected. Scotts attempts to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals, but there can be no assurance that it will continue to be able to avoid or minimize these risks. Fertilizer and growing media products (including manures) are also subject to state and foreign labeling regulations. Grass seed is also subject to state, federal and foreign labeling regulations.

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 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. In December 2000, the USEPA reached agreement with various parties, including manufacturers of the active ingredient diazinon, regarding a phased withdrawal of residential uses of products containing diazinon, used also 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 it will be able to do so for all products. With regard to Dursban, Scotts has introduced, and with regard to diazinon, Scotts expects to introduce, new pesticide products to meet consumer needs for pest control.

----

24

25

In addition, the use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may include requirements that only certified or professional users apply the product or that certain products be used only on certain types of locations (such as "not for use on sod farms or golf courses"), may require users to post notices on properties to which products have been or will be applied, may require notification of individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients. Scotts believes it is operating in substantial compliance with, or taking action aimed at ensuring compliance with, these laws and regulations. Compliance with these regulations and the obtaining of registrations does not assure, however, that Scotts' products will not cause injury to the environment or to people under all circumstances. 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 these environmental matters, taking into account established reserves, should not have a material adverse effect on Scotts' financial position; however, there can be no assurance that the resolution of these matters will not materially affect future quarterly or annual operating results.

State and federal authorities generally require Hyponex to obtain permits (sometimes on an annual basis) in order to harvest peat and to discharge storm water run-off or water pumped from peat deposits. The state permits typically specify the condition in which the property must be left after the peat is fully harvested, with the residual use typically being natural wetland habitats combined with open water areas. Hyponex is generally required by these permits to limit its harvesting and to restore the property consistent with the intended residual use. In some locations, Hyponex has been required to create water retention ponds to control the sediment content of discharged water.

Regulations and environmental concerns exist surrounding peat extraction in the United Kingdom. The Scotts Company (UK) Ltd. played a leading role in the development and implementation of legislation concerning peat extraction, and believes it complies with this legislation, regarding it as the minimum standard.

Local, state, federal and foreign agencies regulate the disposal, handling and storage of waste, air and water discharges from Scotts' facilities. During fiscal 2000, Scotts had 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.

OHIO ENVIRONMENTAL PROTECTION AGENCY

Scotts has assessed and addressed environmental issues regarding the wastewater treatment plants which had operated at the Marysville facility. Scotts decommissioned the old wastewater treatment plants and has connected the facility's wastewater system with the City of Marysville's municipal treatment system. Additionally, Scotts 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, Scotts learned that the Ohio Environmental Protection Agency was referring matters relating to environmental conditions at Scotts' 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 Scotts continue to meet to discuss these issues.

In June 1997, Scotts 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 Scotts' 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, Scotts 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

----

25

26

discussions, Scotts received a revised draft of a judicial consent order from the Ohio Attorney General in late April 1999. Subsequently, Scotts 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 Scotts 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.

Scotts 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 Scotts 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. Scotts 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 Scotts' past efforts to enter into Ohio's VAP, Scotts 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 Scotts' 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, Scotts 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. Scotts 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, Scotts 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 Scotts and the Ohio Environmental Protection Agency have not agreed as to the extent of any possible contamination and an appropriate remediation plan, Scotts 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. Scotts 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 Scotts 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. Scotts 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 Scotts 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, Scotts' 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. Scotts believes

----

26

27

agreement on the remediation plan has essentially been reached. Before this suit can be fully resolved, however, Scotts and the government must reach agreement on the government's civil penalty demand. Scotts has reserved for its estimate of the probable loss to be incurred under this proceeding as of September 30, 2000. Furthermore, management believes Scotts 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 Company (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). Scotts 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. Scotts intends to comply with the reasonable remediation concerns of the Environment Agency. Scotts previously installed an environmental enhancement to the facility to reduce emissions to both air and groundwater. 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. Scotts and the Environment Agency are in discussions over the final plan for remediating the lagoon and landfill. Scotts has reserved for its estimate of the probable loss to be incurred in connection with this matter as of September 30, 2000.

OTHER

In July 2000, Scotts entered into a Consent Agreement with the USEPA, to settle alleged violations of the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA"), relating to the registered pesticide Ortho(R) Home Defense(R) Indoor & Outdoor Insect Killer, sold with the Pull 'N Spray(R) pump dispenser. The agency alleged that the product was misbranded due to the dispenser mechanism leaking or spraying product onto the user. Based upon Scotts' voluntary self-disclosure, product recall efforts and adherence to a corrective action plan, the agreed penalty pursuant to the Consent Agreement was $44,000. Total expenses in fiscal 2000 relating to the recall and action plan, approximate $2.6 million.

Scotts has determined that quantities of cement containing asbestos material at certain manufacturing facilities in the United Kingdom should be removed. Scotts has reserved for the estimate of costs to be incurred for this matter as of September 30, 2000.

GENERAL

Scotts has accrued $8.9 million at September 30, 2000 for the environmental matters described above. 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.

Scotts 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:

1. that Scotts has identified all of the significant sites that must be remediated;
2. that there are no significant conditions of potential contamination that are unknown to Scotts;
3. that potentially contaminated soil can be remediated in place rather than having to be removed; and

----

27

28

1. 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 Scotts' results of operations, financial position and cash flows.

ITEM 2. PROPERTIES

Scotts has fee or leasehold interests in approximately 60 facilities.

Scotts leases from the Union County Community Improvement Corporation, its Marysville, Ohio headquarters for the North American Consumer Lawns, Consumer Gardens, Consumer Growing Media, and Consumer Ortho Business Groups, the North American Professional Business Group, and the Operations and Research and Development functions. These facilities encompass approximately 875 acres of land. Scotts leases space in downtown Columbus for its World Headquarters office. Four research facilities in Apopka, Florida; Cleveland, Texas; Gervais, Oregon; and Moorestown, New Jersey, comprise 129 acres. The Ortho production facility encompasses 27 acres in Fort Madison, Iowa. Scotts leases warehouse space throughout the United States and continental Europe as needed. Republic Tool leases its 20-acre spreader facility in Carlsbad, California.

Scotts operates 25 growing media facilities located nationwide in 20 states. Twenty-three are owned by Scotts and two are leased. Most facilities include production lines, warehouses, offices and field processing areas.

As of October 1, 2000, Scotts had two remaining compost facilities in Connecticut. One site is located at a bagging facility in Lebanon, Connecticut and the other is a stand-alone leased facility in Fairfield, Connecticut.

Scotts owns three manufacturing facilities in Hope, Arkansas; Fairfield, California; and Heerlen, Netherlands. It leases three manufacturing facilities for professional horticultural products in Milpitas, California; North Charleston, South Carolina; and Travelers Rest, South Carolina.

Internationally, Scotts leases its: U.K. headquarters, located in Godalming (Surrey); French headquarters, located in Lyon; German headquarters, located in Ingleheim; and Worldwide Professional Group headquarters, located in Waardenburg, Netherlands.

Scotts owns manufacturing facilities in East Yorkshire (Howden, Hatfield and Swinefleet) and Bramford (Suffolk) in the United Kingdom. Scotts also owns the Hautmont plant in France, a blending and bagging facility for growing media and fertilizers sold to the consumer market; and the Bourth plant, also in France, a facility for formulating, blending and packaging pesticide products for the consumer market. A sales and research and development facility is maintained at the Ingleheim, Germany site. Scotts leases sales offices and operates an organics bagging facility in Didam, Netherlands. Sales offices are also leased in Saint Niklaas, Belgium.

Scotts leases property for fifteen lawn care service centers in Georgia, Illinois, Indiana, Kentucky, Maryland, Missouri, Pennsylvania and Ohio. Scotts also leases the land upon which Sanford Scientific is located in Waterloo, New York.

As a result of the Ortho acquisition, Scotts acquired research stations in Moorestown, New Jersey; and Valley Center, California. Foreign operations acquired as a result of the Ortho acquisition include a plant in Corwen, United Kingdom. Scotts also operates sales offices in Beaverton, Oregon; Rolling Meadows, Illinois; and Bentonville, Arkansas.

Scotts' management believes that its facilities are adequate to serve their intended purposes at this time and that its property leasing arrangements are stable. Please also see the discussion of Scotts' production facilities in "ITEM

1. BUSINESS -- Matters Relating to Scotts Generally -- Operations -- Production Facilities" above.

----

28

29

ITEM 3. LEGAL PROCEEDINGS

As noted in the discussion of "Environmental and Regulatory Considerations" in "ITEM 1. BUSINESS", Scotts is involved in several pending environmental matters. 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 the final resolution of these matters will not materially affect Scotts' future quarterly or annual operating results.

Pending material legal proceedings are as follows:

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 Scotts, a subsidiary of Scotts and Monsanto (now Pharmacia) seeking damages and injunctive relief for alleged antitrust violations and breach of contract by Scotts and its subsidiary and antitrust violations and tortious interference with contract by Monsanto. Scotts purchased a consumer herbicide business from AgrEvo in May 1998. AgrEvo claims in the suit that Scotts' subsequent agreement to become Monsanto's exclusive sales and marketing agent for Monsanto's consumer Roundup(R) business violated the federal antitrust laws. AgrEvo contends that Monsanto attempted to or did monopolize the market for non-selective herbicides and conspired with Scotts to eliminate the herbicide Scotts previously purchased from AgrEvo, which competed with Monsanto's Roundup(R), in order to achieve or maintain a monopoly position in that market. AgrEvo also contends that Scotts' execution of various agreements with Monsanto, including the Roundup(R) marketing agreement, as well as Scotts' subsequent actions, violated the purchase agreements between AgrEvo and Scotts.

AgrEvo is requesting unspecified damages as well as affirmative injunctive relief, and seeking to have the court invalidate the Roundup(R) marketing agreement as violative of the federal antitrust laws. On September 20, 1999, Scotts 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 those agreements. On October 1, 1999, Scotts 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 Scotts' counterclaims. On May 5, 2000, AgrEvo amended its complaint to add a claim for fraud and to incorporate the Delaware Action described below. Thereafter, Scotts moved to dismiss the new claims, and the defendants renewed their pending motions to dismiss. On June 2, 2000, the court (i) granted Scotts' motion to dismiss the fraud claim AgrEvo had added to its complaint; (ii) granted AgrEvo's motion to dismiss Scotts' fraudulent-inducement counterclaim; (iii) denied AgrEvo's motion to dismiss Scotts' counterclaims related to breach of representations and warranties; and

1. denied defendants' motion to dismiss the antitrust claims. On July 14, 2000, Scotts served an answer to AgrEvo's amended complaint and re-pleaded its fraud counterclaim. Under the indemnification provisions of the Roundup(R) marketing agreement, Monsanto and Scotts 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 Scotts' subsidiaries seeking damages for alleged breach of contract. AgrEvo alleges that, under the contracts by which a subsidiary of Scotts purchased a herbicide business from AgrEvo in May 1998, two of Scotts' 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. Scotts' 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.

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

----

29

30

CENTRAL GARDEN & PET COMPANY

On June 30, 2000, Scotts 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 Scotts' 2000 fiscal year. Scotts' complaint was later amended to seek approximately $24 million in accounts receivable and additional damages for other breaches of duty. Pharmacia Corporation (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.

On July 7, 2000, Central Garden filed suit against Scotts 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 noticed 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 Scotts and Pharmacia in the California Superior Court of Contra Costa County. That complaint seeks to assert the breach of contract claims previously dismissed by the District Court and additional claims under sec. 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. Scotts believes that Central Garden's federal and state claims are entirely without merit and intends to vigorously defend against them.

RHONE-POULENC, S.A., RHONE-POULENC AGRO S.A. AND HOECHST, A.G.

On October 15, 1999, Scotts began arbitration proceedings before the International Chamber of Commerce ("ICC") against Rhone-Poulenc S.A. and Rhone-Poulenc Agro S.A. (collectively, "Rhone-Poulenc") under arbitration provisions contained in contracts (including a Master Contract and Research and Development Agreement dated September 30, 1998) relating to the purchase by Scotts of Rhone-Poulenc's European lawn and garden business, Rhone-Poulenc Jardin, in 1998. Scotts alleges that the combination of Rhone-Poulenc and Hoechst Schering AgrEvo GmbH ("AgrEvo GmbH") into a new entity, Aventis S.A., will result in the violation of non-compete and other provisions in the contracts mentioned above. In the arbitration proceedings, Scotts is seeking injunctive relief as well as an award of damages.

Also on October 15, 1999, Scotts filed a complaint styled The Scotts Company, et al. v. Rhone-Poulenc, S.A., Rhone-Poulenc Agro S.A. and Hoechst, A.G. in the Court of Common Pleas for Union County, Ohio, seeking injunctive relief maintaining the status quo in aid of the arbitration proceedings as well as an award of damages against Hoechst for Hoechst's tortious interference with Scotts' contractual rights. On October 19, 1999, the defendants removed the Union County action to the U.S. District Court for the Southern District of Ohio. On December 8, 1999, Scotts requested that this action be stayed pending the outcome of the arbitration proceedings.

On January 7, 2000, the arbitration tribunal issued a segregated Record Agreement and Order requiring Aventis S.A., Rhone-Poulenc and any affiliate or entity controlled by Aventis S.A. or Rhone-Poulenc to maintain a segregated record of select sales of specified products.

On October 9, 2000, the ICC issued a First Partial Award by the tribunal which: (i) found that Rhone-Poulenc breached its duty of good faith under French law by not disclosing to Scotts the contemplated combination of Rhone-Poulenc Agro and AgrEvo GmbH; (ii) directed that the parties re-negotiate a non-compete clause of the Master Contract; and (iii) ruled that the Research and Development Agreement is binding upon both Rhone-Poulenc Agro and its post-merger successor, Aventis CropScience S.A.

The tribunal invited Scotts to proceed to a hearing to establish the amount of damages suffered as a result of the determined breach of the duty of good faith. Further, the tribunal ordered that Rhone-Poulenc shall be responsible for Scotts' reasonable legal fees and other expenses up to and including the date of notification of the First Partial Award, less Rhone-Poulenc's costs referable to an interim relief application by Scotts. No date has been set for a damages hearing.

----

30

31

SCOTTS V. AGREVO USA COMPANY

The Scotts Company filed suit against AgrEvo USA Company on August 8, 2000 in the Court of Common Pleas for Union County, Ohio, alleging breach of contract relating to an Agreement dated June 22, 1998 entitled "Exclusive Distributor Agreement -- Horticulture". AgrEvo thereafter removed the action to the U.S. District Court for the Southern District of Ohio. The action seeks an unspecified amount of damages resulting from AgrEvo's breaches of the Agreement, an order of specific performance directing AgrEvo to comply with its obligations under the Agreement, a declaratory judgment that Scotts' future performance under the Agreement is waived as a result of AgrEvo's failure to perform, and such other relief to which Scotts might be entitled.

Scotts is involved in other lawsuits and claims which arise in the normal course of its business. In the opinion of management, these claims individually and in the aggregate are not expected to result in a material adverse effect on Scotts' financial position or operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the security holders during the fourth quarter of the fiscal year covered by this Report.

EXECUTIVE OFFICERS OF REGISTRANT

The executive officers of The Scotts Company, their positions and, as of November 1, 2000, their ages and years with The Scotts Company (and its predecessors) are set forth below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | Years | with |  |
|  |  |  | Scotts | |  |
| Name | Age | Position(s) Held | (And | Its |  |
| Predecessors) | |  |

- --------------------------------------------------------------------------------------------

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Charles M. Berger | 64 | Chairman of the Board | 4 |  |
| James Hagedorn | 45 | and Chief Executive Officer | 13 |  |
| President, Chief Operating Officer |  |
| Michael P. Kelty, Ph.D. | 50 | and a Director | 21 |  |
| Group Executive Vice President, |  |
| James L. Rogula | 66 | Technology and Operations | 5 |  |
| Group Executive Vice President, |  |
| G. Robert Lucas | 57 | North American Business Groups | 3 |  |
| Executive Vice President, |  |
| Patrick J. Norton | 49 | General Counsel and Secretary | 10 months |  |
| Executive Vice President, |  |
| Laurens J.M. de Kort | 49 | Chief Financial Officer and a Director | 18 |  |
| Senior Vice President, |  |
| William A. Dittman | 44 | Professional Business Group, Worldwide | 8 |  |
| Senior Vice President, |  |
| Michel J. Farkouh | 43 | Consumer Gardens Business Group | 2 |  |
| Senior Vice President, |  |
|  |  | International Consumer Business Group |  |  |
| Thomas A. Feusse | 41 | (acting) | 15 |  |
| Senior Vice President, Consumer |  |
| Nick G. Kirkbride | 41 | Growing Media Business Group | 2 |  |
| Senior Vice President, |  |
|  |  | International Consumer Business Group, |  |  |
| Hadia Lefavre | 55 | United Kingdom and Ireland | 1 |  |
| Senior Vice President, |  |
|  |  | Human Resources Worldwide |  |  |

----

31

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 32 |  |  |  |  |  |
|  |  |  | Years | with |  |
|  |  |  | Scotts | |  |
| Name | Age | Position(s) Held | (And | Its |  |
| Predecessors) | |  |

- --------------------------------------------------------------------------------------------

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Daniel C. McCafferty | 42 | Senior Vice President, | 1 |  |
| Joseph M. Petite | 50 | Consumer Ortho Business Group | 12 |  |
| Senior Vice President, |  |
| William R. Radon | 41 | Business Process Development | 3 |  |
| Senior Vice President, |  |
| Christian Ringuet | 49 | Information Technology | 14 |  |
| Senior Vice President, |  |
|  |  | International Consumer Business Group, |  |  |
| Mark R. Schwartz | 42 | France | 13 |  |
| Senior Vice President, |  |
| L. Robert Stohler | 59 | Branded Plants Business subgroup | 5 |  |
| Senior Vice President, |  |
|  |  | Consumer Lawns Business Group |  |  |

Executive officers serve at the discretion of the Board of Directors and in the case of: Mr. Berger, Mr. Hagedorn, Mr. Lucas, Mr. Norton, Mr. de Kort, Mr. Kirkbride, Ms. Lefavre and Mr. Ringuet, pursuant to employment agreements.

The business experience of each of the persons listed above during the past five years is as follows:

Mr. Berger was elected Chairman of the Board and Chief Executive Officer of Scotts in August 1996. From August 1996 until April 2000, he was also President of Scotts. Mr. Berger came to Scotts from H. J. Heinz Company, where, from October 1994 to August 1996, he served as Chairman and Chief Executive Officer of Heinz India Pvt. Ltd. (Bombay). During his 32-year career at Heinz, he also held the positions of Chairman, President and Chief Executive Officer of Weight Watchers International, a Heinz affiliate; Managing Director and Chief Executive Officer of Heinz-Italy (Milan), the largest Heinz profit center in Europe; General Manager, Marketing, for all Heinz U.S. grocery products; Marketing Director for Heinz UK (London) and Director of Corporate Planning at Heinz World Headquarters.

Mr. Hagedorn was named President and Chief Operating Officer of Scotts in April 2000. From December 1998 to April 2000, he served as President, Scotts North America. He was previously Executive Vice President, U.S. Business Groups, of Scotts, from October 1996 to December 1998. From May 1995 to October 1996, he served as Senior Vice President, Consumer Gardens Group, of Scotts. He served as Executive Vice President of Scotts' Miracle-Gro Products, Inc. (now Scotts' Consumer Gardens Business Group) from May 1995 to August 2000, and Executive Vice President of Stern's Miracle-Gro Products, Inc. from 1989 until May 1995. Mr. Hagedorn also serves as a director of Scotts. Mr. Hagedorn is the son of Horace Hagedorn, Director Emeritus of Scotts, and is the brother of Katherine Hagedorn Littlefield, a director of Scotts.

Dr. Kelty was named Group Executive Vice President, Technology and Operations, of Scotts, in February 2000. He was previously Executive Vice President, Technology and Operations, of Scotts, since February 1999. From July 1995 to February 1999, he was Senior Vice President, Professional Business Group, of Scotts.

Mr. Rogula was named Group Executive Vice President, North American Business Groups, of Scotts, in April 2000. From October 1998 to April 2000, he served as Senior Vice President, Consumer Ortho Business Group. Prior thereto, he had been Senior Vice President, Consumer Lawns Group, of Scotts since October 1996. He served as Senior Vice President, Consumer Business Group, of Scotts from January 1995 to October 1996.

Mr. Lucas was named Executive Vice President, General Counsel and Secretary of Scotts in February 1999. He was previously Senior Vice President, General Counsel and Secretary of Scotts, since May 1997. From 1990 until the time he joined Scotts, Mr. Lucas was a partner with the law firm Vorys, Sater, Seymour and Pease LLP ("VSSP"). From 1993 to the time he joined Scotts, he was the lead outside counsel at VSSP representing Scotts. Mr. Lucas is a director of Bob Evans Farms, Inc.

----

32

33

Mr. Norton was named Executive Vice President and Chief Financial Officer of Scotts in May 2000, having served as interim Chief Financial Officer of Scotts since February 2000. From 1983 until February 1997, Mr. Norton was the President, Chief Executive Officer and a director of Barefoot Inc., the second largest lawn care company in the United States prior to its acquisition in February 1997 by Service Master. Mr. Norton also serves as a director of Scotts.

Mr. de Kort was named Senior Vice President, Professional Business Group, Worldwide, of Scotts, in June 2000. From May 1999 to October 2000, he served as Senior Vice President, Zone 4, International. From July 1994 to May 1999, he was Vice President, Scotts Europe, Middle East, Africa. Mr. de Kort is employed by Scotts International B.V. (formerly Scotts Europe B.V.), a wholly-owned subsidiary of Scotts.

Mr. Dittman was named Senior Vice President, Consumer Gardens Business Group, of Scotts, in January 2000. He was previously Senior Vice President, Growing Media Business Group since April 1998. From December 1996 to April 1998, he was Senior Vice President of Sales, Marketing and Advertising of the Consumer Gardens Group of Scotts. From 1992 to December 1996, he was Vice President of Sales, Stern's Miracle-Gro Products, Inc.

Mr. Farkouh was named acting Senior Vice President, International Consumer Business Group, of Scotts, in October 2000. From May 1999 to October 2000, he served as Senior Vice President, Zone 3, International, having joined Scotts France SAS in January 1999. From January 1997 to the time he joined Scotts, he was Vice President, Worldwide Lawn and Garden Category Manager, of Monsanto Company. From 1991 to January 1997, he was General Manager, Lawn and Garden Europe, of Monsanto Company.

Mr. Feusse was named Senior Vice President, Consumer Growing Media Business Group, of Scotts, in October 2000. From January 2000 to October 2000, he served as interim Senior Vice President, Consumer Growing Media Business Group. From August 1998 to January 2000, he served as Vice President, Business Operations of the Consumer Growing Media Business Group of Scotts, and from April 1996 to August 1998 he was Vice President, Finance & Administration, Consumer Lawns Business Group of Scotts. Mr. Feusse was Scotts Corporate Controller from 1992 to April 1996.

Mr. Kirkbride was named Senior Vice President, International Consumer Business Group, United Kingdom and Ireland, of Scotts, in October 2000. From May 1999 to October 2000, he served as Senior Vice President, Zone 1, International, having joined The Scotts Company (UK) Ltd. in December 1998. From January 1995 to the time he joined Scotts, he was Managing Director of The Virgin Cola Company, a privately-held soft drink company.

Ms. Lefavre joined Scotts as Senior Vice President, Human Resources Worldwide, in March 1999. From October 1995 to October 1998, she served as Senior Vice President, Human Resources Worldwide, at Rhone-Poulenc Rorer Inc., a pharmaceutical company, based in Pennsylvania. From April 1994 to October 1995, she was Vice President, Executive Management, of Bull, a computer company based in Paris, France.

Mr. McCafferty was named Senior Vice President, Ortho Business Group, of Scotts, in April 2000. He had previously been Vice President Sales, Ortho Business Group, of Scotts, since January 1999. Prior to the Ortho acquisition by Scotts, Mr. McCafferty had been Vice President, North America Sales with The Solaris Group (a division of Monsanto), since March 1997. Prior to joining The Solaris Group, Mr. McCafferty was Vice President and General Manager of NutraSweet Kelco's Beverage Group (a division of Monsanto), from January 1996 to March 1997.

Mr. Petite was named Senior Vice President, Business Process Development, of Scotts, in February 1998. He served as Senior Vice President, Consumer Growing Media Business Group, of Scotts from December 1996 to February 1998. From July 1996 to December 1996, he served as Vice President, Consumer Growing Media Business Group, of Scotts. From November 1995 to July 1996, Mr. Petite served as Vice President, Strategic Planning of Scotts. From 1989 to November 1995, he was Vice President of Marketing, Consumer Business Group, of Scotts.

Mr. Radon was named Senior Vice President, Information Technology in February 1998. From September 1995 to the time he joined Scotts in February 1998, Mr. Radon was Vice President, Chief Information Officer at Lamson & Sessions, a manufacturer and distributor of plastic pipe, conduit and consumer electrical devices. From 1984 to September 1995, he was a management consultant at Ernst & Young.

----

33

34

Mr. Ringuet was named Senior Vice President, International Consumer Business Group, France in October 2000. He joined Scotts France SAS in October 1998 and served as Senior Vice President, Zone 2, International until October 2000. He was Managing Director of Rhone-Poulenc Jardin, from March 1995 through September 1998. From 1986 to March 1995, he was Marketing and Sales Manager of Rhone-Poulenc Jardin. Mr. Ringuet resigned as an executive officer of Scotts on November 17, 2000, but remains an associate of Scotts through December 17, 2000.

Mr. Schwartz was named Senior Vice President, Branded Plants Business Group, of Scotts, in May 2000. Previously, he was Vice President, Strategic Initiatives, U.S. Business Groups, of Scotts, since November 1998. From December 1996 to November 1998, he was Senior Vice President, Operations and Finance, of the Consumer Gardens Group, of Scotts. From 1991 to December 1996, he was Vice President, Product Development, of Stern's Miracle-Gro Products, Inc.

Mr. Stohler was named Senior Vice President, Consumer Lawns Business Group, in October 1998. Prior thereto, he had been Senior Vice President, International Business Group, of Scotts since December 1996. From November 1995 to December 1996, he served as Vice President, International Business Group, of Scotts.

----

34

35

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

Sale Prices

-------------

High Low

- ---------------------------------------------------------------------------

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| FISCAL 1999 | $36 | 3/16 | $26 | 5/8 |  |
| 1st quarter |  |
| 2nd quarter | 39 | 3/4 | 32 | 3/8 |  |
| 3rd quarter | 47 | 5/8 | 38 | 1/2 |  |
| 4th quarter | 46 | 3/8 | 34 | 5/8 |  |
| FISCAL 2000 | $41 | 1/4 | $35 | 1/4 |  |
| 1st quarter |  |
| 2nd quarter | 42 | 1/2 | 29 | 7/16 |  |
| 3rd quarter | 41 | 32 | 11/16 |  |
| 4th quarter | 37 | 1/2 | 31 |  |  |

Scotts has not paid dividends on the common shares in the past and does not presently plan to pay dividends on the common shares. It is presently anticipated that earnings will be retained and reinvested to support the growth of Scotts' business. The payment of any future dividends on common shares will be determined by the Board of Directors of Scotts in light of conditions then existing, including Scotts' earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors.

As of December 1, 2000, Scotts estimates there were approximately 8,200 shareholders including holders of record and Scotts' estimate of beneficial holders.

----

35

36

ITEM 6. 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: | $ | 1,764.3 | $ | 1,648.3 | $ | 1,113.0 | $ | 899.3 | $ | 750.4 |  |
| Sales |  |
| 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 |  | 73.1 |  | 69.1 |  | 37.0 |  | 39.5 |  | (2.5) |  |
| items |  |  |  |  |  |  |
| Income (loss) applicable to common |  | 66.7 |  | 53.5 |  | 26.5 |  | 29.7 |  | (12.3) |  |
| shareholders |  |  |  |  |  |  |
| Depreciation and amortization |  | 66.3 |  | 60.2 |  | 37.8 |  | 30.4 |  | 29.3 |  |
| FINANCIAL POSITION: |  | 234.1 |  | 274.8 |  | 135.3 |  | 146.5 |  | 181.1 |  |
| Working capital(5) |  |  |  |  |  |  |
| Investments in property, plant and |  | 72.5 |  | 66.7 |  | 41.3 |  | 28.6 |  | 18.2 |  |
| equipment |  |  |  |  |  |  |
| 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 |  | 171.5 |  | 78.2 |  | 71.0 |  | 121.1 |  | 82.3 |  |
| activities |  |  |  |  |  |  |
| Cash flows from investing |  | (88.5) |  | (571.6) |  | (192.1) |  | (72.5) |  | (17.4) |  |
| activities |  |  |  |  |  |  |
| Cash flows from financing |  | (79.2) |  | 513.9 |  | 118.4 |  | (46.2) |  | (61.1) |  |
| activities |  |  |  |  |  |  |
| RATIOS: |  | 11.9% |  | 11.9% |  | 8.5% |  | 10.5% |  | 3.5% |  |
| Operating margin |  |  |  |  |  |  |
| Current ratio |  | 1.6 |  | 1.7 |  | 1.6 |  | 2.1 |  | 2.6 |  |
| Total debt to total book |  | 64.3% |  | 68.2% |  | 48.0% |  | 36.2% |  | 38.2% |  |
| capitalization |  |  |  |  |  |  |
| Return on average shareholders' |  | 15.9% |  | 14.9% |  | 9.2% |  | 10.5% |  | (0.7)% |  |
| equity |  |  |  |  |  |  |
| PER SHARE DATA: |  |  |  |  |  |  |  |  |  |  |  |
| Basic earnings (loss) per common |  | 2.39 |  | 3.25 |  | 1.46 |  | 1.60 |  | (0.65) |  |
| share before extraordinary items |  |  |  |  |  |  |
| Basic earnings (loss) per common |  | 2.39 |  | 2.93 |  | 1.42 |  | 1.60 |  | (0.65) |  |
| share |  |  |  |  |  |  |
| Diluted earnings (loss) per common |  |  |  |  |  |  |  |  |  |  |  |
| share before extraordinary items |  |  |  |  |  |  |  |  |  |  |  |
| and impact of early conversion |  |  |  |  |  |  |  |  |  |  |  |
| of Class A Convertible Preferred |  | 2.39 |  | 2.27 |  | 1.22 |  | 1.35 |  | (0.65) |  |
| Stock |  |  |  |  |  |  |
| Diluted earnings (loss) per common |  | 2.25 |  | 2.08 |  | 1.20 |  | 1.35 |  | (0.65) |  |
| share |  |  |  |  |  |  |
| Price to diluted earnings per |  | 14.9 |  | 16.6 |  | 25.5 |  | 19.4 |  | nm |  |
| share, end of period |  |  |  |  |  |  |
| 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: |  | 276.5 |  | 256.3 |  | 131.9 |  | 125.2 |  | 55.6 |  |
| EBITDA(6) |  |  |  |  |  |  |
| EBITDA margin |  | 15.7% |  | 15.5% |  | 11.9% |  | 13.9% |  | 7.4% |  |
| Interest coverage (EBITDA/interest |  | 2.9 |  | 3.2 |  | 4.1 |  | 5.0 |  | 2.2 |  |
| expense) |  |  |  |  |  |  |
| Average common shares outstanding |  | 27.9 |  | 18.3 |  | 18.7 |  | 18.6 |  | 18.8 |  |
| Common shares used in diluted |  |  |  |  |  |  |  |  |  |  |  |
| earnings (loss) per common share |  | 29.6 |  | 30.5 |  | 30.3 |  | 29.3 |  | 18.8 |  |
| calculation |  |  |  |  |  |  |
| Dividends on Class A Convertible | $ | 6.4 | $ | 9.7 | $ | 9.8 | $ | 9.8 | $ | 9.8 |  |
| Preferred Stock |  |
| - --------------- |  |  |  |  |  |  |  |  |  |  |  |

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

----

36

37

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

ITEM 7. 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(R) herbicide products. Under the marketing agreement, Scotts and Monsanto will jointly develop global consumer and trade marketing programs for Roundup(R). 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(R) 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

----

37

38

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 | 1.7 | 1.8 | 0.0 |  |
| agreement, net |  |
| Advertising and promotion | 11.9 | 11.5 | 9.4 |  |
| Selling, general and administrative | 17.2 | 17.1 | 15.2 |  |
| Amortization of goodwill and other | 1.4 | 1.5 | 1.2 |  |
| intangibles |  |
| 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 | 0.0 | 0.4 | 0.1 |  |
| of debt |  |
| Net income | --------4.2 | -------- | -------- |  |
| 3.8 | 3.3 |  |
| Dividends on Class A Convertible | 0.4 | 0.6 | 0.9 |  |
| Preferred Stock |  |
| Income applicable to common | -------- | -------- | -------- |  |
| 3.8% | 3.2% | 2.4% |  |
| shareholders |  |
|  | ======== | ======== | ======== |  |

----

38

39

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

2000 1999 1998

- -----------------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| North American Consumer: | | $ | 517.6 | $ 457.2 | $ 366.3 |  |
| Consumer | Lawns |  |
| 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(R) Garden Weed Prevent (now known as Miracle-Gro(R) Garden Weed Preventer(TM)) 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(TM) 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(R) Home Defense(R) Indoor & Outdoor Insect Killer, sold with the Pull 'N Spray(R) 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(R) 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(R) products and the sale of the ProTurf(R) 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(R) 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.

----

39

40

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(R) 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(R) 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(R) 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(R) business, partially offset by costs incurred in connection with Scotts' voluntary return program for the registered pesticide Ortho(R) Home Defense(R) Indoor & Outdoor Insect Killer,

----

40

41

sold with the Pull 'N Spray(R) 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(R). 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.

----

41

42

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(R) 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(R) 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(R) 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

----

42

43

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(R) 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(R) 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

----

43

44

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(R) 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 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 7/8% Senior Subordinated Notes due August 2004.

Coincidental with the 8 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.

----

44

45

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.

----

45

46

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(R), Miracle-Gro(R), Hyponex(R) and Ortho(R) 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.

----

46

47

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.

----

47

48

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(R) 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(R) 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.

----

48

49

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(R) AND THE SCOTTS TURF BUILDER(R) LINE OF PRODUCTS COULD SUBSTANTIALLY INCREASE OUR COMPETITION IN THE UNITED STATES.

Glyphosate, the active ingredient in Roundup(R), was subject to a patent in the United States that expired in September 2000. Scotts cannot predict the success of Roundup(R) 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(R) 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(R) marketing agreement.

Our methylene-urea product composition patent, which covers Scotts Turf Builder(R), Scotts Turf Builder(R) with Plus 2(R) with Weed Control and Scotts Turf Builder(R) with Halts(R) Crabgrass Preventer, is due to expire in July 2001 and could also result in increased competition. Any decline in sales of Turf Builder(R) 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. In December 2000, the USEPA reached agreement with various parties, including manufacturers of the active ingredient diazinon, regarding a phased withdrawal of residential uses of products containing diazinon, used also 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

----

49

50

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, and with regard to diazinon, Scotts expects to introduce, 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.

----

50

51

* 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(R) 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.

ITEM 7A. 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

----

51

52

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 |  |  |  | Fair |  |
| 2001-------------------------------- | 2002 | 2003 | 2004 | Thereafter | Total |  |
| Value |  |

- ----------------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Long-term | debt: |  |  |  |  | $330.0 | $330.0 | $318.5 |  |
| Fixed rate debt | |  |  |  |  |  |
| Average | rate | $29.4 | $38.5 | $42.0 | $42.0 | 8.625% | 8.625% | $489.5 |  |
| Variable rate debt | | $337.6 | $489.5 |  |
| Average | rate | 8.04% | 7.97% | 7.96% | 7.96% | 9.67% | 9.02% |  |  |
| Interest rate derivatives: | | $(0.4) | $(0.2) |  |  |  | $(0.6) | $(0.6) |  |
| Interest rate swap on GBP LIBOR | |  |  |  |  |
| Average | rate | 7.62% | 7.62% | $0.5 | $0.2 |  | 7.62% | $3.2 |  |
| Interest rate swaps on USD LIBOR | | $1.7 | $1.1 |  | $3.5 |  |
| 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and other information required by this Item are contained in the financial statements, footnotes thereto and schedules listed in the "Index to Consolidated Financial Statements and Financial Statement Schedules" on page 57 herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

In accordance with General Instruction G(3), the information contained under the captions "BENEFICIAL OWNERSHIP OF SECURITIES OF THE COMPANY -- Section 16(a) Beneficial Ownership Reporting Compliance" and "PROPOSAL NO. 1 -- ELECTION OF DIRECTORS" in Scotts' definitive Proxy Statement for the 2001 Annual Meeting of Shareholders to be held on January 18, 2001 filed with the Securities and Exchange Commission pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "Proxy Statement"), is incorporated herein by reference. The information regarding executive officers required by Item 401 of Regulation S-K is included in Part I hereof under the caption "Executive Officers of Registrant."

ITEM 11. EXECUTIVE COMPENSATION

In accordance with General Instruction G(3), the information contained under the captions "EXECUTIVE COMPENSATION" and "ELECTION OF

DIRECTORS -- Compensation of Directors" in Scotts' Proxy Statement, is incorporated herein by reference. None of the report of the Compensation and Organization Committee of Scotts' Board of Directors on executive compensation, the performance graph or the Report of the Audit Committee of Scotts' Board of Directors, each included in Scotts' Proxy Statement, shall be deemed to be incorporated herein by reference.

----

52

53

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

In accordance with General Instruction G(3), the information contained under the caption "BENEFICIAL OWNERSHIP OF SECURITIES OF THE COMPANY" in Scotts' Proxy Statement, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In accordance with General Instruction G(3), the information contained under the captions "BENEFICIAL OWNERSHIP OF SECURITIES OF THE COMPANY" and "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" in Scotts' Proxy Statement, is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) DOCUMENTS FILED AS PART OF THIS REPORT

1 and 2. Financial Statements and Financial Statement Schedules:

The response to this portion of Item 14 is submitted as a separate section of this Annual Report on Form 10-K. Reference is made to the "Index to Consolidated Financial Statements and Financial Statement Schedules" on page 57 herein.

3. Exhibits:

Exhibits filed with this Annual Report on Form 10-K are attached hereto. For a list of such exhibits, see "Index to Exhibits" beginning at page 110. The following table provides certain information concerning executive compensation plans and arrangements required to be filed as exhibits to this Annual Report on Form 10-K.

EXECUTIVE COMPENSATORY PLANS AND ARRANGEMENTS

|  |  |  |  |
| --- | --- | --- | --- |
| Exhibit | Description | Location |  |
| No. |  |

- -------------------------------------------------------------------------------------------------

10(a) The O.M. Scott & Sons Company Excess Benefit Plan, effective October 1, 1993

10(b) The Scotts Company 1992 Long Term Incentive Plan (as amended through May 15, 2000)

10(c) The Scotts Company 2000 Executive Annual Incentive Plan

10(d) The Scotts Company 1996 Stock Option Plan (as amended through May 15, 2000)

----

53

Incorporated herein by reference to the Annual Report on Form 10-K for the fiscal year ended September 30, 1993, of The Scotts Company, a Delaware corporation (File No.

0-19768) [Exhibit 10(h)] Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2000 (File No. 1-13292) [Exhibit 10(b)] \*

Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2000 (File No. 1-13292) [Exhibit 10(d)]

|  |  |  |  |
| --- | --- | --- | --- |
| 54 |  |  |  |
| Exhibit | Description | Location |  |
| No. |  |

- -------------------------------------------------------------------------------------------------

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 10(e) | Specimen form of Stock Option Agreement (as amended | Incorporated | herein by |  |
|  | through August 1, 2000) for Non-Qualified Stock Options | reference to | the |  |
|  | granted to employees under The Scotts Company 1996 Stock | Registrant's | Quarterly |  |
|  | Option Plan | Report on Form 10-Q for the | |  |
|  |  | fiscal quarter ended July 1, | |  |
|  |  | 2000 (File No. 1-13292) | |  |
| 10(f) | The Scotts Company Executive Retirement Plan | [Exhibit 10(l)] | |  |
| Incorporated | herein by |  |
|  |  | reference to | the |  |
|  |  | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1998 |  |  |
|  |  | (File No. 1-11593) [Exhibit | |  |
| 10(g) | The Scotts Company Millennium Growth Plan (effective | 10(j)] | herein by |  |
| Incorporated |  |
|  | October 1, 1999) | reference to | the |  |
|  |  | Registrant's | Quarterly |  |
|  |  | Report on Form 10-Q for the | |  |
|  |  | fiscal quarter ended April | |  |
|  |  | 1, 2000 (File No. 1-13292) | |  |
| 10(h) | Employment Agreement, dated as of August 7, 1998, | [Exhibit 10(w)] | |  |
| Incorporated | herein by |  |
|  | between the Registrant and Charles M. Berger, and three | reference to | the |  |
|  | attached Stock Option Agreements with the following | Registrant's | Annual Report |  |
|  | effective dates: September 23, 1998, October 21, 1998 | on Form 10-K | for the fiscal |  |
|  | and September 24, 1999 | year ended September 30, | |  |
|  |  | 1998 |  |  |
|  |  | (File No. 1-11593) [Exhibit | |  |
| 10(i) | Stock Option Agreement, dated as of August 7, 1996, | 10(n)] | herein by |  |
| Incorporated |  |
|  | between the Registrant and Charles M. Berger | reference to | the |  |
|  |  | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1996 |  |  |
|  |  | (File No. 1-11593) [Exhibit | |  |
| 10(j) | Employment Agreement, dated as of May 19, 1995, between | 10(m)] | herein by |  |
| Incorporated |  |
|  | the Registrant and James Hagedorn | reference to | the |  |
|  |  | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1995 |  |  |
|  |  | (File No. 1-11593) [Exhibit | |  |
| 10(k) | Letter Agreement, dated December 23, 1996, between the | 10(p)] | herein by |  |
| Incorporated |  |
|  | Registrant and Jean H. Mordo | reference to | the |  |
|  |  | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1997 |  |  |
|  |  | (File No. 1-11593)[Exhibit | |  |
| 10(l) | Termination Letter Agreement, dated November 6, 2000, | 10(p)] |  |  |
| \* |  |  |
| 10(m) | between the Registrant and Jean H. Mordo | Incorporated | herein by |  |
| Letter Agreement, dated April 10, 1997, between the |  |
|  | Registrant and G. Robert Lucas | reference to | the |  |
|  |  | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1997 |  |  |

(File No. 1-11593) [Exhibit

10(r)]

----

54

|  |  |  |  |
| --- | --- | --- | --- |
| 55 |  |  |  |
| Exhibit | Description | Location |  |
| No. |  |

- -------------------------------------------------------------------------------------------------

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 10(n) | Letter Agreement, dated December 17, 1997, between the | Incorporated | herein by |  |
|  | Registrant and William R. Radon | reference to | the |  |
|  |  | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1998 |  |  |
|  |  | (File No. 1-11593) [Exhibit | |  |
| 10(o) | Letter Agreement, dated March 30, 1998, between the | 10(s)] | herein by |  |
| Incorporated |  |
|  | Registrant and William A. Dittman | reference to | the |  |
|  |  | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1998 |  |  |
|  |  | (File No. 1-11593) [Exhibit | |  |
| 10(p) | Letter Agreement, dated March 16, 1999, between the | 10(t)] | herein by |  |
| Incorporated |  |
|  | Registrant and Hadia Lefavre | reference to | the |  |
|  |  | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1999 |  |  |
|  |  | (File No. 1-11593) [Exhibit | |  |
| 10(q) | Letter Agreement, dated June 8, 2000, between the | 10(p)] |  |  |
| \* |  |  |
| 10(r) | Registrant and Patrick J. Norton | Incorporated | herein by |  |
| Contract of Employment, dated February 28, 1986, between |  |
|  | Rhodic (assumed by Scotts France SAS) and Christian | reference to | the |  |
|  | Ringuet | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1999 |  |  |
|  |  | (File No. 1-11593) [Exhibit | |  |
| 10(s) | Employment Agreement, dated August 1, 1995, between | 10(r)] | herein by |  |
| Incorporated |  |
|  | Scotts Europe B.V. (now Scotts International B.V.) and | reference to | the |  |
|  | Laurens J.M. de Kort | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1999 |  |  |
|  |  | (File No. 1-11593) [Exhibit | |  |
| 10(t) | Service Agreement, dated September 9, 1998, between | 10(s)] | herein by |  |
| Incorporated |  |
|  | Levington Horticulture Limited (nka The Scotts Company | reference to | the |  |
|  | (UK) Ltd.) and Nicholas Kirkbride | Registrant's | Annual Report |  |
|  |  | on Form 10-K | for the fiscal |  |
|  |  | year ended September 30, | |  |
|  |  | 1999 |  |  |
|  |  | (File No. 1-11593) [Exhibit | |  |
|  |  | 10(t)] |  |  |
| - --------------- | |  |  |  |
| \* Filed | herewith. |  |  |  |
| (b) | REPORTS ON FORM 8-K |  |  |  |
|  | The Registrant filed no Current Reports on Form 8-K during | the last |  |  |
| quarter of the period covered by this Report. | |  |  |  |
| (c) | EXHIBITS |  |  |  |
|  | See Item 14(a)(3) above. |  |  |  |
| (d) | FINANCIAL STATEMENT SCHEDULES |  |  |  |

The response to this portion of Item 14 is submitted as a separate section of this Annual Report on Form 10-K. See Item 14(a)(2) above.

----

55

56

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SCOTTS COMPANY

By: /s/ CHARLES M. BERGER

--------------------------------------

Charles M. Berger, Chairman of the

Board and Chief Executive Officer

Dated: December 28, 2000

|  |  |  |  |
| --- | --- | --- | --- |
| Pursuant to the requirements of the Securities Exchange Act of 1934, this | |  |  |
| Report has been signed below by the following persons in the capacities and on | |  |  |
| the dates indicated. |  |  |  |
| Signatures | Title | Date |  |
| - ---------- | ----- | ---- |  |
| /s/ CHARLES M. BERGER | Chairman of the Board/Chief | December 28, 2000 |  |
| Charles----------------------------------------------------M.Berger | Executive Officer |  |  |
|  |  |  |
| /s/ ARNOLD W. DONALD | Director | December 28, 2000 |  |
| - --------------------------------------------------- |  |  |  |
| Arnold W. Donald |  |  |  |
| /s/ JOSEPH P. FLANNERY | Director | December 28, 2000 |  |
| - --------------------------------------------------- |  |  |  |
| Joseph P. Flannery |  |  |  |
| /s/ JAMES HAGEDORN | President/Chief Operating | December 28, 2000 |  |
| James----------------------------------------------------Hagedorn | Officer/ Director |  |  |
|  |  |  |
| /s/ ALBERT E. HARRIS | Director | December 28, 2000 |  |
| - --------------------------------------------------- |  |  |  |
| Albert E. Harris |  |  |  |
| /s/ JOHN KENLON | Director | December 28, 2000 |  |
| - --------------------------------------------------- |  |  |  |
| John Kenlon |  |  |  |
| /s/ KATHERINE HAGEDORN LITTLEFIELD | Director | December 28, 2000 |  |
| - --------------------------------------------------- |  |  |  |
| Katherine Hagedorn Littlefield |  |  |  |
| /s/ KAREN G. MILLS | Director | December 28, 2000 |  |
| - --------------------------------------------------- |  |  |  |
| Karen G. Mills |  |  |  |
| /s/ CHRISTOPHER L. NAGEL | Controller/Principal Accounting | December 28, 2000 |  |
| Christopher----------------------------------------------------L.Nagel | Officer |  |  |
|  |  |  |
| /s/ PATRICK J. NORTON | Executive Vice President/Chief | December 28, 2000 |  |
| Patrick----------------------------------------------------J.Norton | Financial Officer/Director |  |  |
|  |  |  |
| /s/ JOHN M. SULLIVAN | Director | December 28, 2000 |  |
| - --------------------------------------------------- |  |  |  |
| John M. Sullivan |  |  |  |
| /s/ L. JACK VAN FOSSEN | Director | December 28, 2000 |  |
| - --------------------------------------------------- |  |  |  |
| L. Jack Van Fossen |  |  |  |
| /s/ JOHN WALKER, PH.D. | Director | December 28, 2000 |  |
| - --------------------------------------------------- |  |  |  |
| John Walker, Ph.D. |  |  |  |

----

56

57

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AND FINANCIAL STATEMENT SCHEDULES

|  |  |  |
| --- | --- | --- |
|  | Form 10-K |  |
|  | Annual Report |  |
| Consolidated Financial Statements of The Scotts Company and |  |  |
| Subsidiaries: | 58 |  |
| Report of Management...................................... |  |
| Report of Independent Accountants......................... | 59 |  |
| Consolidated Statements of Operations for the fiscal years | 60 |  |
| ended September 30, 2000, 1999 and 1998................ |  |
| Consolidated Statements of Cash Flows for the fiscal years | 61 |  |
| ended September 30, 2000, 1999 and 1998................ |  |
| Consolidated Balance Sheets at September 30, 2000 and | 62 |  |
| 1999................................................... |  |
| Consolidated Statements of Changes in Shareholders' Equity |  |  |
| for the fiscal years ended September 30, 2000, 1999 and | 63 |  |
| 1998................................................... |  |
| Notes to Consolidated Financial Statements.................. | 65 |  |
| Schedules Supporting the Consolidated Financial Statements: |  |  |
| Report of Independent Accountants on Financial Statement | 108 |  |
| Schedules.............................................. |  |
| Valuation and Qualifying Accounts for the fiscal years | 109 |  |
| ended September 30, 2000, 1999 and 1998................ |  |

Schedules other than those listed above are omitted since they are not required or are not applicable, or the required information is shown in the Consolidated Financial Statements or Notes thereto.

----

57

58

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.

----

58

59

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.

PRICEWATERHOUSECOOPERS LLP

Columbus, Ohio

October 31, 2000

----

59

60

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 |  | 39.2 |  | 30.3 |  |  |  |
| agreement |  |  |  |  |  |
| Contribution expenses under marketing |  | 9.9 |  | 1.6 |  |  |  |
| agreement |  |  | -------- | |  |
| Net commission earned from marketing | -------- | | -------- | |  |
|  | 29.3 |  | 28.7 |  |  |  |
| agreement |  |  |  |  |  |
| Operating expenses: |  | 209.1 |  | 189.0 |  | 104.4 |  |
| Advertising and promotion |  |  |  |  |
| Selling, general and administrative |  | 302.7 |  | 281.2 |  | 169.9 |  |
| Amortization of goodwill and other |  | 25.3 |  | 23.8 |  | 12.9 |  |
| intangibles |  |  |  |  |
| Restructuring and other charges |  | (6.0) |  | 1.4 |  | 15.4 |  |
| Other (income) expense, net |  |  | (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 |  |  |  | 5.9 |  | 0.7 |  |
| tax benefit |  |  |  |  |  |
| Net income | -------- | 73.1 | -------- | | -------- | |  |
|  |  | 63.2 |  | 36.3 |  |
| Dividends on Class A Convertible |  | 6.4 |  | 9.7 |  | 9.8 |  |
| Preferred Stock |  |  |  |  |
| Income applicable to common | -------- | | -------- | | -------- | |  |
| $ | 66.7 | $ | 53.5 | $ | 26.5 |  |
| shareholders |  |
| Basic earnings per share: | $ | 2.39 | $ | 3.25 | $ | 1.46 |  |
| Before extraordinary loss |  |
| Extraordinary loss, net of tax |  |  |  | (0.32) |  | (0.04) |  |
|  | $-------- | 2.39 | -------- | | -------- | |  |
| Diluted earnings per share: | $ | 2.93 | $ | 1.42 |  |
| $ | 2.25 | $ | 2.27 | $ | 1.22 |  |
| Before extraordinary loss |  |
| Extraordinary loss, net of tax |  |  |  | (0.19) |  | (0.02) |  |
|  | $-------- | 2.25 | -------- | | -------- | |  |
| Common shares used in basic earnings | $ | 2.08 | $ | 1.20 |  |
|  | 27.9 |  | 18.3 |  | 18.7 |  |
| per share calculation |  |  |  |  |
| Common shares and potential common |  |  |  |  |  |  |  |
| shares used in diluted earnings per |  | 29.6 |  | 30.5 |  | 30.3 |  |
| share calculation |  |  |  |  |

See Notes to Consolidated Financial Statements.

----

60

61

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 | $ 73.1 | $ | 63.2 | $ | 36.3 |  |
| Net income |  |
| Adjustments to reconcile net income to net |  |  |  |  |  |  |
| cash provided by operating activities: | 29.0 |  | 29.0 |  | 21.6 |  |
| Depreciation |  |  |  |
| Amortization | 37.3 |  | 31.2 |  | 16.2 |  |
| Extraordinary loss |  |  | 5.9 |  | 0.7 |  |
| Restructuring and other charges | 4.4 |  | 1.8 |  | 19.3 |  |
| Loss on sale of property |  |  | 2.3 |  |
| Gain on sale of business | (4.6) |  |  |  |  |  |
| Changes in assets and liabilities, net of |  |  |  |  |  |  |
| acquired businesses: | 6.4 |  | 23.7 |  | (8.6) |  |
| Accounts receivable |  |  |  |
| 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 | ------ | ------- | | ------- | |  |
| 171.5 |  | 78.2 |  | 71.0 |  |
| activities |  |  |  |
| CASH FLOWS FROM INVESTING ACTIVITIES | ------ | ------- | | ------- | |  |
| (72.5) |  | (66.7) |  | (41.3) |  |
| Investment in property, plant and equipment |  |  |  |
| Proceeds from sale of equipment | 1.8 |  | 1.5 |  | 0.6 |  |
| Investments in acquired businesses, net of | (18.3) |  | (506.2) |  | (151.4) |  |
| cash acquired |  |  |  |
| 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 | (26.0) |  | 65.3 |  | 140.0 |  |
| and bank lines of credit |  |  |  |
| Gross borrowings under term loans | (23.7) |  | 525.0 |  |  |  |
| Gross repayments under term loans |  | (3.0) |  |  |  |
| Repayment of outstanding balance on previous |  |  | (241.0) |  |  |  |
| credit facility |  |  |  |  |  |
| 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 | (1.0) |  | (12.9) |  |  |  |
| Financing and issuance fees |  | (24.1) |  |  |  |
| Dividends on Class A Convertible Preferred | (6.4) |  | (12.1) |  | (7.3) |  |
| Stock |  |  |  |
| 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 | ------ | ------- | |  |
| (79.2) |  | 513.9 |  | 118.4 |  |
| financing activities |  |  |  |
| 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.

----

61

62

THE SCOTTS COMPANY

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2000 AND 1999

(IN MILLIONS)

2000 1999

- ------------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ASSETS |  |  |  |  |  |
| Current assets: | $ | 33.0 | $ | 30.3 |  |
| Cash and cash equivalents |  |
| Accounts receivable, less allowance for uncollectible |  | 216.0 |  | 201.4 |  |
| accounts of $11.7 in 2000 and $16.4 in 1999 |  |  |  |
| 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: | $ | 49.4 | $ | 56.4 |  |
| Short-term debt |  |
| 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: |  |  |  | 173.9 |  |
| Class A Convertible Preferred Stock, no par value |  |  |  |  |
| Common shares, no par value per share, $.01 stated value |  |  |  |  |  |
| per share, 31.3 shares issued in 2000, 21.3 shares |  | 0.3 |  | 0.2 |  |
| issued in 1999 |  |  |  |
| 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.

----

62

63

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

----

63

64

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 Foreign

Liability Currency

Adjustment Translation Total

- ------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Balance, September | 30, 1997 | $ 0.0 | $ (4.3) | $389.2 |  |
| Net income |  |  | 1.3 | 36.3 |  |
| Foreign currency translation | | (0.2)(a) | 1.3 |  |
| Minimum pension liability | |  | (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 |  | ----- | ------ | ------ |  |
|  |  | (5.7) | 63.2 |  |
| Foreign currency translation | | (4.0)(a) | (5.7) |  |
| Minimum pension liability | | ------ | (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 | | $(4.2) | $ (8.7) | $443.3 |  |
| Balance, September | 30, 1999 |  |
| Net income |  | ----- | ------ | ------ |  |
|  |  | (11.2) | 73.1 |  |
| Foreign currency translation | | (0.9)(a) | (11.2) |  |
| Minimum pension liability | | ------ | (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 | $(5.1) | $(19.9) | (6.4) |  |
| Balance September 30, 2000 | | $477.9 |  |
|  |  | ===== | ====== | ====== |  |

- ---------------

1. 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.

----

64

65

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

----

65

66

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

----

66

67

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: | $232.9 | $206.4 |  |
| Finished Goods |  |
| Raw Materials | 73.7 | 106.5 |  |
| FIFO Cost | ------ | ------ |  |
| 306.6 | 312.9 |  |
| LIFO Reserve | 0.9 | 0.3 |  |
| Total | ------ | ------ |  |
| $307.5 | $313.2 |  |
|  | ====== | ====== |  |

----

67

68

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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: | $ 38.5 | $ 41.4 |  |
| Land and improvements |  |
| 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: | $280.4 | $508.6 |  |
| Goodwill |  |
| Trademarks | 331.1 | 207.9 |  |
| Other | 131.6 | 77.6 |  |
| Total | ------ | ------ |  |
| $743.1 | $794.1 |  |
|  | ====== | ====== |  |

2000 1999

* --------------------------------------------------------------------------------------------

(in millions)

|  |  |  |  |
| --- | --- | --- | --- |
| ACCRUED LIABILITIES: | $ 40.5 | $ 42.5 |  |
| Payroll and other compensation accruals |  |
| 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: | $ 49.8 | $ 50.4 |  |
| Accrued pension and postretirement liabilities |  |
| 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(R) 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(R) 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.

----

68

69

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The agreement also requires the Company to make fixed annual payments to Monsanto as a contribution against the overall expenses of the Roundup(R) 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 express terms of the agreement permit 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 legal counsel and the Company's independent accountants. In addition, the Company has obtained a legal opinion from The Bayard Firm, P.A., which concluded, subject to certain qualifications, that if the matter were litigated, a Delaware court would likely conclude that the Company is entitled to terminate the agreement at will, with appropriate prior notice, without incurring significant penalty, and avoid paying the unpaid deferred amounts. We have concluded that, should the Company elect to terminate the agreement at any balance sheet date, it will not incur significant economic consequences as a result of such action.

The Bayard Firm was special Delaware counsel retained during fiscal 2000 solely for the limited purpose of providing a legal opinion in support of the contingent liability treatment of the agreement previously adopted by the Company and has neither generally represented or advised the Company nor participated in the preparation or review of the Company's financial statements or any SEC filings. The terms of such opinion specifically limit the parties who are entitled to rely on it.

The Company's 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 year 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(R) 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(R) business.

----

69

70

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(R) 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(R) 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(R) 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;

1. 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

----

70

71

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

1. $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.
2. $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).
3. $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.
4. $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.

----

71

72

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(R) 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:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Type |  | Fiscal 1998 Activity | | Fiscal 1999 Activity | |  |
| Classification | Charge--------------------------- | Payments Balance | -------------------------------- | |  |
| Balance | Payments Adjustments | Balance |  |

- -------------------------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Consolidation of U.K. |  |  |  |  |  |  |  |  |  |
| operations: |  |  |  |  |  |  |  |  |  |
| Property and equipment | Cash | Restructuring | $0.2 | $ -- | $0.2 | $(0.2) | $ -- | -- |  |
| demolition |  |
| 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 | Cash | SG&A | 0.8 | (0.4) | 0.4 | (0.4) | -- | -- |  |
| costs |  |
|  |  |  | ---- |  |  |  |  |  |  |
| Property and equipment |  |  | 3.7 |  |  |  |  |  |  |
| Non-cash | Restructuring | 0.9 |  |  |  |  |  |  |
| write-offs |  |  |  |  |  |  |
| Obsolete packaging | Non-cash | Cost of sales | 0.8 |  |  |  |  |  |  |
| write-offs |  |  |  |  |  |  |
| Other inventory write- | Non-cash | Cost of sales | 0.6 |  |  |  |  |  |  |
| offs |  |  |  |  |  |  |
|  |  |  | ---- |  |  |  |  |  |  |
| Closure of compost |  |  | 2.3 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| sites: |  |  |  |  |  |  |  |  |  |
| Costs under |  |  |  |  |  |  |  |  |  |
| contractual | Cash | Restructuring | 4.5 | -- | 4.5 | (4.1) | -- | 0.4 |  |
| commitments |  |
| Lease obligations | Cash | Restructuring | 0.5 | -- | 0.5 | -- | -- | 0.5 |  |
|  |  |  | ---- |  |  |  |  |  |  |
| Property and equipment |  |  | 5.0 |  |  |  |  |  |  |
| Non-cash | Restructuring | 3.2 |  |  |  |  |  |  |
| write-offs |  |  |  |  |  |  |
| Inventory write-offs | Non-cash | Cost of sales | 1.1 |  |  |  |  |  |  |
|  |  |  | ---- |  |  |  |  |  |  |
| Other businesses/plants: |  |  | 4.3 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Sale of AgrEvo | Non-cash | Restructuring | 4.5 |  |  |  |  |  |  |
| business |  |  |  |  |  |  |
| Property and equipment | Non-cash | Restructuring | 0.2 |  |  |  |  |  |  |
| write-offs |  |  |  |  |  |  |
| 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.

----

72

73

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(R) 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(R) 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: | $ | 2.79 | $ | 1.96 |  |
| Before extraordinary loss |  |
| After extraordinary loss |  | 2.47 |  | 1.92 |  |
| Diluted earnings per share: | $ | 1.99 | $ | 1.53 |  |
| Before extraordinary loss |  |
| After extraordinary loss |  | 1.80 |  | 1.51 |  |

----

73

74

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(R) 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(R) 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 |  |
|  | ===== | ===== |  |

----

74

75

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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: | $(58.5) | $(58.6) | |  |
| Vested benefits |  |
| Nonvested benefits | (1.0) | (0.4) | |  |
|  | ------ | ------ | |  |
| Plan assets at fair value, primarily corporate bonds, U.S. | (59.5) | (59.0) | |  |
| 56.2 | 56.8 | |  |
| Government bonds and cash equivalents |  |
| 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 |  |
|  | ===== | ===== |  |

----

75

76

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 | 1999 |  |

* ----------------------------------------------------------------------------

(in millions)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Plans with benefit obligations | | in excess of plan assets: | $17.2 | $33.7 |  |
| Aggregate projected benefit obligations | | |  |
| Aggregate fair value | of plan | assets | 4.7 | 20.0 |  |
| Plans with plan assets | in excess of benefit obligations: | | $54.9 | $39.5 |  |
| Aggregate projected benefit obligations | | |  |
| 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 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 |  |
|  | ===== | ===== |  |

----

76

77

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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: | | $(1.8) | $(1.8) |  |
| Vested benefits | |  |
| 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.

----

77

78

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(R) 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: | $ 7.3 | $ 8.9 |  |
| Retirees |  |
| 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 |  |
|  | ===== | ===== | ===== |  |

----

78

79

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 |  |
|  | ------ | ------ |  |
| Less current portions | 862.8 | 950.0 |  |
| 49.4 | 56.4 |  |
|  | ------ | ------ |  |
|  | $813.4 | $893.6 |  |
|  | ====== | ====== |  |

----

79

80

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Capital Other

Leases 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 |  |
|  | ---- | ------ |  |
| Less: amounts representing interest | $2.7 | $860.1 |  |
| 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.

----

80

81

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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: | 0.2 | shares | 0.2 | shares |  |
| Authorized |  |
| Issued | 0.0 | shares | 0.2 | shares |  |
| Common shares, no par value | 100.0 | shares | 50.0 | shares |  |
| Authorized |  |
| 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 |  |  |  |

----

81

82

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

----

82

83

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Aggregate stock option activity consists of the following:

Fiscal Year Ended September 30,

---------------------------------------------------------------------

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 2000 |  | 1999 |  | 1998 |  |  |
| Number---------------------of | WTD. Avg. | --------------------- | | --------------------- | |  |
| Number of | WTD. Avg. | Number of | WTD. Avg. |  |
| Shares | Price | Shares | Price | Shares | 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 | ---- | 26.67 | ---- | 26.33 | ---- | 20.70 |  |
| 4.9 | 4.9 | 3.8 |  |
| Exercisable at September | ---- |  | ---- |  | ---- |  |  |
| 2.7 | $21.45 | 1.9 | $19.77 | 1.8 | $18.17 |  |
| 30 |  |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Options Outstanding | | | Options Exercisable | |  |
|  |  | ------------------------------- | |  | -------------------- | |  |
| Range | of | No. of | WTD. Avg. WTD. Avg. WTD. Avg. | | | Exercise |  |
| Remaining | Exercise | No. of |  |
| Exercise | Prices | Options | Life | Price | Options | 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 | $59.4 | $55.3 | $31.3 |  |
| share calculation |  |
| Net income used in diluted earnings per | $59.4 | $45.3 | $21.5 |  |
| share calculation |  |
| Earnings per share: | $2.12 | $2.50 | $1.15 |  |
| Basic |  |
| Diluted | $2.00 | $1.82 | $1.03 |  |

----

83

84

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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: | $73.1 | $69.1 | $37.0 |  |
| Net income before extraordinary loss |  |
| 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 | 27.9 | 18.3 | 18.7 |  |
| during the period |  |
| Basic earnings per common share | $2.39 | $3.25 | $1.46 |  |
| Before extraordinary item |  |
| After extraordinary item | $2.39 | $2.93 | $1.42 |  |
| DILUTED EARNINGS PER COMMON SHARE: |  |  |  |  |
| Net income used in diluted earnings per | $66.7 | $63.2 | $36.3 |  |
| common share calculation |  |
| Weighted-average common shares outstanding | 27.9 | 18.3 | 18.7 |  |
| during the period |  |
| Potential common shares: |  |  |  |  |
| Assuming conversion of Class A Convertible | 0.0 | 10.2 | 10.3 |  |
| Preferred Stock |  |
| 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 | 29.6 | 30.5 | 30.3 |  |
| shares |  |
| Diluted earnings per common share | $2.25 | $2.27 | $1.22 |  |
| Before extraordinary item |  |
| 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.

----

84

85

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 | 2.7 | 3.0 | 4.6 |  |
| resulting from | purchase | accounting |  |
| 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 |  |

===== ===== =====

----

85

86

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

September 30,

-----------------------------

2000 1999

* ----------------------------------------------------------------------------------------------

(in millions)

|  |  |  |  |
| --- | --- | --- | --- |
| ASSETS | $ 11.5 | $ 6.1 |  |
| Inventories |  |
| 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 | (18.2) | (22.5) |  |
| Property, plant and equipment |  |
| 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

----

86

87

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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------------------ | Fair | ------------------ | |  |
| Carrying | Fair |  |
| Amount | Value | Amount | Value |  |

* ------------------------------------------------------------------------------------------------

(in millions)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Revolving and term loans under credit facility | $489.5 | $573.2 | $573.2 |  |
| $489.5 |  |
| Senior subordinated notes | 318.5 | 330.0 | 316.0 |  |
| 330.0 |  |
| Foreign bank borrowings and term loans | 7.1 | 17.6 | 17.6 |  |
| 7.1 |  |
| 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

----

87

88

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(R): On June 15, 2000, the Company signed an Asset Purchase Agreement to acquire the Substral(R) brand and consumer plant care business from Henkel KGaA as of December 31, 2000. Substral(R) 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(R) 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(R) business in its fiscal 2000 financial statements because the Company had not assumed ownership of any assets associated with the Substral(R) business as of September 30, 2000 and the results of operations for the Substral(R) 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.

----

88

89

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

----

89

90

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

----

90

91

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

1. that the Company has identified all of the significant sites that must be remediated;
2. that there are no significant conditions of potential contamination that are unknown to the Company;
3. that potentially contaminated soil can be remediated in place rather than having to be removed; and
4. 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.

----

91

92

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(R) 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(R), 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(R) 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(R) 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(R) 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.

----

92

93

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

sec. 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 2nd Largest

Customer Customer

- ---------------------------------------------------------------------------------------------

|  |  |  |
| --- | --- | --- |
| 2000 | 22.9% | 8.9% |
| 1999 | 17.4% | 11.6% |
| 1998 | 16.8% | 10.6% |

----

93

94

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(R) business | (4.6) | 1.2 | 2.3 |  |
| Asset valuation and write-off charges | 1.8 |  |
| 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(R) 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(R) 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

----

94

95

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 | $88.3 | | $ 63.6 | $ 31.5 |  |
| capitalized) |  |
| 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 |  | 4.8 | 691.2 | 197.3 |  |
| of cash |  |  |
| 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(R) 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

----

95

96

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

allocated for purposes of this presentation). Prior periods have been restated to conform to this basis of presentation.

N.A. N.A.

Consumer 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 |  |
| Operating Income (Loss): | 1998 |  | 733.7 |  | 179.4 |  | 199.9 |  |  |  | 1,113.0 |  |
| 2000 | $ | 243.1 | $ | 1.7 | $ | 34.7 | $ | (69.3) | $ | 210.2 |  |
|  |  |
|  | 1999 |  | 203.1 |  | 20.5 |  | 47.8 |  | (75.3) |  | 196.1 |  |
| Operating Margin: | 1998 |  | 117.3 |  | 23.5 |  | 25.0 |  | (71.7) |  | 94.1 |  |
| 2000 |  | 19.3% |  | 1.3% |  | 9.2% |  |  |  | 11.9% |  |
|  |  |  |  |  | nm |  |  |
|  | 1999 |  | 18.5 |  | 12.8 |  | 12.2 |  |  | 11.9 |  |
| Depreciation and | 1998 |  | 16.0 |  | 13.1 |  | 12.5 |  | nm |  | 8.5 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Amortization: | 2000 | $ | 42.5 | $ | 4.1 | $ | 12.8 | $ | 6.9 | $ | 66.3 |  |
|  |  |
|  | 1999 |  | 35.9 |  | 3.3 |  | 15.1 |  | 5.9 |  | 60.2 |  |
| Capital Expenditures: | 1998 |  | 24.1 |  | 2.7 |  | 7.7 |  | 3.3 |  | 37.8 |  |
| 2000 | $ | 32.1 | $ | 9.8 | $ | 9.5 | $ | 21.1 | $ | 72.5 |  |
|  |  |
|  | 1999 |  | 22.5 |  | 5.7 |  | 10.6 |  | 27.9 |  | 66.7 |  |
| Long-Lived Assets: | 1998 |  | 19.6 |  | 9.2 |  | 5.1 |  | 7.4 |  | 41.3 |  |
| 2000 | $ | 681.4 | $ | 97.8 | $ | 271.3 | $ | 58.0 | $ | 1,108.5 |  |
|  |  |
| Total Assets: | 1999 |  | 649.0 |  | 98.5 |  | 322.7 |  | 57.7 |  | 1,127.9 |  |
| 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. | | | | | | |  |  |  |  |  |

----

96

97

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(R) 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 | 2nd Qtr | 3rd Qtr | 4th Qtr | Full Year |  |
| (restated) | (restated) | (restated) |  |

* --------------------------------------------------------------------------------------------------------------------

(in millions, except for share data)

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

* --------------------------------------------------------------------------------------------------------------------

(in millions, except for share data)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| FISCAL 1999 | $ | 184.4 | $ | 631.5 | $ | 586.2 | $246.2 | $ | 1,648.3 |  |
| Net sales |  |
| Gross profit |  | 64.7 |  | 268.9 |  | 236.4 | 89.2 |  | 659.2 |  |
| Income (loss) before |  | (10.0) |  | 54.7 |  | 41.6 | (17.2) |  | 69.1 |  |
| extraordinary item |  |  |  |  |  |
| Net income (loss) |  | (10.4) |  | 49.3 |  | 41.6 | (17.3) |  | 63.2 |  |
| Basic earnings (loss) per | $ | (0.70) | $ | 2.56 | $ | 2.14 | $(1.07) | $ | 2.93 |  |
| common share |  |
| Common shares used in |  | 18.3 |  | 18.3 |  | 18.3 | 18.3 |  | 18.3 |  |
| basic EPS calculation |  |  |  |  |  |
| Diluted earnings (loss) | $ | (0.70) | $ | 1.63 | $ | 1.35 | $(1.08) | $ | 2.08 |  |
| per common share |  |
| Common shares and |  |  |  |  |  |  |  |  |  |  |
| dilutive potential |  |  |  |  |  |  |  |  |  |  |
| common shares used in |  | 18.3 |  | 30.3 |  | 30.9 | 18.3 |  | 30.5 |  |
| diluted EPS calculation |  |  |  |  |  |

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.

----

97

98

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

----

98

99

THE SCOTTS COMPANY

STATEMENT OF OPERATIONS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2000

(IN MILLIONS)

Subsidiary Non-

Parent Guarantors 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 | 34.3 | 0.9 | 4.0 |  |  | 39.2 |  |
| marketing agreement |  |  |  |
| Contribution expenses under | 9.0 | 0.2 | 0.7 |  |  | 9.9 |  |
| marketing agreement | ------ |  |  |
| Net commission earned from | ------ | ------ | ------ | -------- | |  |
| 25.3 | 0.7 | 3.3 |  |  | 29.3 |  |
| marketing agreement |  |  |  |
| 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 | 10.6 | 5.3 | 9.4 |  |  | 25.3 |  |
| intangibles | $ 56.2 |  |  |
| Equity income in non-guarantors | (56.2) | 1.0 | 7.5 |  |  |  |
| Intracompany allocations | (8.5) |  |  | (6.0) |  |
| Other expenses (income), net | 1.9 | (8.1) | 0.2 | ------ |  |  |
| 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 |  |
|  | ====== | ====== | ====== | ====== | ======== | |  |

----

99

100

THE SCOTTS COMPANY

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2000

(IN MILLIONS)

Subsidiary Non-

Parent Guarantors Guarantors Eliminations Consolidated

- ---------------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| CASH FLOWS FROM OPERATING ACTIVITIES | $ 73.1 | $ 59.7 | $ (3.5) | $(56.2) | $ 73.1 |  |
| Net income |  |
| Adjustments to reconcile net income |  |  |  |  |  |  |
| to net cash provided by operating |  |  |  |  |  |  |
| activities: | 16.0 | 8.0 | 5.0 |  | 29.0 |  |
| Depreciation |  |  |
| Amortization | 10.9 | 16.5 | 9.9 | 56.2 | 37.3 |  |
| Equity income in non-guarantors | (56.2) | 1.8 | 2.0 | 4.4 |  |
| Loss on sale of fixed assets | 0.6 |  |  |
| Gain on sale of business | (4.6) |  |  |  | (4.6) |  |
| Changes in assets and |  |  |  |  |  |  |
| liabilities, net of acquired |  |  |  |  |  |  |
| businesses: | 48.3 | (43.5) | 1.6 |  | 6.4 |  |
| Accounts receivable |  |  |
| Inventories | (18.2) | 12.5 | 11.5 |  | 5.8 |  |
| Prepaid and other current | (13.0) | 1.2 | 2.6 |  | (9.2) |  |
| assets |  |  |
| Accounts payable | (5.0) | 17.9 | 6.5 |  | 19.4 |  |
| Accrued taxes and other | 59.0 | (12.7) | (16.3) |  | 30.0 |  |
| liabilities |  |  |
| 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 | ------ | ------ | ------ | ------ |  |
| 102.0 | 55.4 | 14.1 |  | 171.5 |  |
| activities | ------ |  |
| CASH FLOWS FROM INVESTING ACTIVITIES | ------ | ------ | ------ | ------ |  |
|  |  |  |  |  |  |
| Investment in property, plant and | (53.2) | (9.0) | (10.3) |  | (72.5) |  |
| equipment |  |  |
| Proceeds from sale of equipment | (11.8) | (4.1) | 1.8 |  | 1.8 |  |
| Investments in non-guarantors | (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 | (48.2) | 4.5 | (7.0) |  | (50.7) |  |
| credit |  |  |
| Dividends on Class A Convertible | (6.4) |  |  |  | (6.4) |  |
| Preferred Stock |  |  |  |  |
| Repurchase of treasury shares | (23.9) |  |  |  | (23.9) |  |
| Cash received from exercise of | 2.8 |  |  |  | 2.8 |  |
| stock options | (45.2) | 6.5 |  |  |
| Intercompany financing | 38.7 |  | (1.0) |  |
| Other, net | 7.0 | ------ | (8.0) | ------ |  |
| Net cash used in financing activities | ------ | ------ | ------ |  |
| (30.0) | (40.7) | (8.5) |  | (79.2) |  |
| Effect of exchange rate changes on |  |  | (1.1) |  | (1.1) |  |
| cash | ------ | ------ | ------ |  |
| Net increase (decrease) in cash | ------ | ------ |  |
| 7.5 | 1.6 | (6.4) |  | 2.7 |  |
| Cash and cash equivalents, beginning | 8.5 | 3.1 | 18.7 |  | 30.3 |  |
| of period | ------ |  |
| Cash and cash equivalents, end of | ------ | ------ | ------ | ------ |  |
| $ 16.0 | $ 4.7 | $ 12.3 | $ 0.0 | $ 33.0 |  |
| period |  |
|  | ====== | ====== | ====== | ====== | ====== |  |

----

100

101

THE SCOTTS COMPANY

BALANCE SHEET

AS OF SEPTEMBER 30, 2000

(IN MILLIONS, EXCEPT SHARE INFORMATION)

Subsidiary Non-

Parent Guarantors Guarantors Eliminations Consolidated

- -------------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Current Assets: |  | ASSETS |  |  |  |  |
| $ 16.0 | $ 4.7 | $ 12.3 |  | $ 33.0 |  |
| Cash |  |  |
| 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) | 17.6 |  | 25.1 |  |
| Prepaid and other assets | 42.2 | 2.5 | --------- | 62.3 |  |
| Total current assets | -------- | ------ | ------ | -------- |  |
| 377.0 | 111.1 | 155.8 |  | 643.9 |  |
| Property, plant and equipment, | 192.7 | 59.2 | 38.6 |  | 290.5 |  |
| net |  |  |
| Intangible assets, net | 81.2 | 420.2 | 241.7 |  | 743.1 |  |
| Other assets | 66.2 | 6.5 | 11.2 | $ (840.3) | 83.9 |  |
| Investment in affiliates | 840.3 | 251.1 |  |  |  |
| Intracompany assets | -------- | ------ | (251.1) | -------- |  |
| Total assets | ------ | --------- |  |
| 1,557.4 | 848.1 | 447.3 | (1,091.4) | 1,761.4 |  |
|  | ======== | ====== | ====== | ========= | ======== |  |
| Current Liabilities: | LIABILITIES AND SHAREHOLDERS' EQUITY | | |  |  |  |
| 29.6 | 2.6 | 17.2 |  | 49.4 |  |
| Short-term debt |  |  |
| 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 | (251.1) | 60.3 |  |
| Intracompany liabilities | 243.2 | ------ | 7.9 | -------- |  |
| Total liabilities | -------- | ------ | --------- |  |
| 1,061.7 | 107.4 | 365.5 | (251.1) | 1,283.5 |  |
| Commitments and Contingencies |  |  |  |  |  |  |
| Shareholders' equity: |  | 488.7 | 59.8 | (548.5) |  |  |
| Investment from parent |  |  |  |
| Common shares, no par value |  |  |  |  |  |  |
| share, $.01 stated value per |  |  |  |  |  |  |
| share, issued 31.3 shares | 0.3 |  |  |  | 0.3 |  |
| issued in 2000 |  |  |  |  |
| Capital in excess of stated | 389.3 |  |  |  | 389.3 |  |
| value | 252.0 | 39.8 | (291.8) |  |
| Retained earnings | 196.8 | 196.8 |  |
| Treasury stock, 3.4 shares at | (83.5) |  |  |  | (83.5) |  |
| cost |  |  |  |  |
| Accumulated other comprehensive | (7.2) |  | (17.8) |  | (25.0) |  |
| income | ------ | --------- |  |
| Total shareholders' equity | -------- | ------ | -------- |  |
| 495.7 | 740.7 | 81.8 | (840.3) | 477.9 |  |
| Total liabilities and | -------- | ------ | ------ | --------- | -------- |  |
| $1,557.4 | $848.1 | $447.3 | $(1,091.4) | $1,761.4 |  |
| shareholders' equity |  |
|  | ======== | ====== | ====== | ========= | ======== |  |

----

101

102

THE SCOTTS COMPANY

STATEMENT OF OPERATIONS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999

(IN MILLIONS)

Subsidiary Non-

Parent Guarantors 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 | 28.6 | 1.2 | 0.5 |  |  | 30.3 |  |
| marketing agreement |  |  |  |
| Contribution expenses under | 1.6 |  |  |  |  | 1.6 |  |
| marketing agreement | ------ | ------ | ------ |  |  |
| Net commission earned from | ------ | -------- | |  |
| 27.0 | 1.2 | 0.5 |  |  | 28.7 |  |
| marketing agreement |  |  |  |
| 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 | 5.1 | 9.4 | 9.3 |  |  | 23.8 |  |
| intangibles |  |  |  |
| Restructuring and other charges | 1.4 |  |  | $ 55.7 |  | 1.4 |  |
| Equity income in non-guarantors | (55.7) | 13.1 | 6.6 |  |  |  |
| Intracompany allocations | (19.7) |  |  | (3.6) |  |
| Other income, net | 0.4 | (3.3) | (0.7) | ------ |  |  |
| 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 | 5.9 |  |  |  |  | 5.9 |  |
| income tax benefit | ------ | ------ | ------ |  |  |
| Net income | $------63.2 | -------- | |  |
| $ 51.7 | $ 4.0 | $(55.7) | $ | 63.2 |  |
|  | ====== | ====== | ====== | ====== | ======== | |  |

----

102

103

THE SCOTTS COMPANY

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999

(IN MILLIONS)

Subsidiary Non-

Parent Guarantors Guarantors Eliminations Consolidated

- ------------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| CASH FLOWS FROM OPERATING ACTIVITIES | $ | 63.2 | $ | 51.7 | $ | 4.0 | $(55.7) | $ | 63.2 |  |
| Net income |  |
| Adjustments to reconcile net income |  |  |  |  |  |  |  |  |  |  |
| to net cash provided by operating |  |  |  |  |  |  |  |  |  |  |
| activities: |  | 12.9 |  | 9.6 |  | 6.5 |  |  | 29.0 |  |
| Depreciation |  |  |  |  |  |  |
| Amortization |  | 12.8 |  | 8.5 |  | 9.9 |  |  | 31.2 |  |
| Equity income in |  | (55.7) |  |  |  |  | 55.7 |  |  |  |
| non-guarantors |  |  |  |  |  |  | 5.9 |  |
| Extraordinary loss |  | 5.9 |  | (1.0) |  | 0.1 |  |  |  |
| Loss on sale of property |  | 2.7 |  |  |  |  | 1.8 |  |
| Changes in assets and |  |  |  |  |  |  |  |  |  |  |
| liabilities, net of acquired |  |  |  |  |  |  |  |  |  |  |
| businesses: |  | 4.1 |  | 19.6 |  |  |  |  | 23.7 |  |
| Accounts receivable |  |  |  |  |  |  |  |
| Inventories |  | (27.9) |  | 6.3 |  |  |  |  | (21.6) |  |
| Prepaid and other current |  | (16.5) |  | 1.9 |  | (10.6) |  |  | (25.2) |  |
| assets |  |  |  |  |  |  |
| Accounts payable |  | 14.8 |  | (0.2) |  | (3.9) |  |  | 10.7 |  |
| Accrued taxes and other |  | (10.5) |  | 25.7 |  | (25.4) |  |  | (10.2) |  |
| liabilities |  |  |  |  |  |  |
| 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) | ------- | | ------- | | ------- | | ------- | |  |
|  | (21.2) |  | 120.2 |  | (20.8) |  |  | 78.2 |  |
| operating activities |  |  |  | ------ |  |  |
| CASH FLOWS FROM INVESTING ACTIVITIES | ------- | | ------- | | ------- | | ------- | |  |
|  |  |  |  |  |  |  |  |  |  |
| Investment in property, plant and |  | (48.1) |  | (7.9) |  | (10.7) |  |  | (66.7) |  |
| equipment |  |  |  |  |  |  |
| Proceeds from sale of equipment |  | 1.0 |  | 0.5 |  |  |  |  | 1.5 |  |
| Investments in acquired businesses, |  | (350.1) |  |  |  | (156.1) |  |  | (506.2) |  |
| net of cash acquired |  |  | 1.5 |  |  |  |  |
| Other |  | (1.0) |  |  | (0.7) | ------ |  | (0.2) |  |
| Net cash used in investing activities | ------- | | ------- | | ------- | | ------- | |  |
|  | (398.2) |  | (5.9) |  | (167.5) | ------ |  | (571.6) |  |
| CASH FLOWS FROM FINANCING ACTIVITIES | ------- | | ------- | | ------- | | ------- | |  |
|  | 260.0 |  |  |  | 265.0 |  |  | 525.0 |  |
| Gross borrowings under term loans |  |  |  |  |  |  |  |
| Gross repayments under term loans |  | (1.0) |  |  |  | (2.0) |  |  | (3.0) |  |
| Net borrowings under revolving and |  | 160.7 |  |  |  | (95.4) |  |  | 65.3 |  |
| bank lines of credit |  |  |  |  |  |  |  |
| Repayment of outstanding balance on |  | (241.0) |  |  |  |  |  |  | (241.0) |  |
| old credit facility |  |  |  |  |  |  |  |  |
| Issuance of 8 5/8% Senior |  | 330.0 |  |  |  |  |  |  | 330.0 |  |
| Subordinated Notes |  |  |  |  |  |  |  |  |
| Extinguishment of 9 7/8% Senior |  | (107.1) |  |  |  |  |  |  | (107.1) |  |
| Subordinated Notes |  |  |  |  |  |  |  |  |
| Settlement of interest rate locks |  | (12.9) |  |  |  |  |  |  | (12.9) |  |
| Financing and issuance fees |  | (24.1) |  |  |  |  |  |  | (24.1) |  |
| Dividends on Class A Convertible |  | (12.1) |  |  |  |  |  |  | (12.1) |  |
| Preferred Stock |  |  |  |  |  |  |  |  |
| Repurchase of treasury shares |  | (10.0) |  |  |  |  |  |  | (10.0) |  |
| Cash received from exercise of |  | 3.8 |  |  |  |  |  |  | 3.8 |  |
| stock options |  |  | (109.1) |  | 32.4 |  |  |  |
| Investment from parent |  | 76.7 |  |  | ------ | ------- | |  |
| Net cash provided by (used in) | ------- | | ------- | | ------- | |  |
|  | 423.0 |  | (109.1) |  | 200.0 |  |  | 513.9 |  |
| financing activities |  |  |  |  |  |  |
| Effect of exchange rate changes on |  |  |  | 0.0 |  | (0.8) |  |  | (0.8) |  |
| cash | ------- | |  |  | ------ |  |  |
| Net increase in cash | ------- | | ------- | | ------- | |  |
|  | 3.6 |  | 5.2 |  | 10.9 |  |  | 19.7 |  |
| Cash and cash equivalents, beginning |  | 4.9 |  | (2.1) |  | 7.8 |  |  | 10.6 |  |
| of period |  |  |  | ------ |  |  |
| Cash and cash equivalents, end of | ------- | | ------- | | ------- | | ------- | |  |
| $ | 8.5 | $ | 3.1 | $ | 18.7 | $ 0.0 | $ | 30.3 |  |
| period |  |
|  | ======= | | ======= | | ======= | | ====== | ======= | |  |

----

103

104

THE SCOTTS COMPANY

BALANCE SHEET

AS OF SEPTEMBER 30, 1999

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (IN MILLIONS, EXCEPT SHARE INFORMATION) | | | |  |  |  |  |  |
|  |  | Parent | Subsidiary | Non- | Eliminations | | Consolidated |  |
|  |  | Guarantors | Guarantors |  |
| - --------------------------------------------------------- | | | |  |  |  |  |  |
| Current Assets: |  |  | ASSETS |  |  |  |  |  |
| $ | 8.5 | $ 3.1 | $ 18.7 |  |  | $ 30.3 |  |
| Cash |  |  |  |
| 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 |  | (706.6) | 74.4 |  |
| Investment in affiliates |  | 706.6 | 294.6 |  |  |  |  |
| Intracompany assets | -------- | | ------ |  | (294.6) | -------- |  |
| Total assets | ------ | --------- | |  |
|  | 1,540.0 | 704.6 | 526.2 |  | (1,001.2) | 1,769.6 |  |
|  | ======== | | ====== | ====== | ========= | | ======== |  |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |  |  |  |  |
| Current Liabilities: |  | 26.2 | 1.5 | 28.7 |  |  | 56.4 |  |
| Short-term debt |  |  |  |  |
| 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 | 0.7 | 299.2 |  |  | 893.6 |  |
| Other liabilities |  | 42.1 | 23.0 |  | (294.6) | 65.8 |  |
| Intracompany liabilities |  | 289.3 | ------ | 5.3 |  | 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 |  | 173.9 |  |  |  |  | 173.9 |  |
| Stock, no par value |  | 413.6 | 57.4 |  | (471.0) |  |
| Investment from parent |  |  |  | 0.0 |  |
| Common shares, no par value per |  |  |  |  |  |  |  |  |
| share, $.01 stated value per |  |  |  |  |  |  |  |  |
| share, 21.3 shares issued in |  | 0.2 |  |  |  |  | 0.2 |  |
| 1999 |  |  |  |  |  |  |
| Capital in excess of stated |  | 213.9 |  |  |  |  | 213.9 |  |
| value |  | 192.3 | 43.3 |  | (235.6) |  |
| Retained earnings |  | 130.1 |  | 130.1 |  |
| Treasury stock, 2.9 shares at |  | (61.9) |  |  |  |  | (61.9) |  |
| cost |  |  |  |  |  |  |
| Accumulated other comprehensive |  | (4.2) |  | (8.7) |  |  | (12.9) |  |
| income |  | ------ | --------- | |  |
| Total shareholders' equity | -------- | | ------ | -------- |  |
|  | 452.0 | 605.9 | 92.0 |  | (706.6) | 443.3 |  |
| Total liabilities and | -------- | | ------ | ------ | --------- | | -------- |  |
| $1,540.0 | | $704.6 | $526.2 | $(1,001.2) | | $1,769.6 |  |
| shareholders' equity |  |
|  | ======== | | ====== | ====== | ========= | | ======== |  |

----

104

105

THE SCOTTS COMPANY

STATEMENT OF OPERATIONS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998

(IN MILLIONS)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Parent | Subsidiary | Non- | Eliminations | Consolidated | |  |
|  | Guarantors | Guarantors |  |
| - -------------------------------------------------------- | | |  |  |  |  |  |
| 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 | 0.1 | 8.8 | 4.0 |  |  | 12.9 |  |
| intangibles |  |  |  |
| Restructuring and other charges | (37.7) | 12.9 | 2.5 | $ 37.7 |  | 15.4 |  |
| Equity income in non-guarantors | 10.3 | 1.3 |  |  |  |
| Intracompany allocations | (11.6) |  |  | 1.3 |  |
| Other expenses, net | 5.7 | (4.7) | 0.3 | ------ |  |  |
| 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 | 0.7 |  |  |  |  | 0.7 |  |
| income tax benefit | ------ | ------ | ------ |  |  |
| Net income | ------ | -------- | |  |
| $ 36.3 | $ 34.2 | $ 3.5 | $(37.7) | $ | 36.3 |  |
|  | ====== | ====== | ====== | ====== | ======== | |  |

----

105

106

THE SCOTTS COMPANY

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998

(IN MILLIONS)

Subsidiary Non-

Parent Guarantors Guarantors Eliminations Consolidated

- -----------------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| CASH FLOWS FROM OPERATING ACTIVITIES | $36.3 | $ 34.2 | $ | 3.5 | $(37.7) | $ | 36.3 |  |
| Net income |  |
| Adjustments to reconcile net income to |  |  |  |  |  |  |  |  |
| net cash provided by operating |  |  |  |  |  |  |  |  |
| activities: | 8.2 | 9.1 |  | 4.3 |  |  | 21.6 |  |
| Depreciation |  |  |  |  |
| Amortization | 2.7 | 9.1 |  | 4.4 | 37.7 |  | 16.2 |  |
| Equity income in non-guarantors | (37.7) |  |  |  |  | 0.7 |  |
| Extraordinary loss | 0.7 | 14.4 |  | 4.9 |  |  |  |
| Restructuring and other charges | 2.2 |  |  |  | 19.3 |  |
| Loss on sale of property | 0.1 |  |  |  |  | 2.3 |  |
| Changes in assets and liabilities, |  |  |  |  |  |  |  |  |
| net of acquired businesses: | (4.8) | (5.7) |  | 1.9 |  |  | (8.6) |  |
| Accounts receivable |  |  |  |  |
| 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 | (19.1) | 10.6 |  | (5.9) |  |  | (14.4) |  |
| Liabilities |  |  |  |  |
| Other assets | (5.8) | 0.3 |  | 1.6 |  |  | 0.3 |  |
| Other liabilities | 4.1 |  |  |  | (0.1) |  |
| Other, net | 2.5 | (2.5) |  | (3.6) | ------ |  | (3.6) |  |
| Net cash (used in) provided by operating | ------ | ------ | ------- | | ------- | |  |
| (10.7) | 71.9 |  | 9.8 |  |  | 71.0 |  |
| activities |  | ------ |  |  |
| CASH FLOWS FROM INVESTING ACTIVITIES | ------ | ------ | ------- | | ------- | |  |
|  |  |  |  |  |  |  |  |
| Investment in property, plant and | (30.9) | (5.0) |  | (5.4) |  |  | (41.3) |  |
| equipment |  |  |  |  |
| Proceeds from sale of equipment | 0.2 | 0.4 |  |  |  |  | 0.6 |  |
| Investments in acquired businesses, net |  | (63.8) |  | (87.6) |  |  | (151.4) |  |
| of cash acquired | ------ |  | ------ |  |  |
| 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 | 67.6 |  |  | 72.4 |  |  | 140.0 |  |
| lines of credit |  |  |  |  |  |
| Dividends on Class A Convertible | (7.3) |  |  |  |  |  | (7.3) |  |
| Preferred Stock |  |  |  |  |  |  |
| Repurchase of common shares | (15.3) | (5.4) |  | 6.7 |  |  | (15.3) |  |
| Investments from parent | (1.3) |  |  |  | 1.0 |  |
| Other, net | 1.0 | ------ | ------- | | ------ |  |  |
| Net cash provided by (used in) financing | ------ | ------- | |  |
| 44.7 | (5.4) |  | 79.1 |  |  | 118.4 |  |
| activities |  |  |  |  |
| Effect of exchange rate changes on cash | ------ | ------ |  | 0.3 | ------ |  | 0.3 |  |
| Net increase (decrease) in cash | ------- | | ------- | |  |
| 3.3 | (1.9) |  | (3.8) |  |  | (2.4) |  |
| Cash and cash equivalents, beginning of | 1.6 | (0.2) |  | 11.6 |  |  | 13.0 |  |
| period |  | ------ |  |  |
| Cash and cash equivalents, end of period | ------ | ------ | ------- | | ------- | |  |
| $ 4.9 | $ (2.1) | $ | 7.8 | $ 0.0 | $ | 10.6 |  |
|  | ====== | ====== | ======= | | ====== | ======= | |  |

----

106

107

THE SCOTTS COMPANY

BALANCE SHEET

AS OF SEPTEMBER 30, 1998

(IN MILLIONS, EXCEPT SHARE INFORMATION)

Subsidiary Non-

Parent Guarantors Guarantors Eliminations Consolidated

- -----------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Current Assets: |  | ASSETS |  |  |  |  |  |
| $ 4.9 | $ (2.1) | $ 7.8 |  | $ | 10.6 |  |
| Cash |  |  |
| 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 | 1.4 |  |  | 20.8 |  |
| Prepaid and other assets | 8.4 | 1.7 | ------- |  | 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 |  | (652.0) |  | 35.9 |  |
| Investment in affiliates | 652.0 | 219.1 | 4.5 |  | 0.0 |  |
| Intracompany assets | ------ | (223.6) |  | 0.0 |  |
| Total assets | ------ | ------ | ------- | -------- | |  |
| 982.3 | 663.4 | 265.1 | (875.6) |  | 1,035.2 |  |
|  | ====== | ====== | ====== | ======= | ======== | |  |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |  |  |  |  |
| Current Liabilities: | 0.3 | 1.2 | 11.8 |  |  | 13.3 |  |
| Short-term debt |  |  |  |
| 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 | 10.2 | 136.2 |  |  | 359.2 |  |
| Other liabilities | 30.1 | (0.1) | (223.6) |  | 40.2 |  |
| Intracompany liabilities | 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 | 177.3 |  |  |  |  | 177.3 |  |
| Stock, no par value | 437.1 | 35.0 | (472.1) |  |  |
| Investment from parent |  |  | 0.0 |  |
| Common shares, no par value per |  |  |  |  |  |  |  |
| share, $.01 stated value per |  |  |  |  |  |  |  |
| share, issued 21.1 shares in | 0.2 |  |  |  |  | 0.2 |  |
| 1998 |  |  |  |  |  |
| Capital in excess of stated value | 208.9 | 140.6 | 39.3 | (179.9) |  | 208.9 |  |
| Retained earnings | 76.6 |  | 76.6 |  |
| Treasury stock, 2.8 shares at cost | (55.9) |  |  |  |  | (55.9) |  |
| Accumulated other comprehensive | (0.2) |  | (3.0) |  |  | (3.2) |  |
| income | ------ | ------- |  |  |
| Total shareholders' equity | ------ | ------ | -------- | |  |
| 406.9 | 577.7 | 71.3 | (652.0) |  | 403.9 |  |
| Total liabilities and shareholders' | ------ | ------ | ------ | ------- | -------- | |  |
| $982.3 | $663.4 | $265.1 | $(875.6) | $1,035.2 | |  |
| equity |  |
|  | ====== | ====== | ====== | ======= | ======== | |  |

----

107

108

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors and Shareholders of The Scotts Company

Our audits of the consolidated financial statements referred to in our report dated October 31, 2000 appearing in Item 14(a)(1) of this Annual Report on Form 10-K, also included an audit of the financial statement schedules listed in Item 14(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICEWATERHOUSECOOPERS LLP

Columbus, Ohio

October 31, 2000

----

108

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 109 |  |  |  |  |  |  |
| SCHEDULE II | THE SCOTTS COMPANY |  |  |  |  |  |
| VALUATION AND QUALIFYING ACCOUNTS | |  |  |  |  |
| FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2000 | | |  |  |  |  |
|  | (IN MILLIONS) |  |  |  |  |  |
| Column A | Column B | Column C | Column D | Column E | Column F |  |
| - -------- | --------- | -------- | --------- | ---------- | --------- |  |
|  | Balance |  | Additions | Deductions | Balance |  |
|  | at | Reserves | Charged | Credited |  |
| Classification | Beginning | to | and | at End |  |
| of Period | Acquired | Expense | Write-Offs | of Period |  |

- --------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Valuation and qualifying accounts | |  |  |  |  |  |
| deducted from the assets to which | |  |  |  |  |  |
| they apply: | $30.5 | $ 0.0 | $ 9.7 | $(20.1) | $20.1 |  |
| Inventory reserve |  |
| Allowance for doubtful accounts | 16.4 | 0.0 | 4.8 | (9.5) | 11.7 |  |
| SCHEDULE II -- | VALUATION AND QUALIFYING ACCOUNTS | |  |  |  |  |
| FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999 | | |  |  |  |  |
|  | (IN MILLIONS) |  |  |  |  |  |
| Column A | Column B | Column C | Column D | Column E | Column F |  |
| - -------- | --------- | -------- | --------- | ---------- | --------- |  |
|  | Balance |  | Additions | Deductions | Balance |  |
|  | at | Reserves | Charged | Credited |  |
| Classification | Beginning | to | and | at End |  |
| of Period | Acquired | Expense | Write-Offs | of Period |  |

- --------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Valuation and qualifying accounts | |  |  |  |  |  |
| deducted from the assets to which | |  |  |  |  |  |
| they apply: | $12.0 | $19.0 | $12.9 | $(13.4) | $30.5 |  |
| Inventory reserve |  |
| Allowance for doubtful accounts | 6.3 | 3.4 | 11.1 | (4.4) | 16.4 |  |
| SCHEDULE II -- | VALUATION AND QUALIFYING ACCOUNTS | |  |  |  |  |
| FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998 | | |  |  |  |  |
|  | (IN MILLIONS) |  |  |  |  |  |
| Column A | Column B | Column C | Column D | Column E | Column F |  |
| - -------- | --------- | -------- | --------- | ---------- | --------- |  |
|  | Balance |  | Additions | Deductions | Balance |  |
|  | at | Reserves | Charged | Credited |  |
| Classification | Beginning | to | and | at End |  |
| of Period | Acquired | Expense | Write-Offs | of Period |  |

- --------------------------------------------------------------------------------------------------

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Valuation and | | qualifying accounts |  |  |  |  |  |  |
| deducted from the assets to which | | |  |  |  |  |  |  |
| they apply: | |  | $11.8 | $ 0.5 | $ 4.8 | $ (5.1) | $12.0 |  |
| Inventory | reserve | |  |
| Allowance | for | doubtful accounts | 5.7 | 0.8 | 2.6 | (2.8) | 6.3 |  |

----

109

110

THE SCOTTS COMPANY

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2000

INDEX TO EXHIBITS

|  |  |  |  |
| --- | --- | --- | --- |
| Exhibit | Description | Location |  |
| No. |  |

- --------------------------------------------------------------------------------------------------------

|  |  |  |
| --- | --- | --- |
| 2(a) | Amended and Restated Agreement and Plan of Merger, |  |
|  | dated as of May 19, 1995, among Stern's Miracle-Gro |  |
|  | Products, Inc., Stern's Nurseries, Inc., |  |
|  | Miracle-Gro Lawn Products, Inc., Miracle-Gro |  |
|  | Products Limited, Hagedorn Partnership, L.P., the |  |
|  | general partners of Hagedorn Partnership, L.P., |  |
|  | Horace Hagedorn, Community Funds, Inc., and John |  |
|  | Kenlon, The Scotts Company (the "Registrant"), and |  |
| 2(b) | ZYX Corporation |  |
| First Amendment to Amended and Restated Agreement |  |
|  | and Plan of Merger, made and entered into as of |  |
|  | October 1, 1999, among the Registrant, Scotts |  |
|  | Miracle-Gro Products, Inc. (as successor to ZYX |  |
|  | Corporation and Stern's Miracle-Gro Products, |  |
|  | Inc.), Miracle-Gro Lawn Products, Inc., Miracle-Gro |  |
|  | Products Limited, Hagedorn Partnership, L.P., |  |
|  | Community Funds, Inc., Horace Hagedorn and John |  |
|  | Kenlon, and James Hagedorn, Katherine Hagedorn |  |
|  | Littlefield, Paul Hagedorn, Peter Hagedorn, Robert |  |
| 2(c) | Hagedorn and Susan Hagedorn |  |
| Master Contract, dated September 30, 1998, by and |  |
|  | between Rhone-Poulenc Agro; the Registrant; Scotts |  |
|  | Celaflor GmbH & Co. K.G.; "David" |  |
|  | Sechsundfunfzigste Beteiligungs und |  |
|  | Verwaltungsgesellschaft GmbH; Rhone-Poulenc Agro |  |
|  | Europe GmbH; Scotts France Holdings S.A.R.L.; |  |
|  | Scotts France S.A.R.L.; and Scotts Belgium 2 |  |
| 2(d) | B.V.B.A. |  |
| Asset Purchase Agreement, dated as of November 11, |  |
|  | 1998, between Monsanto Company (now Pharmacia |  |
|  | Corporation) and the Registrant (replaces and |  |
|  | supersedes Exhibit 2(a) to the Registrant's |  |
|  | Quarterly Report on Form 10-Q for the fiscal |  |
| 2(e)(i) | quarter ended April 3, 1999 (File No. 1-11593))\*\* |  |
| U.S. Asset Purchase Agreement, dated as of March |  |
|  | 29, 2000, by and among The Andersons, Inc. and The |  |
|  | Andersons Agriservices, Inc., as buyers, and the |  |
| 2(e)(ii) | Registrant and OMS Investments, Inc., as sellers |  |
| Canadian Asset Purchase Agreement, dated as of |  |
|  | March 29, 2000, by and among The Nu-Gro |  |
|  | Corporation, as buyer, and the Registrant and OMS |  |
| 3(a) | Investments, Inc., as sellers |  |
| Amended Articles of Incorporation of the Registrant |  |
|  | (reflecting amendments through February 25, 2000) |  |
|  | [for SEC reporting compliance purposes only -- not |  |
|  | filed with the Ohio Secretary of State] |  |

----

110

Incorporated herein by reference to the Registrant's Current Report on Form 8-K dated May 31, 1995 (File No. 0-19768) [Exhibit 2(b)]

Incorporated herein by reference to the Registrant's Current Report on Form 8-K dated October 4, 1999 (File No. 1-11593) [Exhibit 2]

Incorporated herein by reference to the Registrant's Current Report on Form 8-K dated October 22, 1998 (File No. 1-11593) [Exhibit 2]

Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 (File No. 1-11593) [Exhibit 2(d)]

Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2000 (File No. 1-13292) [Exhibit 2(e)(i)] Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2000 (File No. 1-13292) [Exhibit 2(e)(ii)] Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2000 (File No. 1-13292) [Exhibit 3(e)]

|  |  |  |  |
| --- | --- | --- | --- |
| 111 |  |  |  |
| Exhibit | Description | Location |  |
| No. |  |

- --------------------------------------------------------------------------------------------------------

3(b) Regulations of the Registrant (reflecting amendments adopted by the shareholders of the Registrant on April 6, 1995)

4(a) Form of Series A Warrant

4(b) Form of Series B Warrant

4(c) Form of Series C Warrant

4(d) Credit Agreement, dated as of December 4, 1998, by and among the Registrant; OM Scott International Investments Ltd., Miracle Garden Care Limited, Scotts Holdings Limited, Hyponex Corporation, Scotts Miracle-Gro Products, Inc., Scotts-Sierra Horticultural Products Company, Republic Tool & Manufacturing Corp., Scotts-Sierra Investments, Inc., Scotts France Holdings SARL, Scotts Holding GmbH, Scotts Celaflor GmbH & Co. KG, Scotts France SARL, Scotts Belgium 2 BVBA and The Scotts Company (UK) Ltd. as Subsidiary Borrowers; the lenders party thereto; The Chase Manhattan Bank as Administrative Agent; Salomon Smith Barney, Inc. as Syndication Agent; Credit Lyonnais Chicago Branch and NBD Bank as Co-Documentation Agents; and Chase Securities Inc. as Lead Arranger and as Book Manager

4(e) Waiver, dated as of January 19, 1999, to the Credit Agreement, dated as of December 4, 1998, among the Registrant; OM Scott International Investments Ltd., Miracle Garden Care Limited, Scotts Holdings Limited, Hyponex Corporation, Scotts Miracle-Gro Products, Inc., Scotts-Sierra Horticultural Products Company, Republic Tool & Manufacturing Corp., Scotts-Sierra Investments, Inc., Scotts France Holdings SARL, Scotts Holding GmbH, Scotts Celaflor GmbH & Co. KG, Scotts France SARL, Scotts Belgium 2 BVBA, The Scotts Company (UK) Ltd. and other subsidiaries of the Registrant who are also borrowers from time to time; the lenders party thereto; The Chase Manhattan Bank as Administrative Agent; Salomon Smith Barney, Inc. as Syndication Agent; Credit Lyonnais Chicago Branch and NBD Bank as Co-Documentation Agents; and Chase Securities Inc., as Lead Arranger and Book Manager

----

111

Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 1995 (File No. 0-19768) [Exhibit 4(c)] Included in Exhibit 2(a) above

Included in Exhibit 2(a) above Included in Exhibit 2(a) above Incorporated herein by reference to the Registrant's Current Report on Form 8-K dated December 11, 1998 (File No. 1-11593) [Exhibit 4]

Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 (File No. 1-11593) [Exhibit 4(e)]

|  |  |  |  |
| --- | --- | --- | --- |
| 112 |  |  |  |
| Exhibit | Description | Location |  |
| No. |  |

- --------------------------------------------------------------------------------------------------------

4(f) Amendment No. 1 and Consent dated as of October 13, 1999 to the Credit Agreement, dated as of December 4, 1998, as amended by the Waiver, dated as of January 19, 1999, among the Registrant; OM Scott International Investments Ltd., Miracle Garden Care Limited, Scotts Holdings Limited, Hyponex Corporation, Scotts Miracle-Gro Products, Inc., Scotts-Sierra Horticultural Products Company, Republic Tool & Manufacturing Corp., Scotts-Sierra Investments, Inc. Scotts France Holdings SARL, Scotts Holding GmbH, Scotts Belgium 2 BVBA, The Scotts Company (UK) LTD., Scotts Canada Ltd., Scotts Europe B.V., ASEF B.V. and other subsidiaries of the Registrant who are also borrowers from time to time; the lenders party thereto; The Chase Manhattan Bank as Administrative Agent; Salomon Smith Barney, Inc. as Syndication Agent; Credit Lyonnais Chicago and NBD Bank as Co-Documentation Agents; and Chase Securities Inc. as Lead Arranger and Book Manager

4(g) Waiver No. 2, dated as of February 14, 2000, to the Credit Agreement, dated as of December 4, 1998, as amended by the Waiver, dated as of January 19, 1999, and the Amendment No. 1 and Consent, dated as of October 13, 1999, among the Registrant; OM Scott International Investments Ltd., Miracle Garden Care Limited, Scotts Holdings Limited, Hyponex Corporation, Scotts Miracle-Gro Products, Inc., Scotts-Sierra Horticultural Products Company, Republic Tool & Manufacturing Corp., Scotts-Sierra Investments, Inc., Scotts France Holdings SARL, Scotts Holding GmbH, Scotts Celaflor GmbH & Co. KG, Scotts France SARL, Scotts ASEF BVBA (fka Scotts Belgium 2 BVBA), The Scotts Company (UK) Ltd., Scotts Canada Ltd., Scotts Europe B.V., ASEF B.V., Scotts Australia PTY Ltd., and other subsidiaries of the Registrant who are also borrowers from time to time; the lenders party thereto; The Chase Manhattan Bank as Administrative Agent; Salomon Smith Barney, Inc. as Syndication Agent; Credit Lyonnais Chicago Branch and Bank One, Michigan, as successor to NBD Bank, as Co-Documentation Agents; and Chase Securities Inc., as Lead Arranger and Book Manager

----

112

Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 (File No. 1-11593) [Exhibit 4(f)]

Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2000 (File No. 1-13292) [Exhibit 4(h)]

|  |  |  |  |
| --- | --- | --- | --- |
| 113 |  |  |  |
| Exhibit | Description | Location |  |
| No. |  |

- --------------------------------------------------------------------------------------------------------

4(h) Amendment No. 2, dated as of June 9, 2000, to the Credit Agreement, dated as of December 4, 1998, as amended by the Waiver, dated as of January 19, 1999, the Amendment No. 1 and Consent, dated as of October 13, 1999, and the Waiver No. 2, dated as of February 14, 2000, among the Registrant; OM Scott International Investments Ltd., Miracle Garden Care Limited, Scotts Holdings Limited, Hyponex Corporation, Scotts Miracle-Gro Products, Inc., Scotts-Sierra Horticultural Products Company, Republic Tool & Manufacturing Corp., Scotts-Sierra Investments, Inc., Scotts France Holdings SARL, Scotts Holding GmbH, Scotts Celaflor GmbH & Co. KG, Scotts France SARL, Scotts ASEF BVBA (fka Scotts Belgium 2 BVBA), The Scotts Company (UK) Ltd., Scotts Canada Ltd., Scotts Europe B.V., ASEF B.V., Scotts Australia PTY Ltd., and other subsidiaries of the Registrant who are also borrowers from time to time; the lenders party thereto; The Chase Manhattan Bank as Administrative Agent; Salomon Smith Barney, Inc. as Syndication Agent; Credit Lyonnais Chicago Branch and Bank One, Michigan, as successor to NBD Bank, as Co-Documentation Agents; and Chase Securities Inc., as Lead Arranger and Book Manager

4(i) Amended and Restated Credit Agreement, dated as of December 5, 2000, among the Registrant, as Borrower; the subsidiaries of the Registrant who are also borrowers from time to time; the lenders party thereto; Salomon Smith Barney Inc., as Syndication Agent; Credit Lyonnais New York Branch, as Co-Documentation Agent; Bank One, Michigan, as successor to NBD Bank, as Co-Documentation Agent; The Chase Manhattan Bank as Administrative Agent; and Chase Securities Inc., as Lead Arranger and Book Manager

4(j) Indenture dated as of January 21, 1999 between The Scotts Company and State Street Bank and Trust Company, as Trustee

10(a) The O.M. Scott & Sons Company Excess Benefit Plan, effective October 1, 1993

10(b) The Scotts Company 1992 Long Term Incentive Plan (as amended through May 15, 2000)

10(c) The Scotts Company 2000 Executive Annual Incentive Plan

----

113

Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2000 (File No. 1-13292) [Exhibit 4(i)]

\*

Incorporated herein by reference to the Registrant's Registration Statement on Form S-4 filed on April 21, 1999 (Registration No. 333-76739) [Exhibit 4] Incorporated herein by reference to the Annual Report on Form 10-K for the fiscal year ended September 30, 1993, of The Scotts Company, a Delaware corporation (File No. 0-19768) [Exhibit 10(h)] Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2000 (File No. 1-13292) [Exhibit 10(b)] \*

|  |  |  |  |
| --- | --- | --- | --- |
| 114 |  |  |  |
| Exhibit | Description | Location |  |
| No. |  |

- --------------------------------------------------------------------------------------------------------

10(d) The Scotts Company 1996 Stock Option Plan (as amended through May 15, 2000)

10(e) Specimen form of Stock Option Agreement (as amended through August 1, 2000) for Non-Qualified Stock Options granted to employees under The Scotts Company 1996 Stock Option Plan

10(f) The Scotts Company Executive Retirement Plan

10(g) The Scotts Company Millennium Growth Plan (effective October 1, 1999)

10(h) Employment Agreement, dated as of August 7, 1998, between the Registrant and Charles M. Berger, and three attached Stock Option Agreements with the following effective dates: September 23, 1998, October 21, 1998 and September 24, 1999

10(i) Stock Option Agreement, dated as of August 7, 1996, between the Registrant and Charles M. Berger

10(j) Employment Agreement, dated as of May 19, 1995, between the Registrant and James Hagedorn

10(k) Letter Agreement, dated December 23, 1996, between the Registrant and Jean H. Mordo

10(l) Termination Letter Agreement, dated November 6, 2000, between the Registrant and Jean H. Mordo

10(m) Letter Agreement, dated April 10, 1997, between the Registrant and G. Robert Lucas

10(n) Letter Agreement, dated December 17, 1997, between the Registrant and William R. Radon

----

114

Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2000 (File No. 1-13292) [Exhibit 10(d)] Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2000 (File No. 1-13292) [Exhibit 10(l)] Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 (File No. 1-11593) [Exhibit 10(j)] Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2000 (File No. 1-13292) [Exhibit 10(w)] Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 (File No. 1-11593) [Exhibit 10(n)]

Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1996 (File No. 1-11593) [Exhibit 10(m)] Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1995 (File No. 1-11593) [Exhibit 10(p)] Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1997 (File No. 1-11593) [Exhibit 10(p)] \*

Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1997 (File No. 1-11593) [Exhibit 10(r)] Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 (File No. 1-11593) [Exhibit 10(s)]

|  |  |  |  |
| --- | --- | --- | --- |
| 115 |  |  |  |
| Exhibit | Description | Location |  |
| No. |  |

- --------------------------------------------------------------------------------------------------------

10(o) Letter Agreement, dated March 30, 1998, between the Registrant and William A. Dittman

10(p) Letter Agreement, dated March 16, 1999, between the Registrant and Hadia Lefavre

10(q) Letter Agreement, dated June 8, 2000, between the Registrant and Patrick J. Norton

10(r) Contract of Employment, dated February 28, 1986, between Rhodic (assumed by Scotts France SAS) and Christian Ringuet

10(s) Employment Agreement, dated August 1, 1995, between Scotts Europe B.V. (now Scotts International B.V.) and Laurens J.M. de Kort

10(t) Service Agreement, dated September 9, 1998, between Levington Horticulture Limited (nka The Scotts Company (UK) Ltd.) and Nicholas Kirkbride

10(u) Exclusive Distributor Agreement -- Horticulture, effective as of June 22, 1998, between the Registrant and AgrEvo USA

10(v) Amended and Restated Exclusive Agency and Marketing Agreement, dated as of September 30, 1998, between Monsanto Company (now Pharmacia Corporation) and the Registrant (replaces and supersedes Exhibit

2(b) to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 1999 (File No. 1-11593))\*\*

21 Subsidiaries of the Registrant

1. Consent of Independent Accountants
2. Financial Data Schedule

Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 (File No. 1-11593) [Exhibit 10(t)] Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 (File No. 1-11593) [Exhibit 10(p)] \*

Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 (File No. 1-11593) [Exhibit 10(r)] Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 (File No. 1-11593) [Exhibit 10(s)] Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 (File No. 1-11593) [Exhibit 10(t)] Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 (File No. 1-11593) [Exhibit 10(v)] Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 (File No. 1-11593) [Exhibit 10(v)]

\*

\*

\*

* ---------------

\* Filed herewith.

* + Certain portions of this Exhibit have been omitted based upon an Order Granting Confidential Treatment from the Securities and Exchange Commission ("SEC"), dated March 17, 2000, extending through December 1, 2001.

----

115

1

EXHIBIT 4(i)

Amended and Restated Credit Agreement, dated as of

December 5, 2000, among

the Registrant, as Borrower;

the subsidiaries of the Registrant who are

also borrowers from time to time;

the lenders party thereto;

SALOMON SMITH BARNEY INC.,

as Syndication Agent;

CREDIT LYONNAIS NEW YORK BRANCH,

as Co-Documentation Agent;

BANK ONE, MICHIGAN, as successor to NBD BANK,

as Co-Documentation Agent;

THE CHASE MANHATTAN BANK,

as Administrative Agent; and

CHASE SECURITIES INC., as Lead Arranger and Book Manager

2

================================================================================

AMENDED AND RESTATED CREDIT AGREEMENT

among

THE SCOTTS COMPANY,

as Borrower,

The Subsidiary Borrowers Party Hereto,

The Several Lenders From Time to Time Party Hereto,

SALOMON SMITH BARNEY INC.,

as Syndication Agent

CREDIT LYONNAIS NEW YORK BRANCH,

as Co-Documentation Agent,

BANK ONE, MICHIGAN, as successor to NBD BANK,

as Co-Documentation Agent,

and

THE CHASE MANHATTAN BANK,

as Administrative Agent

-----------------------------------------

Dated as of December 5, 2000

-----------------------------------------

================================================================================

3

CHASE SECURITIES INC.,

as Lead Arranger and as Book Manager

TABLE OF CONTENTS

PAGE

1. Amendment and Restatement.

-------------------------

1. Defined Terms.

-------------

1. Amendments to Credit Agreement.

------------------------------

|  |  |  |
| --- | --- | --- |
| 1. | Amendments to Subsection 1.1 of the Credit Agreement................................... | 5 |
|  | ---------------------------------------------------- |  |
| 2. | Amendment to Section 2 of the Credit Agreement......................................... | 8 |
|  | ---------------------------------------------- |  |
| 3. | Amendment to Subsection 2.2 of the Credit Agreement.................................... | 8 |
|  | --------------------------------------------------- |  |
| 4. | Amendment to Subsection 2.3 of the Credit Agreement.................................... | 9 |
|  | --------------------------------------------------- |  |
| 5. | Amendment to Subsection 2.9 of the Credit Agreement................................... | 10 |
|  | --------------------------------------------------- |  |
| 6. | Amendment to Subsection 2.11(b) of the Credit Agreement............................... | 10 |
|  | ------------------------------------------------------- |  |
| 7. | Amendment to Subsection 2.12(g) of the Credit Agreement............................... | 10 |
|  | ------------------------------------------------------- |  |
| 8. | Amendment to Subsection 2.18(a) of the Credit Agreement............................... | 11 |
|  | ------------------------------------------------------- |  |
| 9. | Amendment To Subsection 2.18(c) Of The Credit Agreement............................... | 11 |
|  | ------------------------------------------------------- |  |
| 10. | Amendments to Subsection 2.22(c) of the Credit Agreement.............................. | 11 |
|  | -------------------------------------------------------- |  |
| 11. | Amendment to Subsection 2.24 of the Credit Agreement.................................. | 11 |
|  | ---------------------------------------------------- |  |
| 12. | Amendment to Subsection 2.28(a) of the Credit Agreement............................... | 12 |
|  | ------------------------------------------------------- |  |
| 13. | Amendment to Subsection 4.9 of the Credit Agreement................................... | 12 |
|  | --------------------------------------------------- |  |
| 14. | Amendment to Subsection 4.23 of the Credit Agreement.................................. | 12 |
|  | ---------------------------------------------------- |  |
| 15. | Amendment to Subsection 6.11 of the Credit Agreement.................................. | 12 |
|  | ---------------------------------------------------- |  |
| 16. | Amendment to Subsection 9.2 of the Credit Agreement................................... | 12 |
|  | --------------------------------------------------- |  |
| 17. | Amendment to Subsection 9.9 of the Credit Agreement................................... | 13 |
|  | --------------------------------------------------- |  |
| 18. | Amendment to Subsection 10.6(c) of the Credit Agreement............................... | 13 |
|  | ------------------------------------------------------- |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | 4 |  |  |
|  | 19. | Amendment to Annex A to the Credit Agreement.......................................... | 13 |
|  |  | -------------------------------------------- |  |
|  | 20. | Schedule 1A to the Credit Agreement................................................... | 13 |
|  |  | ----------------------------------- |  |
|  | 21. | Form of New Lender Supplement......................................................... | 13 |
|  |  | ----------------------------- |  |
|  | 22. | Amendment to Exhibit L of the Credit Agreement........................................ | 13 |
|  |  | ---------------------------------------------- |  |
|  | 23. | Prepayment Pursuant to Subsection 2.12(f) of the Credit Agreement..................... | 13 |
|  |  | ----------------------------------------------------------------- |  |
|  | 24. | Consent to Amendment to Subsection 1.1 of the Intercreditor Agreement................. | 13 |
|  |  | --------------------------------------------------------------------- |  |
|  | 25. | Consent to Execution and Delivery of Acknowledgment and Confirmation.................. | 14 |
|  |  | -------------------------------------------------------------------- |  |
| IV. | Representations And Warranties. | |  |
|  | ------------------------------ | |  |
|  | 1. | General............................................................................... | 14 |
|  |  | ------- |  |
|  | 2. | Financial Condition................................................................... | 14 |
|  |  | ------------------- |  |

1. Conditions To Effectiveness Of This Amendment And Restatement.

-------------------------------------------------------------

|  |  |  |
| --- | --- | --- |
| 1. | Execution of Agreement................................................................ | 15 |
|  | ---------------------- |  |
| 2. | Commitment Increase Supplements and New Lender Supplements............................ | 15 |
|  | ---------------------------------------------------------- |  |

1. Acknowledgment and Confirmation of Guarantee and Collateral Agreements and

--------------------------------------------------------------------------

|  |  |  |
| --- | --- | --- |
|  | Intercreditor Agreement............................................................... | 15 |
|  | ----------------------- |  |
| 4. | Consent............................................................................... | 15 |
|  | ------- |  |
| 5. | Notes................................................................................. | 15 |
|  | ----- |  |
| 6. | Financial Statements.................................................................. | 16 |
|  | -------------------- |  |
| 7. | Fees.................................................................................. | 16 |
|  | ---- |  |
| 8. | Business Plan......................................................................... | 16 |
|  | ------------- |  |
| 9. | Legal Opinion of Counsel to the Borrower and the Domestic Subsidiary Borrowers........ | 16 |
|  | ------------------------------------------------------------------------------ |  |
| 10. | Corporate Proceedings of the Borrower and Its Subsidiaries............................ | 16 |
|  | ---------------------------------------------------------- |  |
| 11. | No Proceeding or Litigation; No Injunctive Relief..................................... | 17 |
|  | ------------------------------------------------- |  |
| 12. | Consents, Licenses, Approvals, Etc.................................................... | 17 |
|  | ----------------------------------- |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | 5 |  |  |
|  | 13. | Representations and Warranties........................................................ | 17 |
|  |  | ------------------------------ |  |
|  | 14. | No Default or Event of Default........................................................ | 18 |
|  |  | ------------------------------ |  |
|  | 15. | Borrowing Certificate................................................................. | 18 |
|  |  | --------------------- |  |
|  | 16. | Additional Matters.................................................................... | 18 |
|  |  | ------------------ |  |
|  | 17. | Additional Information................................................................ | 18 |
|  |  | ---------------------- |  |
| VI. | General Provisions. | |  |
|  | ------------------ |  |  |
|  | 1. | Continuing Effect; No Other Amendments................................................ | 18 |
|  |  | -------------------------------------- |  |
|  | 2. | Expenses.............................................................................. | 18 |
|  |  | -------- |  |
|  | 3. | New Tranche B Term Lenders............................................................ | 18 |
|  |  | -------------------------- |  |
|  | 4. | GOVERNING LAW......................................................................... | 19 |
|  |  | ------------- |  |
|  | 5. | Counterparts.......................................................................... | 19 |
|  |  | ------------ |  |
|  | 6. | No Recourse to Officers............................................................... | 19 |
|  |  | ----------------------- |  |

6

AMENDED AND RESTATED CREDIT AGREEMENT, dated as of December 5, 2000 (this "AMENDMENT AND RESTATEMENT") of the Credit Agreement, dated as of December 4, 1998, as amended by the Waiver, dated as of January 19, 1999, the Amendment No. 1 and Consent, dated as of October 13, 1999, the Waiver No. 2, dated as of February 14, 2000 and the Amendment No. 2, dated as of June 9, 2000 (the "CREDIT AGREEMENT"), among THE SCOTTS COMPANY, an Ohio corporation (the "BORROWER" or "SCOTTS"), OM Scott International Investments Ltd., Miracle Garden Care Limited, Scotts Holdings Limited, Hyponex Corporation, Scotts Manufacturing Company, Scotts-Sierra Horticultural Products Company, Republic Tool & Manufacturing Corp., Scotts-Sierra Investments, Inc., Scotts France Holdings SARL, Scotts Holding GmbH, Scotts Celaflor GmbH & Co. KG, Scotts France SARL, Scotts Belgium BVBA, The Scotts Company (UK) Ltd., Scotts Canada Ltd., Scotts International B.V., ASEF B.V., Scotts Australia PTY Ltd., and the other subsidiaries of the Borrower who are also borrowers from time to time under the Credit Agreement (the "SUBSIDIARY BORROWERS"), the several banks and other financial institutions from time to time parties to the Credit Agreement (the "LENDERS"), THE CHASE MANHATTAN BANK, a New York banking corporation (together with its banking affiliates, "CHASE"), as agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT"), SALOMON SMITH BARNEY, INC., as syndication agent (the "SYNDICATION AGENT"), CREDIT LYONNAIS NEW YORK BRANCH (together with its banking affiliates, "CREDIT LYONNAIS") and BANK ONE, MICHIGAN, as successor to NBD BANK, as co-documentation agents (the "CO-DOCUMENTATION AGENTS"), and Chase Securities Inc., as lead arranger (the "LEAD ARRANGER") and as the book manager (the "BOOK MANAGER").

W I T N E S S E T H :

- - - - - - - - - -

WHEREAS, the Borrower wishes to amend and restate certain provisions contained in the Credit Agreement as set forth herein; and

WHEREAS, the Lenders and the Administrative Agent consent to the proposed amendments and restatements on and subject to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, the parties hereto agree as follows:

I. AMENDMENT AND RESTATEMENT. The parties hereto hereby agree that the Credit Agreement shall be amended and restated by incorporating the Credit Agreement by reference herein with the amendments thereto as expressly set forth herein.

1. DEFINED TERMS. Unless otherwise defined herein, capitalized terms have the meanings given to them in the Credit Agreement.

III. AMENDMENTS TO CREDIT AGREEMENT.

1. AMENDMENTS TO SUBSECTION 1.1 OF THE CREDIT AGREEMENT.

1. Subsection 1.1 of the Credit Agreement is hereby amended by adding the following definitions in appropriate alphabetical order:

7

"ACCEPTING LENDERS" shall have the meaning set forth in subsection 2.12(g).

"AMENDMENT AND RESTATEMENT" shall mean this Amended and Restated Credit Agreement, dated as of December 5, 2000.

"AMENDMENT AND RESTATEMENT EFFECTIVE DATE" shall have the meaning set forth in Section V of the Amendment and Restatement.

"NEW LENDER SUPPLEMENT" shall have the meaning set forth in subsection 2.28(a).

"NEW REVOLVING CREDIT LENDER" shall have the meaning set forth in subsection 2.28(a).

"NEW TRANCHE B PREPAYMENT AMOUNT" shall have the meaning set forth in subsection 2.12(g).

"NEW TRANCHE B TERM COMMITMENT" shall mean as to any New Tranche B Term Lender, the obligation of such Lender to make a New Tranche B Term Loan to the Borrower hereunder in a principal amount not to exceed the amount set forth under the heading "New Tranche B Term Commitment" opposite such Lender's name on Schedule 1A. The original aggregate amount of the New Tranche B Term Commitments is $260,000,000.

"NEW TRANCHE B TERM LENDER" shall mean each Lender that has a New Tranche B Term Commitment or that holds a New Tranche B Term Loan.

"NEW TRANCHE B TERM LOAN" shall have the meaning set forth in

subsection 2.1A.

"NEW TRANCHE B TERM LOAN TERMINATION DATE" shall mean December

31, 2007.

"NEW TRANCHE B TERM PERCENTAGE" shall mean as to any Lender at any time, the percentage which such Lender's New Tranche B Term Commitment then constitutes of the aggregate New Tranche B Term Commitments (or, at any time after the Amendment and Restatement Effective Date, the percentage which the aggregate principal amount of such Lender's New Tranche B Term Loans then outstanding constitutes of the aggregate principal amount of the New Tranche B Term Loans then outstanding).

"PREPAYMENT DATE" shall have the meaning set forth in subsection 2.13(g).

"PREPAYMENT OPTION NOTICE" shall have the meaning set forth in subsection 2.13(g).

"2000 CONFIDENTIAL INFORMATION MEMORANDUM" shall mean the confidential information memorandum distributed to the Lenders, dated November 2000.

1. Subsection 1.1 of the Credit Agreement is hereby further amended by deleting the definitions of "Agreement", "Applicable Margin", "Commitment", "Facility", "Facility Fee Rate", "Fee Letter", "Revolving Credit Commitment", "Term Commitment", "Term Lenders",

8

"Term Loans", "Term Loan Notes" and "Termination Date" in their respective entireties, and substituting in lieu thereof the following definitions:

"AGREEMENT" shall mean this Credit Agreement, as amended, supplemented or otherwise modified prior to the Amendment and Restatement Effective Date, as amended and restated by the Amendment and Restatement, and as the same may be amended, supplemented or otherwise modified from time to time.

"APPLICABLE MARGIN" shall mean for each Type of Loan, the rate per annum set forth under the relevant column heading in the Pricing Grid.

"COMMITMENT" shall mean as to any Lender (i) from the period commencing on the Closing Date and ending immediately prior to the Amendment and Restatement becoming effective in accordance with its terms, the sum of the Tranche A Term Commitment, the Tranche B Term Commitment, the Tranche C Term Commitment and the Revolving Credit Commitment of such Lender and (ii) thereafter, the sum of the Tranche A Term Commitment, the New Tranche B Term Commitment and the Revolving Credit Commitment of such Lender.

"FACILITY" shall mean (i) from the period commencing on the Closing Date and ending immediately prior to the Amendment and Restatement becoming effective in accordance with its terms, each of (a) the Tranche A Term Commitments and the Tranche A Term Loans made thereunder (the "TRANCHE A TERM FACILITY"), (b) the Tranche B Term Commitments and the Tranche B Term Loans made thereunder (the "TRANCHE B TERM FACILITY"), (c) the Tranche C Term Commitments and the Tranche C Term Loans made thereunder (the "TRANCHE C TERM FACILITY") and

1. the Revolving Commitments and the extensions of credit made thereunder (the "REVOLVING FACILITY") and (ii) thereafter, each of (a) the Tranche A Term Facility, (b) the New Tranche B Term Commitments and the New Tranche B Term Loans made thereunder (the "NEW TRANCHE B TERM FACILITY") and (c) the Revolving Facility.

"FACILITY FEE RATE" shall mean the rate per annum set forth under the relevant column heading in the Pricing Grid.

"FEE LETTER" shall mean the letter, dated as of November 3, 2000, from the Administrative Agent and CSI to the Borrower.

"REVOLVING CREDIT COMMITMENT" shall mean as to any Lender, the

obligation of such Lender, if any, to make Revolving Credit Loans and

participate in Swingline Loans and Letters of Credit in an aggregate principal

and/or face amount not to exceed the amount set forth under the heading

"Revolving Credit Commitment" opposite such Lender's name on Schedule 1 or in

the Assignment and Acceptance pursuant to which such Lender became a party

hereto, as the same may be changed from time to time pursuant to the terms

hereof. The original amount of the Total Revolving Credit Commitments was

$500,000,000 and, as of the Amendment and Restatement Effective Date, the amount

of the Total Revolving Credit Commitments, as increased pursuant to subsection

2.28, shall be $575,000,000.

9

"TERM COMMITMENTS" shall mean (i) during the period commencing on the Closing Date and ending immediately prior to the Amendment and Restatement becoming effective in accordance with its terms, the collective reference to the Tranche A Term Commitments, the Tranche B Term Commitments and the Tranche C Term Commitments and (ii) thereafter, the collective reference to the Tranche A Term Commitments and the New Tranche B Term Commitments.

"TERM LENDERS" shall mean (i) during the period commencing on the Closing Date and ending immediately prior to the Amendment and Restatement becoming effective in accordance with its terms, the collective reference to the Tranche A Term Lenders, the Tranche B Term Lenders and the Tranche C Term Lenders and (ii) thereafter, the collective reference to the Tranche A Term Lenders and the New Tranche B Term Lenders.

"TERM LOANS" shall mean (i) during the period commencing on the Closing Date and ending immediately prior to the Amendment and Restatement becoming effective in accordance with its terms, the collective reference to the Tranche A Term Loans, Tranche B Term Loans and Tranche C Term Loans and (ii) thereafter, the collective reference to the Tranche A Term Loans and the New Tranche B Term Loans.

"TERM LOAN NOTES" shall mean (i) during the period commencing on the Closing Date and ending immediately prior to the Amendment and Restatement becoming effective in accordance with its terms, the collective reference to any and all Notes in respect of the Tranche A Term Loans, Tranche B Term Loans and Tranche C Term Loans and (ii) thereafter, the collective reference to any and all Notes in respect of the Tranche A Term Loans and the New Tranche B Term Loans.

"TERMINATION DATE" shall mean the Tranche A Term Loan Termination Date, the Tranche B Term Loan Termination Date, the Tranche C Term Loan Termination Date, the New Tranche B Term Loan Termination Date or the Revolving Credit Termination Date, as the context requires.

1. AMENDMENT TO SECTION 2 OF THE CREDIT AGREEMENT. (a) Section 2 of the Credit Agreement is hereby amended by adding the following new subsection 2.1A immediately after subsection 2.1 thereof:

"2.1A NEW TRANCHE B TERM COMMITMENTS. Subject to the terms and conditions hereof each New Tranche B Term Lender severally agrees to make a term loan (a "NEW TRANCHE B TERM LOAN") in Dollars to the Borrower on the Amendment and Restatement Effective Date in an amount not to exceed the amount of the New Tranche B Term Commitment of such Lender. The New Tranche B Term Loans may from time to time be LIBOR Loans or ABR Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with subsections 2.2(b) and 2.14."

1. AMENDMENT TO SUBSECTION 2.2 OF THE CREDIT AGREEMENT. Subsection 2.2 of the Credit Agreement is hereby amended by:

10

1. adding the following new paragraph (b) immediately after

paragraph (a) thereof:

"(b) The Borrower may borrow under the New Tranche B Term Commitments on the Amendment and Restatement Effective Date; PROVIDED that the Borrower shall give the Administrative Agent irrevocable notice ((1) which notice must be received by the Administrative Agent prior to 11:00 A.M., New York City time on the Amendment and Restatement Effective Date, in the case of ABR Loans and (2) which notice must be received by the Administrative Agent prior to 11:00 A.M., New York City time three Business Days prior to the Amendment and Restatement Effective Date, in the case of LIBOR Loans in Dollars), specifying (i) the amount to be borrowed, (ii) the requested Borrowing Date, (iii) whether the borrowing is to be an ABR Loan or a LIBOR Loan or a combination thereof, (iv) if the borrowing is to be entirely or partly a LIBOR Loan, the amount to be a LIBOR Loan and (v) the length of the Interest Period for such LIBOR Loan. Each ABR borrowing by the Borrower pursuant to the New Tranche B Term Commitments shall be in an aggregate principal amount equal to $1,000,000 or a whole multiple of $500,000 in excess thereof. Each LIBOR borrowing in Dollars by the Borrower pursuant to the New Tranche B Term Commitments shall be in an aggregate principal amount equal to $1,000,000 or a whole multiple of $1,000,000 in excess thereof."

(ii) by renaming paragraph (b) thereof as paragraph (c).

1. AMENDMENT TO SUBSECTION 2.3 OF THE CREDIT AGREEMENT. Subsection 2.3 of the Credit Agreement is hereby amended by adding the following new paragraph (d) immediately after paragraph (c) thereof:

"(d) The New Tranche B Term Loan of each New Tranche B Term Lender shall mature in 27 consecutive quarterly installments, commencing on June 30, 2001, each of which shall be in an amount equal to such Lender's New Tranche B Term Percentage multiplied by the amount set forth below opposite such installment.

|  |  |  |
| --- | --- | --- |
| Installment | | Principal Amount |
| ----------- | | ---------------- |
| June 30, | 2001 | $250,000 |
| September 30, 2001 | | $250,000 |
| December | 31, 2001 | $250,000 |
| March 31, 2002 | | $250,000 |
| June 30, | 2002 | $250,000 |
| September 30, 2002 | | $250,000 |
| December | 31, 2002 | $250,000 |
| March 31, 2003 | | $250,000 |
| June 30, | 2003 | $250,000 |
| September 30, 2003 | | $250,000 |

11

|  |  |  |
| --- | --- | --- |
| Installment | | Principal Amount |
| ----------- | | ---------------- |
| December | 31, 2003 | $250,000 |
| March 31, 2004 | | $250,000 |
| June 30, | 2004 | $250,000 |
| September 30, 2004 | | $250,000 |
| December | 31, 2004 | $250,000 |
| March 31, 2005 | | $250,000 |
| June 30, | 2005 | $250,000 |
| September 30, 2005 | | $250,000 |
| December | 31, 2005 | $250,000 |
| March 31, 2006 | | $250,000 |
| June 30, | 2006 | $250,000 |
| September 30, 2006 | | $250,000 |
| December | 31, 2006 | $250,000 |
| March 31, 2007 | | $63,500,000 |
| June 30, | 2007 | $63,500,000 |
| September 30, 2007 | | $63,500,000 |
| December | 31, 2007 | $63,750,000 |

1. AMENDMENT TO SUBSECTION 2.9 OF THE CREDIT AGREEMENT. Subsection 2.9 of the Credit Agreement is hereby amended by deleting the final sentence of such subsection and substituting in lieu thereof the following:

"The Borrower also agrees to pay to the Agents, without duplication, (i) the fees described in the Commitment Letter, dated October 16, 1998, from the Agents, CSI and Salomon Brothers Holding Company to the Borrower and (ii) the fees described in the Fee Letter."

1. AMENDMENT TO SUBSECTION 2.11(b) OF THE CREDIT AGREEMENT. Subsection 2.11(b) of the Credit Agreement is hereby amended by deleting such subsection in its entirety.
2. AMENDMENT TO SUBSECTION 2.12(g) OF THE CREDIT AGREEMENT. Subsection 2.12(g) of the Credit Agreement is hereby amended by deleting such subsection in its entirety and substituting in lieu thereof the following:

"(g) Notwithstanding anything to the contrary in subsection 2.12(f) or 2.18, with respect to the amount of any optional prepayment described in subsection 2.11 that is allocated to New Tranche B Term Loans (such amount, the "NEW TRANCHE B PREPAYMENT AMOUNT"), at any time when Tranche A Term Loans remain outstanding, the Borrower will, in lieu of applying such amount to the prepayment of New Tranche B Term Loans, as provided in paragraph (f) above, on the date specified in subsection 2.11 for such prepayment, give the Administrative Agent telephonic notice (promptly confirmed in writing) requesting that the Administrative

12

Agent prepare and provide to each New Tranche B Term Lender a notice (each, a "PREPAYMENT OPTION NOTICE") as described below. As promptly as practicable after receiving such notice from the Borrower, the Administrative Agent will send to each New Tranche B Term Lender a Prepayment Option Notice, which shall be in the form of Exhibit L, and shall include an offer by the Borrower to prepay on the date (each a "PREPAYMENT DATE") that is 10 Business Days after the date of the Prepayment Option Notice, the relevant Term Loans of such Lender by an amount equal to the portion of the New Tranche B Prepayment Amount indicated in such Lender's Prepayment Option Notice as being applicable to such Lender's New Tranche B Term Loans. On the Prepayment Date, (i) the Borrower shall pay to the relevant New Tranche B Term Lenders the aggregate amount necessary to prepay that portion of the outstanding relevant Term Loans in respect of which such Lenders have accepted prepayment as described above (such Lenders, the "ACCEPTING LENDERS") and (ii) the Borrower shall pay to the Tranche A Lenders an amount equal to the portion of the New Tranche B Prepayment Amount not accepted by the Accepting Lenders, and such amount shall be applied to the prepayment of the Tranche A Term Loans; PROVIDED that each Tranche A French Subtranche Term Loan Lender and each Tranche A German Subtranche Term Loan Lender may refuse in accordance with a procedure adopted by the Administrative Agent similar to that set forth above for the application of any portion of such New Tranche B Prepayment Amount to the prepayments of such Term Loans."

1. AMENDMENT TO SUBSECTION 2.18(a) OF THE CREDIT AGREEMENT. Subsection 2.18(a) of the Credit Agreement is hereby amended by deleting therefrom the phrase "Tranche B Term Percentages, Tranche C Term Percentages" and substituting in lieu thereof the phrase "New Tranche B Term Percentages".
2. AMENDMENT TO SUBSECTION 2.18(c) OF THE CREDIT AGREEMENT. Subsection 2.18(c) of the Credit Agreement is hereby amended by (i) deleting the phrase "the Tranche B Term Loans and the Tranche C Term Loans" wherever it appears therein and substituting in lieu thereof the phrase "New Tranche B Term Loans" or the phrase "and the New Tranche B Term Loans" as the context requires and (ii) deleting subsection 2.18(c)(i)(B) in its entirety and substituting in lieu thereof the following:

"(B) if such Asset Sale is of any other assets, to the extent that such Term Loans are then outstanding, to the New Tranche B Term Loans and thereafter as provided above."

1. AMENDMENTS TO SUBSECTION 2.22(c) OF THE CREDIT AGREEMENT. Subsection 2.22(c) of the Credit Agreement is hereby amended by deleting therefrom the phrase "Tranche B Term Loans and Tranche C Term Loans" and substituting in lieu thereof the phrase "New Tranche B Term Loans".
2. AMENDMENT TO SUBSECTION 2.24 OF THE CREDIT AGREEMENT. Subsection 2.24 of the Credit Agreement is hereby amended by adding the following paragraph (c) immediately after paragraph (b) thereof:

"(c) The proceeds of the New Tranche B Term Loans on the Amendment and Restatement Effective Date shall be used by the Borrower (i) to refinance the Tranche B Term

13

Loans and the Tranche C Term Loans under the Credit Agreement and (ii) for working capital and other general corporate purposes of the Borrower."

1. AMENDMENT TO SUBSECTION 2.28(a) OF THE CREDIT AGREEMENT. Subsection 2.28 of the Credit Agreement is hereby amended by deleting such subsection in its entirety and substituting in lieu thereof the following:

"2.28 COMMITMENT INCREASES. (a) From time to time the Borrower may, with the consent of the Administrative Agent and one or more (i) of the Revolving Credit Lenders and/or (ii) banks or other financial institutions arranged by CSI in consultation with the Borrower (each such entity a "NEW REVOLVING CREDIT Lender"), increase the Total Revolving Credit Commitments by an aggregate amount of not less than $25,000,000, which increase shall be provided by such Revolving Credit Lenders and/or New Revolving Credit Lenders. Any such increase in the Total Revolving Credit Commitments shall be evidenced by (x) in the case of clause (i) above, the execution and delivery by the Borrower, the Subsidiary Borrowers, the Administrative Agent and such Revolving Credit Lender of a Commitment Increase Supplement, substantially in the form of Exhibit N (a "COMMITMENT INCREASE SUPPLEMENT") and (y) in the case of clause (ii) above, the execution and delivery by the Borrower, the Subsidiary Borrowers, the Administrative Agent and such New Revolving Credit Lender of a New Lender Supplement, substantially in the form of Exhibit O (a "NEW LENDER SUPPLEMENT"), and shall be effective as of the date specified for effectiveness in such Commitment Increase Supplement or New Lender Supplement, as the case may be, whereupon such Revolving Credit Lender or New Revolving Credit Lender shall be bound by and entitled to the benefits of this Agreement with respect to the full amount of its Revolving Credit Commitment as so increased or provided, and Schedule 1 shall be deemed to be amended to so increase the Revolving Credit Commitment of such Revolving Credit Lender and/or add the name and Revolving Credit Commitment of such New Revolving Credit Lender."

1. AMENDMENT TO SUBSECTION 4.9 OF THE CREDIT AGREEMENT. Subsection 4.9 of the Credit Agreement is hereby amended by inserting therein, immediately prior to the phrase "and the Transaction Agreements", the phrase ", the 2000 Confidential Information Memorandum".
2. AMENDMENT TO SUBSECTION 4.23 OF THE CREDIT AGREEMENT. Subsection 4.23 of the Credit Agreement is hereby deleted in its entirety.
3. AMENDMENT TO SUBSECTION 6.11 OF THE CREDIT AGREEMENT. Subsection 6.11 of the Credit Agreement is hereby amended by deleting therefrom the phrase "of any fiscal quarter of the Borrower" and substituting in lieu thereof the phrase "of the second, third and fourth fiscal quarters of any fiscal year of the Borrower".
4. AMENDMENT TO SUBSECTION 9.2 OF THE CREDIT AGREEMENT. Subsection 9.2 of the Credit Agreement is hereby amended by deleting therefrom the phrase "the Tranche B Term Loans and the Tranche C Term Loans" and substituting in lieu thereof the phrase "the New Tranche B Term Loans".

14

1. AMENDMENT TO SUBSECTION 9.9 OF THE CREDIT AGREEMENT. Subsection 9.9 of the Credit Agreement is hereby amended by deleting therefrom the phrase "the Tranche B Term Loans and the Tranche C Term Loans" and substituting in lieu thereof the phrase "the New Tranche B Term Loans".
2. AMENDMENT TO SUBSECTION 10.6(c) OF THE CREDIT AGREEMENT. Subsection 10.6(c) of the Credit Agreement is hereby amended by (i) deleting therefrom the phrase "$2,000,000 in the aggregate of the Tranche B Term Commitment or the Tranche C Term Commitment" and substituting in lieu thereof the phrase "$1,000,000 of the New Tranche B Term Commitment" and (ii) deleting the phrase "Tranche B Term Loans or Tranche C Term Loans" wherever it appears therein and substituting in lieu thereof the phrase "New Tranche B Term Loans".
3. AMENDMENT TO ANNEX A TO THE CREDIT AGREEMENT. Annex A to the Credit Agreement is hereby amended by deleting such Annex in its entirety and substituting in lieu thereof the Annex A attached to this Amendment and Restatement.
4. SCHEDULE 1A TO THE CREDIT AGREEMENT. The Credit Agreement is hereby amended by incorporating therein Schedule 1A to this Amendment and Restatement.
5. FORM OF NEW LENDER SUPPLEMENT. The Credit Agreement is hereby amended by adding a new Exhibit O in the form attached to this Amendment and Restatement as Annex B.
6. AMENDMENT TO EXHIBIT L OF THE CREDIT AGREEMENT. Exhibit L to the Credit Agreement is hereby amended by deleting such exhibit in its entirety and substituting in lieu thereof a new Exhibit L in the form attached to this Amendment and Restatement as Annex C.
7. PREPAYMENT PURSUANT TO SUBSECTION 2.12(f) OF THE CREDIT AGREEMENT. Pursuant to the provisions of subsection 2.12(f) of the Credit Agreement, the Lenders party hereto (which, together with the Lenders executing the Consent (substantially in the form of Annex E to this Amendment and Restatement) shall include the Required Prepayment Lenders) hereby agree that prepayments of the Term Loans with the proceeds of the New Tranche B Term Loans shall not be applied ratably as among the Term Loans, PROVIDED that the proceeds of the New Tranche B Term Loans shall be applied to the prepayment in full of the Tranche B Term Loans and the Tranche C Term Loans.
8. CONSENT TO AMENDMENT TO SUBSECTION 1.1 OF THE INTERCREDITOR AGREEMENT. The Majority Lenders (as such term is defined in the Intercreditor Agreement) hereby (or by the execution and delivery of the Consent (substantially in the form of Annex E to this Amendment and Restatement) consent to the amendment of subsection 1.1 of the Intercreditor Agreement by deleting the definition of "Majority Lenders" contained therein in its entirety and substituting in lieu thereof the following definition:

"MAJORITY LENDERS": (a) during the period commencing on the Closing Date and ending on the day prior to the Amendment and Restatement Effective Date, (i) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A British Subtranche

15

Term Loans PLUS (ii) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A French Subtranche Term Loans PLUS (iii) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A German Subtranche Term Loans PLUS (iv) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche B Term Loans PLUS (v) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche C Term Loans PLUS (vi) the Majority Revolving Facility Lenders, and (b) as of the Amendment and Restatement Effective Date and thereafter, (i) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A British Subtranche Term Loans PLUS (ii) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A French Subtranche Term Loans PLUS (iii) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A German Subtranche Term Loans PLUS (iv) the holders of more than 50% of the aggregate unpaid principal amount of the New Tranche B Term Loans PLUS (v) the Majority Revolving Facility Lenders.

1. CONSENT TO EXECUTION AND DELIVERY OF ACKNOWLEDGMENT AND CONFIRMATION. The Majority Lenders (as such term is defined in the Intercreditor Agreement) hereby (or by the execution and delivery of the Consent (substantially in the form of Annex E to this Amendment and Restatement)) consent to the execution and delivery by the Administrative Agent of the Acknowledgment and Confirmation of Guarantee and Collateral Agreements and Intercreditor Agreement referred to in paragraph 3 of Section V hereof.

IV. REPRESENTATIONS AND WARRANTIES.

1. GENERAL. On and as of the date hereof, and after giving effect to this Amendment and Restatement, each of the Borrower and each applicable Subsidiary Borrower hereby confirms, reaffirms and restates the representations and warranties set forth in Section 4 of the Credit Agreement as amended hereby (with references therein to "the Agreement" being deemed for this purpose to refer to this Amendment and Restatement). To the extent that such representations and warranties expressly relate to a specific earlier date, each of the Borrower and each applicable Subsidiary Borrower hereby confirms, reaffirms and restates such representations and warranties as of such earlier date.
2. FINANCIAL CONDITION. The Borrower hereby represents and warrants to the Administrative Agent and to each Lender that the consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at September 30, 1999 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, reported on by Pricewaterhouse Coopers L.L.P. and the unaudited consolidated statements of income and of cash flows for the fiscal period ended July 1, 2000, copies of which have heretofore been delivered to each of the Lenders, are complete and correct and present fairly in all material respects the consolidated financial condition of the Borrower and its consolidated Subsidiaries as at such respective dates, and the consolidated results of their operations and their consolidated cash flows for the fiscal year or fiscal period then ended. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by such accountants and as disclosed therein). Neither the Borrower nor any of its consolidated Subsidiaries had, at the date of the balance sheet referred to above, any material obligation, contingent liability or

16

liability for taxes, or any long-term lease or unusual forward or long-term commitment, including without limitation, any interest rate or foreign currency swap or exchange transaction, which is not reflected in the foregoing statements or in Schedule 4.1 to the Agreement. Since September 30, 1999, there has been no development or event which has had or could reasonably be expected to have a Material Adverse Effect.

V. CONDITIONS TO EFFECTIVENESS OF THIS AMENDMENT AND RESTATEMENT. This Amendment and Restatement shall become effective on the date upon which the conditions set forth in this Section V shall have been satisfied (the "AMENDMENT AND RESTATEMENT EFFECTIVE DATE") and the obligation of each New Tranche B Term Lender to make its New Tranche B Term Loan, of each Revolving Credit Lender to continue to make Revolving Credit Loans and of the Issuing Lender to continue to issue any Letter of Credit requested to be issued by it hereunder is subject to the satisfaction of the following conditions precedent on or prior to December 5, 2000:

1. EXECUTION OF AGREEMENT. The Administrative Agent shall have received this Amendment and Restatement, executed and delivered by the Borrower and each of the Subsidiary Borrowers party to this Amendment and Restatement as of the Amendment and Restatement Effective Date, by the New Tranche B Term Lenders, by the Majority Facility Lenders in respect of the Tranche A Term Facility and the Revolving Facility.
2. COMMITMENT INCREASE SUPPLEMENTS AND NEW LENDER SUPPLEMENTS. The Administrative Agent shall have received Commitment Increase Supplements from each Revolving Credit Lender providing an increased Revolving Credit Commitment and New Lender Supplements from each New Revolving Credit Lender providing a Revolving Credit Commitment pursuant to subsection 2.28 of the Agreement.
3. ACKNOWLEDGMENT AND CONFIRMATION OF GUARANTEE AND COLLATERAL AGREEMENTS AND INTERCREDITOR AGREEMENT. The Administrative Agent shall have received the Acknowledgment and Confirmation of Guarantee and Collateral Agreements and Intercreditor Agreement (substantially in the form of Annex D to this Amendment and Restatement), duly executed and delivered by duly authorized officers of the parties thereto.
4. CONSENT. The Administrative Agent shall have received the Consent (substantially in the form of Annex E to this Amendment and Restatement), duly executed and delivered by those Lenders which, together with the Tranche B Term Lenders and Tranche C Term Lenders executing and delivering this Amendment and Restatement, constitute the Majority Facility Lenders in respect of the Tranche B Term Facility and the Tranche C Term Facility.
5. NOTES. Each requesting New Tranche B Term Lender and New Revolving Credit Lender shall have received a Term Note or a Revolving Credit Note, as the case may be, each duly executed and delivered by a duly authorized officer of the Borrower and each applicable Subsidiary Borrower.

17

1. FINANCIAL STATEMENTS. The Required Prepayment Lenders and New Tranche B Term Lenders shall have received (i) audited financial statements of the Borrower for the 1997, 1998 and 1999 fiscal years, and (ii) unaudited interim consolidated financial statements of the Borrower for each fiscal quarter ended after September 30, 1999 as to which such financial statements are available and such financial statements shall not, in the reasonable judgment of the Lenders, reflect any material adverse change in the consolidated financial condition of the Borrower and its Subsidiaries from that reflected in the financial statements or projections contained in the 2000 Confidential Information Memorandum.
2. FEES. The Administrative Agent, the Arranger and the Lenders each shall have received for its own account all fees and any other amounts payable on the Amendment and Restatement Effective Date pursuant to the Fee Letter or pursuant to the Agreement and all expenses for which invoices have been presented on or before the Amendment and Restatement Effective Date.
3. BUSINESS PLAN. The Lenders shall have received a satisfactory business plan for fiscal years 2001 through 2007 of the Borrower and a satisfactory written analysis of the business and prospects of the Borrower and its Subsidiaries for the period from the Amendment and Restatement Effective Date.
4. LEGAL OPINION OF COUNSEL TO THE BORROWER AND THE DOMESTIC SUBSIDIARY BORROWERS. The Administrative Agent and each Lender shall have received an executed legal opinion of Vorys, Sater, Seymour and Pease LLP, special counsel to the Borrower and its Domestic Subsidiaries, dated the Amendment and Restatement Effective Date and addressed to the Administrative Agent and the Lenders substantially in the form of Exhibit F to the Agreement. Such legal opinions shall cover such other matters incident to the transactions contemplated by this Agreement as the Lenders may reasonably require in form and substance satisfactory to the Administrative Agent.
5. CORPORATE PROCEEDINGS OF THE BORROWER AND ITS SUBSIDIARIES. (a) The Administrative Agent shall have received a copy of a certificate of a Responsible Officer of the Borrower and each of its Domestic Subsidiaries executing this Amendment and Restatement and the Acknowledgment and Confirmation of Guarantee and Collateral Agreements and Intercreditor Agreement, attached to which shall be a copy of the resolutions (in form and substance reasonably satisfactory to the Administrative Agent and its counsel) of the Board of Directors of each of the Borrower and each of its Subsidiaries executing this Amendment and Restatement and the Acknowledgment and Confirmation of Guarantee and Collateral Agreements and Intercreditor Agreement authorizing on or within 30 days prior to the Amendment and Restatement Effective Date (i) the execution, delivery and performance of this Amendment and Restatement and the Acknowledgment and Confirmation of Guarantee and Collateral Agreements and Intercreditor Agreement, (ii) the consummation of the transactions contemplated hereby and thereby and (iii) the borrowings herein provided for. Each such certificate shall (A) state that the resolutions set forth therein have not been amended, modified, revoked or rescinded as of the date of such certificate, (B) specify the names and titles of the officers of the Borrower or such Subsidiary, as the case may be, authorized to sign the Loan Documents to which it is a party and (C) contain specimens of the signatures of such officers.

18

* 1. The Administrative Agent shall have received a copy of a certificate of a Responsible Officer of the Borrower, certifying that the resolutions of the Board of Directors of each of the Foreign Subsidiaries of the Borrower executing this Amendment and Restatement and the Acknowledgment and Confirmation of Guarantee and Collateral Agreements and Intercreditor Agreement adopted in connection with the Credit Agreement or this Amendment and Restatement authorize (or, in the case of resolutions adopted after the Amendment and Restatement Effective Date, will authorize or ratify) (i) the execution, delivery and performance of this Amendment and Restatement and the Acknowledgment and Confirmation of Guarantee and Collateral Agreements and Intercreditor Agreement or an appropriate confirmation thereof, (ii) the consummation of the transactions contemplated hereby and thereby and (iii) the borrowings herein provided for. Such certificate shall (A) state that any such existing resolutions have not been amended, modified, revoked or rescinded as of the date of such certificate, (B) specify the names and capacities of the agents of each such Foreign Subsidiary authorized to sign the Loan Documents to which it is a party and (C) contain specimens of the signatures of such agents. The Borrower agrees, to the extent that any such resolutions of any such Foreign Subsidiaries have not been adopted on or prior to the Amendment and Restatement Effective Date, to cause such resolutions to be promptly adopted thereafter.

1. NO PROCEEDING OR LITIGATION; NO INJUNCTIVE RELIEF. No action, suit, investigation or other proceeding (including, without limitation, the enactment or promulgation of a statute or rule) by or before any arbitrator or any Governmental Authority shall be threatened or pending and no preliminary or permanent injunction or order by a state or federal court shall have been entered (i) in connection with this Agreement or any transaction contemplated hereby except as set forth in Schedule 5.1(k) or (ii) which, in any case, in the reasonable judgment of the Administrative Agent, could reasonably be expected to have a Material Adverse Effect.
2. CONSENTS, LICENSES, APPROVALS, ETC. All governmental and third party consents, licenses and approvals necessary in connection with the continuing operations of the Borrower and its Subsidiaries and the financing contemplated hereby shall have been obtained and be in full force and effect, and all applicable waiting periods shall have expired without any action being taken or threatened by any competent authority that would restrain, prevent or otherwise impose adverse conditions on the financing contemplated hereby.
3. REPRESENTATIONS AND WARRANTIES. Each of the representations and warranties made by the Borrower and its Subsidiaries in or pursuant to the Agreement, any other Loan Document or the Transaction Agreements to which it is a party and the representations of the Borrower and its Subsidiaries which are contained in any certificate, document or financial or other statement furnished pursuant hereto or thereto on or before the Amendment and Restatement Effective Date shall be true and correct in all material respects on and as of the Amendment and Restatement Effective Date as if made on and as of such date both before and after giving effect to the making of the New Tranche B Term Loans and any Revolving Credit Loans hereunder.

19

1. NO DEFAULT OR EVENT OF DEFAULT. No Default or Event of Default shall have occurred and be continuing hereunder after giving effect to the making of any Extension of Credit hereunder.
2. BORROWING CERTIFICATE. The Administrative Agent shall have received, with a counterpart for each Lender, a Borrowing Certificate, dated the Amendment and Restatement Effective Date, substantially in the form of Exhibit G to the Agreement, with appropriate insertions, executed by a duly authorized Responsible Officer of the Borrower.
3. ADDITIONAL MATTERS. All corporate and other proceedings and all other documents and legal matters in connection with the transactions contemplated by this Agreement and the other Loan Documents, including, without limitation, documentation concerning the status of all labor, tax, employee benefit and health and safety matters involving the Borrower and its Subsidiaries shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel.
4. ADDITIONAL INFORMATION. The Administrative Agent shall have received such additional information which the Administrative Agent shall have reasonably requested, including, without limitation, copies of any debt agreements, security agreements, tax sharing agreements, employment agreements, management compensation arrangements, financing arrangements and other material contracts, and such agreements or arrangements shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel.

VI. GENERAL PROVISIONS.

1. CONTINUING EFFECT; NO OTHER AMENDMENTS. Except as expressly amended or waived hereby, all of the terms and provisions of the Credit Agreement, as amended and restated by this Amendment and Restatement are and shall remain in full force and effect. The amendments provided for herein are limited to the specific subsections of the Credit Agreement specified herein and shall not constitute an amendment of, or an indication of any Lender's willingness to amend or waive, any other provisions of the Credit Agreement or the same subsections for any other date or time period (whether or not such other provisions or compliance with such subsections for another date or time period are affected by the circumstances addressed in this Amendment and Restatement).
2. EXPENSES. The Borrower agrees to pay and reimburse the Administrative Agent for all its reasonable costs and expenses incurred in connection with the preparation and delivery of this Amendment and Restatement, including, without limitation, the reasonable fees and disbursements of counsel to the Administrative Agent.
3. NEW TRANCHE B TERM LENDERS. Each New Tranche B Term Lender hereby agrees that it shall, on the Amendment and Restatement Effective Date, become a Lender for all purposes of the Agreement to the same extent as if originally a party thereto. Each such New Tranche B Term Lender (a) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements delivered pursuant to Section V of this Amendment and Restatement and such other documents and information as it has deemed

20

appropriate to make its own credit analysis and decision to enter into this Amendment and Restatement; (b) agrees that it has made and will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Agreement or any instrument or document furnished pursuant hereto or thereto; (c) appoints and authorizes the Administrative Agent to take such action as administrative agent on its behalf and to exercise such powers and discretion under the Agreement or any instrument or document furnished pursuant thereto as are delegated to the Administrative Agent by the terms thereof, together with such powers as are incidental thereto; and (d) agrees that it will be bound by the provisions of the Agreement and will perform in accordance with its terms all the obligations which by the terms of the Agreement are required to be performed by it as a Lender including its obligation pursuant to subsection 2.22 of the Agreement.

1. GOVERNING LAW. THIS AMENDMENT AND RESTATEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. IT IS EXPRESSLY AGREED THAT THIS AMENDMENT AND RESTATEMENT BENEFITS FROM AND IS COVERED BY THE PROVISIONS OF SUBSECTIONS 10.11, 10.14, 10.15 AND 10.16 OF THE CREDIT AGREEMENT.
2. COUNTERPARTS. This Amendment and Restatement may be executed by the parties hereto in any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. The execution and delivery of this Amendment and Restatement by any Lender shall be binding upon each of its successors and assigns (including Transferees of its commitments and Loans in whole or in part prior to effectiveness hereof) and binding in respect of all of its commitments and Loans, including any acquired subsequent to its execution and delivery hereof and prior to the effectiveness hereof.
3. NO RECOURSE TO OFFICERS. It is agreed that any officer or agent of any Foreign Subsidiary of the Borrower executing and delivering this Amendment and Restatement and the Acknowledgment and Confirmation of Guarantee and Collateral Agreements and Intercreditor Agreement on behalf of any such Foreign Subsidiary shall not be personally liable in any way for so doing.

21

IN WITNESS WHEREOF, the parties hereto have caused this Amendment and Restatement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

THE SCOTTS COMPANY

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

OM SCOTT INTERNATIONAL INVESTMENTS LTD.

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

MIRACLE GARDEN CARE LIMITED

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

SCOTTS HOLDINGS LIMITED

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

HYPONEX CORPORATION

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS MANUFACTURING COMPANY

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS CELAFLOR GMBH & CO. KG

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Einzelvertretungsberechtigt

SCOTTS BELGIUM BVBA

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

THE SCOTTS COMPANY (UK) LTD.

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

SCOTTS CANADA LTD.

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

SCOTTS INTERNATIONAL B.V.

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

ASEF B.V.

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

SCOTTS-SIERRA HORTICULTURAL PRODUCTS

COMPANY

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

REPUBLIC TOOL & MANUFACTURING CORP.

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS-SIERRA INVESTMENTS, INC.

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS FRANCE HOLDINGS SARL

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

SCOTTS FRANCE SARL

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

SCOTTS HOLDING GMBH

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Einzelvertretungsberechtigt

SCOTTS AUSTRALIA PTY LTD.

By: /s/ Rebecca J. Bruening

------------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

22

CREDIT LYONNAIS NEW YORK BRANCH, as

Co-Documentation Agent and as a Lender

By: /s/ Attila Koc

--------------------------------------------------

Name: Attila Koc

Title: Senior Vice President

BANK ONE, MICHIGAN, as successor to NBD BANK, as

Co-Documentation Agent and as a Lender

By: /s/ Thomas E. Redmond

--------------------------------------------------

Name: Thomas E. Redmond

Title: Managing Director

THE CHASE MANHATTAN BANK, as Administrative Agent

and as a Lender

By: /s/ Randolph E. Cates

--------------------------------------------------

Name: /s/ Randolph E. Cates

Title: Vice President

ABN AMRO BANK N.V., Pittsburgh

By: /s/ Thomas Comfort

--------------------------------------------------

Name: Thomas Comfort

Title: Senior Vice President

By: /s/ Jonathan F. Chiarieri

--------------------------------------------------

Name: Jonathan F. Chiarieri

Title: Officer

BHF (USA) CAPITAL CORPORATION

By: /s/ Thomas J. Scifo

--------------------------------------------------

Name: Thomas J. Scifo

Title: Vice President Portfolio Manager

By: /s/ Aurelio Almonte

--------------------------------------------------

Name: Aurelio Almonte

Title: Associate

BALANCED HIGH YIELD FUND II LTD.

By: BHF (USA) Capital Corporation, as

Attorney-in-Fact

By: /s/ Thomas J. Scifo

--------------------------------------------------

Name: Thomas J. Scifo

Title: Vice President Portfolio Manager

By: /s/ Aurelio Almonte

--------------------------------------------------

Name: Aurelio Almonte

Title: Associate

BANK AUSTRIA CREDITANSTALT CORPORATE FINANCE, INC.

By: /s/ Francesco Ossino

--------------------------------------------------

Name: Francesco Ossino

Title: Vice President

By: /s/ David M. Harnisch

--------------------------------------------------

Name: David M. Harnisch

Title: Senior Vice President

23

BANK OF AMERICA, N.A.

By: /s/ Gretchen Spoo

--------------------------------------------------

Name: Gretchen Spoo

Title: Vice President

THE BANK OF NEW YORK

By: /s/ Thomas C. McCrohan

--------------------------------------------------

Name: Thomas C. McCrohan

Title: Vice President

THE BANK OF NOVA SCOTIA

By: /s/ F.C.H. Ashby

--------------------------------------------------

Name: F.C.H. Ashby

Title: Sr. Manager-Loan Operations

BANK OF TOKYO-MITSUBISHI TRUST COMPANY

By: /s/ Friedrich N. Wilms

--------------------------------------------------

Name: Friedrich N. Wilms

Title: Vice President & Global

Relationship Manager

CITICORP USA, INC.

By: /s/ Nicolas T. Erni

--------------------------------------------------

Name: Nicolas T. Erni

Title: VP

COMERICA BANK, Detroit

By: /s/ Anthony L. Davis

--------------------------------------------------

Name: Anthony L. Davis

Title: Assistant Vice President

COLUMBUS LOAN FUNDING LTD

By: Travelers Asset Management International

Company LLC

By: /s/ Allen R. Cantrell

--------------------------------------------------

Name: Allen R. Cantrell

Title: Investment Officer

CREDIT AGRICOLE INDOSUEZ, Chicago

By: /s/ Bradley C. Peterson

--------------------------------------------------

Name: Bradley C. Peterson

Title: Vice President, Manager

By: /s/ Theodore D. Tice

--------------------------------------------------

Name: Theodore D. Tice

Title: Senior Relationship Manager

CYPRESSTREE INVESTMENT

MANAGEMENT COMPANY, INC.

As: Attorney-in-Fact and on behalf of First

Allmerica Financial Life Insurance

Company as Portfolio Manager

By: /s/ Jeffrey W. Heuer

--------------------------------------------------

Name: Jeffrey W. Heuer

Title: Principal

DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN BRANCHES

By: /s/ Ken Hamilton

--------------------------------------------------

Name: Ken Hamilton

Title: Senior Vice President

By: /s/ Vincent Carotenuto

--------------------------------------------------

Name: Vincent Carotenuto

Title: Assistant Vice President

24

ERSTE BANK NEW YORK

By: /s/ Arcinee Hovanessian

--------------------------------------------------

Name: Arcinee Hovanessian

Title: Vice President Erste Bank New

York Branch

By: /s/ John S. Runnion

--------------------------------------------------

Name: John S. Runnion

Title: First Vice President Erste Bank

New York Branch

FIFTH THIRD BANK OF COLUMBUS

By: /s/ Ted Lape

-------------------------------------------------

Name: Ted Lape

Title: V.P.

FIRST UNION NATIONAL BANK

By: /s/ Andrew Payne

-------------------------------------------------

Name: Andrew Payne

Title: V.P.

FIRSTAR BANK N.A.

By: /s/ Robert H. Friend

-------------------------------------------------

Name: Robert H. Friend

Title: Vice President

FLEET NATIONAL BANK

By: /s/ Marwan Isbaih

-------------------------------------------------

Name: Marwan Isbaih

Title: Director

FORTIS CAPITAL CORP.

By: /s/ Peter Hanratty

-------------------------------------------------

Name: Peter Hanratty

Title: Officer

By: /s/ Walter Gibson

-------------------------------------------------

Name: Walter Gibson

Title: Director

FRANKLIN FLOATING RATE MASTER SERIES

By: /s/ Chauncey Lufkin

-------------------------------------------------

Name: Chauncey Lufkin

Title: Vice President

25

FREMONT INVESTMENT & LOAN

By: /s/ Kannika Viravan

-------------------------------------------------

Name: Kannika Viravan

Title: Vice President

THE FUJI BANK, LIMITED

By: /s/ Peter L. Chinnici

-------------------------------------------------

Name: Peter L. Chinnici

Title: Senior Vice President & Group Head

HARRIS TRUST AND SAVINGS BANK

By: /s/ Christopher Fisher

-------------------------------------------------

Name: Christopher Fisher

Title: Vice President

HELLER FINANCIAL INC.

By: /s/ David R. Campbell

-------------------------------------------------

Name: David R. Campbell

Title: Vice President

THE HUNTINGTON NATIONAL BANK

By: /s/ Mark A. Koscielski

-------------------------------------------------

Name: Mark A. Koscielski

Title: Vice President

KZH RIVERSIDE LLC

By: /s/ Kimberly Rowe

-------------------------------------------------

Name: Kimberly Rowe

Title: Authorized Agent

KZH STERLING LLC

By: /s/ Kimberly Rowe

-------------------------------------------------

Name: Kimberly Rowe

Title: Authorized Agent

KZH CNC LLC

By: /s/ Kimberly Rowe

-------------------------------------------------

Name: Kimberly Rowe

Title: Authorized Agent

KZH-CYPRESSTREE-1 LLC

By: /s/ Kimberly Rowe

-------------------------------------------------

Name: Kimberly Rowe

Title: Authorized Agent

KZH-LANGDALE LLC

By: /s/ Kimberly Rowe

-------------------------------------------------

Name: Kimberly Rowe

Title: Authorized Agent

KZH HIGHLAND-2 LLC

By: /s/ Peter Chin

-------------------------------------------------

Name: Peter Chin

Title: Authorized Agent

26

KZH-SOLEIL-2 LLC

By: /s/ Kimberly Rowe

-------------------------------------------------

Name: Kimberly Rowe

Title: Authorized Agent

LANDESBANK RHEINLAND-PFALZ GIROZENTRALE

By: /s/ Stefan Gilsdorf

-------------------------------------------------

Name: Stefan Gilsdorf

Title: SVP

By: /s/ Daniela Spies

-------------------------------------------------

Name: Daniela Spies

Title: VP

METROPOLITAN LIFE INSURANCE COMPANY

By: /s/ James R. Dingler

-------------------------------------------------

Name: James R. Dingler

Title: Director

MORGAN STANLEY DEAN WITTER PRIME INCOME TRUST

By: /s/ Sheila A. Finnerty

-------------------------------------------------

Name: Sheila A. Finnerty

Title: Senior Vice President

NATIONAL CITY BANK

By: /s/ Anthony F. Salvatore

-------------------------------------------------

Name: Anthony F. Salvatore

Title: Vice President

NORTH AMERICAN SENIOR FLOATING RATE FUND

By: CypressTree Investment Management Company, Inc.

as Portfolio Manager

By: /s/ Jeffrey W. Heuer

-------------------------------------------------

Name: Jeffrey W. Heuer

Title: Principal

NUVEEN SENIOR INCOME FUND

By: Nuveen Senior Loan Asset Management Inc.

By: /s/ Todd Abramson

-------------------------------------------------

Name: Todd Abramson

Title: Vice President

OLYMPIC FUNDING TRUST, SERIES 1999-1

By: /s/ Ann E. Morris

-------------------------------------------------

Name: Ann E. Morris

Title: Authorized Agent

BNP PARIBAS

By: /s/ Karen E. Coons

-------------------------------------------------

Name: Karen E. Coons

Title: Vice President

By: /s/ Ann B. McAloon

-------------------------------------------------

Name: Ann B. McAloon

Title: Vice President

27

PINEHURST TRADING, INC.

By: /s/ Ann E. Morris

-------------------------------------------------

Name: Ann E. Morris

Title: Asst. Vice President

PPM SPYGLASS FUNDING TRUST

By: /s/ Ann E. Morris

-------------------------------------------------

Name: Ann E. Morris

Title: Authorized Agent

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ B. Ross Smead

-------------------------------------------------

Name: B. Ross Smead

Title:

SALOMON SMITH BARNEY INC., as

Syndication Agent

By: /s/ Nicolas T. Erni

-------------------------------------------------

Name: Nicolas T. Erni

Title: Attorney In Fact

SRF 2000 LLC

By: /s/ Ann E. Morris

-------------------------------------------------

Name: Ann E. Morris

Title: Asst. Vice President

SUNTRUST BANK

By: /s/ Stephen L. Leister

-------------------------------------------------

Name: Stephen L. Leister

Title: Vice President

TORONTO DOMINION (NEW YORK), INC.

By: /s/ Gwen Zirkle

-------------------------------------------------

Name: Gwen Zirkle

Title: Vice President

THE TRAVELERS INSURANCE COMPANY

By: /s/ Allen R. Cantrell

-------------------------------------------------

Name: Allen R. Cantrell

Title: Investment Officer

WINGED FOOT FUNDING TRUST

By: /s/ Ann E. Morris

-------------------------------------------------

Name: Ann E. Morris

Title: Authorized Agent

28

Annex A

PRICING GRID FOR REVOLVING CREDIT LOANS, TERM LOANS AND FACILITY FEE

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Applicable | | Applicable |  | Applicable |  |  |  |
|  | Margin |  | Margin |  | Margin |  |  |  |
|  | Revolving Credit | | Tranche A |  | New Tranche B |  |  |  |
| Leverage | Loans |  | Term Loans |  | Term Loans |  | Facility |  |
| ----------------------- | | ----------------------- | | ----------------------- | |  |
| Ratio | Eurocurrency | ABR | Eurocurrency | ABR | Eurocurrency | ABR | Fee |  |
| ----- | ------------ | --- | ------------ | --- | ------------ | --- | --- |  |
| greater than | 2.25% | 1.00% | 2.75% | N/A | 2.75% | 1.50% | 0.500% |  |
| or equal to 4.00 to 1.0 |  |
| greater than | 2.00% | 0.75% | 2.50% | N/A | 2.50% | 1.25% | 0.500% |  |
| or equal to 3.75 to 1.0 |  |
| greater than | 1.75% | 0.50% | 2.25% | N/A | 2.50% | 1.25% | 0.500% |  |
| or equal to 3.00 to 1.0 |  |
| greater than | 1.625% | 0.375% | 2.00% | N/A | 2.50% | 1.25% | 0.375% |  |
| or equal to 2.50 to 1.0 |  |
| greater than | 1.45% | 0.20% | 1.75% | N/A | 2.50% | 1.25% | 0.300% |  |
| or equal to 2.25 to 1.0 |  |
| less than 2.25 to 1.0 | 1.20% | 0.00% | 1.50% | N/A | 2.25% | 1.00% | 0.300% |  |
| ================== | ============ | ========== | ================ | ======== | ============== ========= ========== | | |  |

Changes in the Applicable Margin or in the Facility Fee Rate resulting from changes in the Leverage Ratio shall become effective on the date (the "ADJUSTMENT DATE") on which financial statements are delivered to the Lenders pursuant to subsection 6.1 (but in any event not later than the 45th day after the end of each of the first three quarterly periods of each fiscal year of the Borrower or the 90th day after the end of each fiscal year of the Borrower, as the case may be) and shall remain in effect until the next change to be effected pursuant to this paragraph. If any financial statements referred to above are not delivered within the time periods specified above, then, until such financial statements are delivered, the Leverage Ratio as at the end of the fiscal period that would have been covered thereby shall for the purposes of this definition be deemed to be greater than or equal to 4.00 to 1.0. In addition, at all times while an Event of Default shall have occurred and be continuing, the Leverage Ratio shall for the purposes of this definition be deemed to be greater than 4.0 to 1.0. Each determination of the Leverage Ratio pursuant to this pricing grid shall be made with respect to (or, in the case of Average Total Indebtedness, as at the end of) the period of four consecutive fiscal quarters of the Borrower ending at the end of the period covered by the relevant financial statements.

29

Annex B

FORM OF NEW LENDER SUPPLEMENT

SUPPLEMENT, dated \_\_\_\_\_\_\_\_\_\_ to the Credit Agreement, dated as of

December 4, 1998, as amended and restated by the Amendment and Restatement to the Credit Agreement, dated as of December 5, 2000 (as amended, supplemented or otherwise modified from time to time, the "Agreement") among THE SCOTTS COMPANY, an Ohio corporation (the "BORROWER" or "SCOTTS"), OM Scott International Investments Ltd., Miracle Garden Care Limited, Scotts Holdings Limited, Hyponex Corporation, Scotts Manufacturing Company, Scotts-Sierra Horticultural Products Company, Republic Tool & Manufacturing Corp., Scotts-Sierra Investments, Inc., Scotts France Holdings SARL, Scotts Holding GmbH, Scotts Celaflor GmbH & Co. KG, Scotts France SARL, Scotts Belgium BVBA, The Scotts Company (UK) Ltd., Scotts Canada Ltd., Scotts International B.V., ASEF B.V., Scotts Australia PTY Ltd., and the other subsidiaries of the Borrower who are also borrowers from time to time under the Credit Agreement (the "SUBSIDIARY BORROWERS"), the several banks and other financial institutions from time to time parties to the Credit Agreement (the "LENDERS"), THE CHASE MANHATTAN BANK, a New York banking corporation (together with its banking affiliates, "CHASE"), as agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT"), SALOMON SMITH BARNEY, INC., as syndication agent (the "SYNDICATION AGENT"), CREDIT LYONNAIS NEW YORK BRANCH (together with its banking affiliates, "CREDIT LYONNAIS") and BANK ONE, MICHIGAN, as successor to NBD BANK, as co-documentation agents (the "CO-DOCUMENTATION AGENTS"), and Chase Securities Inc., as lead arranger (the "LEAD ARRANGER") and as the book manager (the "BOOK MANAGER").

W I T N E S S E T H :

---------------------

WHEREAS, the Agreement provides in subsection 2.28(a) thereof that any bank, financial institution or other entity, although not originally a party thereto, may, pursuant to such subsection, become a party to the Credit Agreement with the consent of the Borrower and the Administrative Agent by executing and delivering to the Borrower and the Administrative Agent a supplement to the Agreement in substantially the form of this Supplement; and

WHEREAS, the undersigned was not an original party to the Agreement but now desires to become a party thereto;

NOW, THEREFORE, the undersigned hereby agrees as follows:

1. The undersigned agrees to be bound by the provisions of the Agreement, and agrees that it shall, on the date this Supplement is accepted by the Borrower and the Administrative Agent, become a Lender for all purposes of the Agreement to the same extent as if originally a party thereto, with a Revolving Credit Commitment of $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. Such Revolving Credit Commitment shall be available in Dollars and in the Optional Currencies listed below and from the Lending Installations outside of the U.S. listed below:

30

Optional Currencies

-------------------

Lending Installations

---------------------

-------------------

---------------------

-------------------

---------------------

-------------------

---------------------

1. The undersigned (a) confirms that it has received a copy of the Agreement, together with copies of the financial statements delivered pursuant to Section V of the Amendment and Restatement thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Supplement; (b) agrees that it has made and will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Agreement or any instrument or document furnished pursuant hereto or thereto; (c) appoints and authorizes the Administrative Agent to take such action as administrative agent on its behalf and to exercise such powers and discretion under the Agreement or any instrument or document furnished pursuant hereto or thereto as are delegated to the Administrative Agent by the terms thereof, together with such powers as are incidental thereto; and (d) agrees that it will be bound by the provisions of the Agreement and will perform in accordance with its terms all the obligations which by the terms of the Agreement are required to be performed by it as a Lender including, without limitation, if it is organized under the laws of a jurisdiction outside the United States, its obligation pursuant to subsection 2.22 of the Agreement.
2. The undersigned's address for notices for the purposes of the Agreement is as follows:

----------------------------

----------------------------

----------------------------

1. Terms defined in the Agreement shall have their defined meanings when used herein.

31

IN WITNESS WHEREOF, the undersigned has caused this Supplement to be executed and delivered by a duly authorized officer on the date first above written.

[INSERT NAME OF LENDER]

By\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title:

Accepted this \_\_\_\_\_ day of

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_.

THE SCOTTS COMPANY

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

OM SCOTT INTERNATIONAL INVESTMENTS LTD.

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

MIRACLE GARDEN CARE LIMITED

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

SCOTTS HOLDINGS LIMITED

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

HYPONEX CORPORATION

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

32

SCOTTS MANUFACTURING COMPANY

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

SCOTTS-SIERRA HORTICULTURAL PRODUCTS COMPANY

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

REPUBLIC TOOL & MANUFACTURING CORP.

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

SCOTTS-SIERRA INVESTMENTS, INC.

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

SCOTTS FRANCE HOLDINGS SARL

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

SCOTTS FRANCE SARL

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

33

SCOTTS HOLDING GMBH

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

SCOTTS CELAFLOR GMBH & CO. KG

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

SCOTTS BELGIUM BVBA

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

THE SCOTTS COMPANY (UK) LTD.

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

SCOTTS CANADA LTD.

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

SCOTTS INTERNATIONAL B.V.

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

34

ASEF B.V.

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

SCOTTS AUSTRALIA PTY LTD.

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

Accepted this \_\_\_\_ day of

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_.

THE CHASE MANHATTAN BANK,

as Administrative Agent

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

35

Annex C

EXHIBIT L

[FORM OF PREPAYMENT OPTION NOTICE]

PREPAYMENT OPTION NOTICE

Attention of [ ]

Telecopy No. [ ]

[Date]

Ladies and Gentlemen:

The undersigned, The Chase Manhattan Bank, as administrative agent (in such capacity, the "ADMINISTRATIVE AGENT") for the Lenders, refers to the Amended and Restated Credit Agreement, dated as of December 5, 2000 (the "AMENDMENT AND RESTATEMENT") of the Credit Agreement, dated as of December 4, 1998 (the "CREDIT AGREEMENT"; the Credit Agreement as amended by the Amendment and Restatement and as may be further amended, modified or supplemented from time to time, the "AGREEMENT"), among The Scotts Company, an Ohio corporation (the "BORROWER" or "SCOTTS"), OM Scott International Investments Ltd., Miracle Garden Care Limited, Scotts Holdings Limited, Hyponex Corporation, Scotts Manufacturing Company, Scotts-Sierra Horticultural Products Company, Republic Tool & Manufacturing Corp., Scotts-Sierra Investments, Inc., Scotts France Holdings SARL, Scotts Holding GmbH, Scotts Celaflor GmbH & Co. KG, Scotts France SARL, Scotts Belgium BVBA, The Scotts Company (UK) Ltd., Scotts Canada Ltd., Scotts International B.V., ASEF B.V., Scotts Australia PTY Ltd., and the other subsidiaries of the Borrower who are also borrowers from time to time under the Credit Agreement (the "SUBSIDIARY BORROWERS"), the several banks and other financial institutions from time to time parties thereto (the "LENDERS"), The Chase Manhattan Bank, a New York banking corporation ("CHASE"), as agent for the Lenders thereunder (in such capacity, the "ADMINISTRATIVE AGENT"), Salomon Smith Barney, Inc., as syndication agent (the "SYNDICATION AGENT"), Credit Lyonnais Chicago Branch and Bank One, Michigan, as successor to NBD Bank, as co-documentation agents (the "CO-DOCUMENTATION AGENTS"), and Chase Securities Inc., as lead arranger (the "LEAD ARRANGER") and as the book manager (the "BOOK MANAGER"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Agreement. The Administrative Agent hereby gives notice of an offer of

36

prepayment made by the Borrower pursuant to subsection 2.12(g) of the Agreement of the New Tranche B Prepayment Amount. Amounts applied to prepay the New Tranche B Term Loans shall be applied pro rata to the New Tranche B Term Loan held by you. The portion of the prepayment amount to be allocated to the New Tranche B Term Loan held by you and the date on which such prepayment will be made to you (should you elect to receive such prepayment) are set forth below:

(A) Total New Tranche B Prepayment Amount \_\_\_\_\_\_\_\_\_\_\_

1. Portion of New Tranche B Prepayment Amount to be received by

you \_\_\_\_\_\_\_\_\_\_\_

1. Prepayment Date (10 Business Days after the date of this

Prepayment Option Notice) \_\_\_\_\_\_\_\_\_\_\_

IF YOU DO NOT WISH TO RECEIVE ALL OF THE NEW TRANCHE B PREPAYMENT AMOUNT TO BE ALLOCATED TO YOU ON THE PREPAYMENT DATE INDICATED IN PARAGRAPH (B) ABOVE, please sign this notice in the space provided below and indicate the percentage of the New Tranche B Prepayment Amount otherwise payable which you do not wish to receive. Please return this notice as so completed via telecopy to the attention of [\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_] at \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, NO

LATER THAN 10:00 A.M., NEW YORK CITY TIME, on the Prepayment Date, at Telecopy No. [\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_]. IF YOU DO NOT RETURN THIS NOTICE, YOU WILL RECEIVE 100%

OF THE NEW TRANCHE B PREPAYMENT ALLOCATED TO YOU ON THE MANDATORY PREPAYMENT DATE.

THE CHASE MANHATTAN BANK,

as Administrative Agent

By:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

[Lender]

By:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

Percentage of New Tranche B

Prepayment Amount

Declined: \_\_\_\_%

37

ANNEX D

ACKNOWLEDGMENT AND CONFIRMATION

OF GUARANTEE AND COLLATERAL AGREEMENTS

AND INTERCREDITOR AGREEMENT

ACKNOWLEDGMENT AND CONFIRMATION OF GUARANTEE AND COLLATERAL AGREEMENTS AND INTERCREDITOR AGREEMENT, dated as of December 5, 2000 (this "ACKNOWLEDGMENT"), to:

1. the Guarantee and Collateral Agreements;
2. the Intercreditor Agreement.

W I T N E S S E T H :

WHEREAS, the Borrower, the Subsidiary Borrowers, certain Lenders and the Administrative Agent are parties to the Credit Agreement, dated as of December 4, 1998 (as amended, supplemented or otherwise modified prior to the date hereof, the "CREDIT AGREEMENT");

WHEREAS, concurrently with the execution of this Acknowledgment, the Borrower, the Subsidiary Borrowers, the Lenders and the Administrative Agent will amend and restate the Credit Agreement pursuant to the Amended and Restated Credit Agreement, dated as of December 5, 2000 (the "AMENDMENT AND RESTATEMENT"); the Credit Agreement, as amended and restated by the Amendment and Restatement, and as further amended, supplemented and otherwise modified from time to time, the "AGREEMENT");

WHEREAS, each of the parties to each Guarantee and Collateral Agreement wishes to acknowledge and confirm that (i) its obligations and its Liens and security interests created under such Guarantee and Collateral Agreement continue in full force and effect, unimpaired and undischarged, and

1. the obligations of the Borrower and each Subsidiary Borrower secured by the Liens and security interests created under such Guarantee and Collateral Agreement shall be the obligations of the Borrower and each Subsidiary Borrower under the Agreement;

WHEREAS, it is a condition precedent to the effectiveness of the Amendment and Restatement that the parties hereto shall have executed this Acknowledgment to the Administrative Agent for the benefit of the Lenders.

NOW, THEREFORE, in consideration of the premises contained herein and to induce the Administrative Agent and the Lenders to amend and restate the Agreement pursuant to the Amendment and Restatement and to induce the Lenders to make and continue extensions of credit under the Amendment and Restatement, each of the signatories hereto hereby agrees with the Administrative Agent, for the benefit of the Lenders, as follows:

1. Unless otherwise defined herein, capitalized terms used herein shall have the respective meanings assigned to them in the Agreement and the other Loan Documents.

38

1. Each signatory hereto consents to the execution, delivery and performance of the Amendment and Restatement, the borrowing of the New Tranche B Term Loans and the increase in the Total Revolving Credit Commitments pursuant to section 2.28 of the Agreement.
2. Each signatory hereto hereby agrees, with respect to each Guarantee and Collateral Agreement to which it is a party, that:
3. all of its obligations, liabilities and indebtedness under such Guarantee and Collateral Agreement remain in full force and effect on a continuous basis after giving effect to the Amendment and Restatement and extend to cover the New Tranche B Term Loans;
4. all of the Liens and security interests created and arising under such Guarantee and Collateral Agreement remain in full force and effect on a continuous basis, and the perfected status and priority of each such Lien and security interest continues in full force and effect on a continuous basis, unimpaired, uninterrupted and undischarged, after giving effect to the Amendment and Restatement, as collateral security for the Obligations, which in all events includes the New Tranche B Term Loans and interest thereon or, as the case may be, its guarantee thereof; and
5. all of the obligations, liabilities and indebtedness of the Borrower and the Subsidiary Borrowers under the Agreement and all of the guarantee obligations of each Guarantor in respect thereof (i) are continued in full force and effect on a continuous basis, unpaid and undischarged, after giving effect to the Amendment and Restatement and (ii) constitute the obligations, liabilities and indebtedness under the Agreement.
6. The Borrower hereby agrees that the Intercreditor Agreement remains in full force and effect on a continuous basis after giving effect to the Amendment and Restatement.
7. Each signatory hereto agrees that it shall take any action reasonably requested by the Administrative Agent in order to confirm or effect the intent of this Acknowledgment.
8. THIS ACKNOWLEDGMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.
9. This Acknowledgment may be executed by one or more of the parties hereto on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

39

IN WITNESS WHEREOF, the undersigned have caused this Acknowledgment to be executed and delivered by a duly authorized officer on the date first above written.

THE SCOTTS COMPANY

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

HYPONEX CORPORATION

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS MANUFACTURING COMPANY

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS-SIERRA HORTICULTURAL

PRODUCTS COMPANY

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

REPUBLIC TOOL & MANUFACTURING CORP.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS-SIERRA INVESTMENTS, INC.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS FRANCE HOLDINGS SARL

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

SCOTTS FRANCE SARL

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

SCOTTS HOLDING GMBH

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Einzelvertretungsberechtigt

THE SCOTTS COMPANY (UK) LTD.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

40

ASEF B.V.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

SCOTTS PROFESSIONAL PRODUCTS CO.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS PRODUCTS CO.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS HOLDINGS LIMITED

By: /s/ REBECCA J. BRUENING

-----------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

OM SCOTT INTERNATIONAL INVESTMENTS LTD.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

MIRACLE HOLDINGS LIMITED

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

LEVINGTON GROUP LIMITED

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Power of Attorney

OMS INVESTMENTS, INC.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

MIRACLE-GRO LAWN PRODUCTS, INC.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SCOTTS-SIERRA CROP PROTECTION COMPANY

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

EARTHGRO, INC.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

41

SANFORD SCIENTIFIC, INC.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

EG SYSTEMS, INC.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

SWISS FARMS PRODUCTS, INC.

By: /s/ Rebecca J. Bruening

-----------------------------------

Name: Rebecca J. Bruening

Title: Vice President and Treasurer

THE CHASE MANHATTAN BANK,

as Administrative Agent

By: /s/ Randolph E. Cates

-----------------------------------

Name: Randolph E. Cates

Title: Vice President

42

ANNEX E

CONSENT, dated as of December 5, 2000 (this "CONSENT"), in respect of

1. the Credit Agreement, dated as of December 4, 1998, as amended and restated by the Amendment and Restatement to the Credit Agreement, dated as of December 5, 2000 (as amended, supplemented or otherwise modified from time to time, the "Agreement") among THE SCOTTS COMPANY, an Ohio corporation (the "BORROWER" or "SCOTTS"), OM Scott International Investments Ltd., Miracle Garden Care Limited, Scotts Holdings Limited, Hyponex Corporation, Scotts Manufacturing Company, Scotts-Sierra Horticultural Products Company, Republic Tool & Manufacturing Corp., Scotts-Sierra Investments, Inc., Scotts France Holdings SARL, Scotts Holding GmbH, Scotts Celaflor GmbH & Co. KG, Scotts France SARL, Scotts Belgium BVBA, The Scotts Company (UK) Ltd., Scotts Canada Ltd., Scotts International B.V., ASEF B.V., Scotts Australia PTY Ltd., and the other subsidiaries of the Borrower who are also borrowers from time to time under the Credit Agreement (the "SUBSIDIARY BORROWERS"), the several banks and other financial institutions from time to time parties to the Credit Agreement (the "LENDERS"), THE CHASE MANHATTAN BANK, a New York banking corporation (together with its banking affiliates, "CHASE"), as agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT"), SALOMON SMITH BARNEY, INC., as syndication agent (the "SYNDICATION AGENT"), CREDIT LYONNAIS NEW YORK BRANCH (together with its banking affiliates, "CREDIT LYONNAIS") and BANK ONE, MICHIGAN, as successor to NBD BANK, as co-documentation agents (the "CO-DOCUMENTATION AGENTS"), and Chase Securities Inc., as lead arranger (the "LEAD ARRANGER") and as the book manager (the "BOOK MANAGER"); and
2. the Intercreditor Agreement, dated as of December 4, 1998, among the Borrower, the Lenders by virtue of subsection 10.7(a) of the Credit Agreement and the Administrative Agent.

W I T N E S S E T H :

WHEREAS, the Borrower, the Subsidiary Borrowers, certain Lenders and the Administrative Agent are parties to the Credit Agreement, dated as of December 4, 1998 (as amended, supplemented or otherwise modified prior to the date hereof, the "CREDIT AGREEMENT");

WHEREAS, the Borrower, the Lenders by virtue of subsection 10.7(a) of the Credit Agreement and the Administrative Agent are party to the Intercreditor Agreement, dated as of December 4, 1998 (the "INTERCREDITOR AGREEMENT");

WHEREAS, the Borrower has requested that the Required Prepayment Lenders and the Majority Lenders (as such term is defined in the Intercreditor Agreement) give the consents contained herein in the manner herein provided;

NOW, THEREFORE, in consideration of the premises contained herein, the

Lenders party hereto agree as follows:

1. Unless otherwise defined herein, capitalized terms used herein shall have the respective meanings assigned to them in the Agreement and the other Loan Documents.
2. Each signatory hereto hereby agrees, in accordance with subsection 2.12(f) of the Agreement, that prepayments of the Term Loans with the proceeds of the New Tranche B Term

43

2

Loans shall not be applied ratably as among the Term Loans, PROVIDED that the proceeds of the New Tranche B Term Loans shall be applied to the prepayment in full of the Tranche B Term Loans and the Tranche C Term Loans.

1. Each signatory hereto hereby consents to the amendment of subsection 1.1 of the Intercreditor Agreement by deleting the definition of "Majority Lenders" contained therein in its entirety and substituting in lieu thereof the following definition:

"MAJORITY LENDERS": (a) during the period commencing on the Closing Date and ending on the day prior to the Amendment and Restatement Effective Date, (i) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A British Subtranche Term Loans PLUS (ii) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A French Subtranche Term Loans PLUS (iii) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A German Subtranche Term Loans PLUS (iv) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche B Term Loans PLUS (v) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche C Term Loans PLUS (vi) the Majority Revolving Facility Lenders, and (b) as of the Amendment and Restatement Effective Date and thereafter, (i) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A British Subtranche Term Loans PLUS (ii) the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A French Subtranche Term Loans PLUS

* 1. the holders of more than 50% of the aggregate unpaid principal amount of the Tranche A German Subtranche Term Loans PLUS (iv) the holders of more than 50% of the aggregate unpaid principal amount of the New Tranche B Term Loans PLUS (v) the Majority Revolving Facility Lenders.

1. Each signatory hereto hereby consents to the execution and delivery by the Administrative Agent of the Acknowledgment and Confirmation of Guarantee and Collateral Agreements and Intercreditor Agreement referred to in paragraph 3 of Section V of the Amendment and Restatement.

44

IN WITNESS WHEREOF, the parties hereto have caused this Consent to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

AMMC CDO I, LIMITED

By: American Money Management Corp.,

as Collateral Manager

By: /s/ David P. Meyer

--------------------------------------

Name: David P. Meyer

Title: Vice President

AERIES - II FINANCE LTD.

By: INVESCO Senior Secured Management,

Inc., as Sub-Managing Agent

By: /s/ Thomas H.B. Ewald

--------------------------------------

Name: Thomas H.B. Ewald

Title: Authorized Signatory

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ Jerry D. Zinkula

--------------------------------------

Name: Jerry D. Zinkula

Title: Authorized Signatory

By: /s/ Charles D. Mires

--------------------------------------

Name: Charles D. Mires

Title: Authorized Signatory

ARES LEVERAGED INVESTMENT FUND II, L.P.

By: ARES Management II, L.P., its General

Partner

By: /s/ Seth Brufsky

--------------------------------------

Name: Seth Brufsky

Title: Vice President

45

CERES FINANCE, LTD.

By: INVESCO Senior Secured Management,

Inc., as Sub-Managing Agent

By: /s/ Thomas H.B. Ewald

-----------------------------------

Name: Thomas H.B. Ewald

Title: Authorized Signatory

ELC (CAYMAN) LTD. 2000-I

By: /s/ Roshan White

-----------------------------------

Name: Roshan White

Title: Vice President

EATON VANCE SENIOR INCOME TRUST

By: Eaton Vance Management, as

Investment Advisor

By: /s/ Scott Page

-----------------------------------

Name: Scott Page

Title: Vice President

ML CLO XII PILGRIM AMERICA (CAYMAN)

LTD.(as assignee)

By: Pilgrim Investments, Inc. as its

investment manager

By: /s/ Mark F. Haak

-----------------------------------

Name: Mark F. Haak

Title: Assistant Vice President

ML CLO XX PILGRIM AMERICA (CAYMAN) LTD.

(as assignee)

By: Pilgrim Investments, Inc. as its

investment manager

By: /s/ Mark F. Haak

-----------------------------------

Name: Mark F. Haak

Title: Assistant Vice President

OAK HILL SECURITIES FUND, L.P.

By: Oak Hill Securities GenPar, L.P.

its General Partner

By: Oak Hill Securities MGP, Inc.

its General Partner

By: /s/ Scott D. Krase

-----------------------------------

Name: Scott D. Krase

Title: Vice President

46

OASIS COLLATERALIZED HIGH INCOME

By: INVESCO Senior Secured Management,

Inc., as sub-Managing Agent

By: /s/ Thomas H.B. Ewald

-----------------------------------

Name: Thomas H.B. Ewald

Title: Authorized Signatory

OSPREY INVESTMENTS PORTFOLIO

By: Citibank Global Asset Management

By: /s/ Maura F. Connor

-----------------------------------

Name: Maura F. Connor

Title: VP

OXFORD STRATEGIC INCOME FUND

By: Eaton Vance Management as

Investment Advisor

By: /s/ Scott Page

-----------------------------------

Name: Scott Page

Title: Vice President

PACIFICA PARTNERS I, L.P.

By: Imperial Credit Asset Management as

its Investment Manager

By: /s/ Tom Colwell

-----------------------------------

Name: Tom Colwell

Title: VP

SENIOR DEBT PORTFOLIO

By: Boston Management and Research, as

Investment Advisor

By: /s/ Scott Page

-----------------------------------

Name: Scott Page

Title: Vice President

1

EXHIBIT 10(c)

The Scotts Company 2000 Executive

Annual Incentive Plan

2

THE SCOTTS COMPANY

2000 EXECUTIVE ANNUAL INCENTIVE PLAN (THE "PLAN")

1. OBJECTIVES

Provide strong financial incentives consistent with and supportive of corporate strategies and objectives.

Contribute toward a competitively attractive compensation program for all associates participating in the Plan ("Participants").

Encourage team effort toward achievement of corporate financial and strategic goals.

2. PARTICIPATION

Eligibility and level of participation is primarily based on band and job measurements.

Participants must be actively employed in an eligible position for at least 13 consecutive weeks during the Plan Year. Participants must be employed on the last day of the fiscal year to be eligible for a payment. Participants who terminate their employment during the Plan Year, except in cases of retirement, will not be eligible for an incentive payment, prorated or otherwise. The Participants covered by the Plan will not be eligible for any other cash incentives of the Company (exception: SMGP).

Participants shall not have any right with respect to any award until an award shall, in fact, be paid to them.

The Plan confers no rights upon any associate to participate in the Plan or remain in the employ of the Company. Neither the adoption of the Plan nor its operation shall in any way affect the right of the associate or the Company to terminate the employment relationship at any time.

3. PAYOUTS

The Plan is designed to recognize and reward performance against established financial targets and personal goals. Payouts for each Participant in the Plan will be calculated pursuant to the Plan in the following manner:

3

* 1. A Target Payout Percentage shall be established for each Participant. Payouts will be based on that applicable percentage of each Participant's average fiscal 2000 base salary.

The Actual Payout Percentage shall be determined by multiplying the Target Payout Percentage by a Weighting Factor determined by each Participant's Performance Measurements. Once obtained, the Actual Payout Percentage shall be multiplied by an award percentage based on the actual results attained for each Performance Measurement as compared to the targeted performance for each Performance Measurement (i.e., 100% at target). The process shall be completed by adding the resulting percentages obtained for each of the Performance Measurements to determine each Participant's incentive payment.

* 1. Schedule A attached hereto lists all Performance Measurements for fiscal 2000 and sets forth the minimum target and maximum performance parameters for each Performance Measurement.

Performance above and below target performance goals will be incrementally calculated so Participants will receive a prorated payout calculated on a straight-line basis.

* 1. The target Personal Goal bonus percentage shall be paid if all personal goals are achieved on average. Performance between levels shall be rewarded according to a payout percentage assigned by the CEO, President, CFO and/or the Participant's manager.

1. SUPPLEMENTAL AWARDS

A pool for supplemental awards (the "Supplemental Pool") will be generated to provide recognition to associates who are not eligible for participation in the Plan and whose individual performance is exceptional. Recipients must be employed on the last day of the fiscal year to be eligible for consideration of an award. The total Supplemental Pool will not exceed 1% of compensation for each business unit or corporate function with awards generally ranging from $500 to $2,000.

1. ADMINISTRATION
   1. The Plan is to be administered by the Vice President, Global Compensation & Benefits, who will be responsible for:
      1. Recommending changes in the Plan as appropriate;
      2. Recommending changes in the payout targets;
      3. Recommending additions or deletions to the list of eligible associates; and

4

* 1. Soliciting recommendations and coordinating payout of the Supplemental Pool.

1. The Incentive Review Committee, comprised of the Chief Executive Officer, Chief Operating Officer, Senior Vice President, Human Resources and the Chief Financial Officer are responsible for:
   1. Approving the percentages by which financial measurements vary from approved budgets and business unit financial performance results;
   2. Additions or deletions of eligible associates;
   3. Adjudicating changes and adjustments; and
   4. Recommending Plan payouts.
2. The Compensation and Organization Committee of the Board approves changes in the Plan, to include:
   1. Changes in the Plan design;
   2. Changes in the payout percentage;
   3. Adjustments, if any, reflecting individual performance of the Chief Executive Officer, President and Executive Vice President(s); and
   4. Payouts to all Participants.

The Compensation and Organization Committee shall review the operation of the Plan and, if at any time the continuation of the Plan or any of its provisions becomes inappropriate or inadvisable, the Compensation and Organization Committee shall revise or modify Plan provisions or recommend to the Board that the Plan be suspended or withdrawn. In addition, the Compensation and Organization Committee reserves the right to modify incentive formulas to reflect unusual circumstances.

The Board of Directors reserves to itself the right to suspend the Plan, to withdraw the Plan, and to make substantial alterations in Plan concept.

1

EXHIBIT 10(l)

Termination Letter Agreement, dated November 6, 2000, between the

Registrant and Jean H. Mordo

2

Charles M. Berger

Chairman and Chief Executive Officer

October 18, 2000

PERSONAL AND CONFIDENTIAL

- -------------------------

Jean H. Mordo

735 South Fifth Street

Columbus, OH 43206

Dear Jean:

The Scotts Company (hereinafter referred to as "Scotts" or the "Company") has elected to terminate your employment as a full-time associate as of October 13, 2000. Pursuant to the terms of your employment agreement with the Company entered into on December 23, 1996, you are entitled to receive certain benefits if your employment is terminated by the Company without cause. In connection with the termination of your employment, beginning on November 1, 2000, the Company proposes to pay you the benefits described in your employment agreement of December 23, 1996 (your base salary of $352,000, for a period of 24 months plus the greater of your target percentage or your fiscal 2000 bonus, again for a period of 24 months).(1) In addition, as we have discussed, the Company is willing to offer you certain additional benefits set forth below if you agree to execute this letter agreement (hereinafter referred to as the "Agreement"):

* 1. Effective October 13, 2000, you will be an employee on limited service. You will remain in this status through October 31, 2000, at which time, your employment with the Company shall terminate. As an employee on limited service, you will be entitled to receive the benefits outlined in this Agreement. You will not, however, accrue any vacation rights during this period, you will not participate in the 2001 Executive Annual Incentive Plan or the 2001 SMGP nor will any stock options vest during the time you remain in this status. Your salary (paid at the rate in effect for fiscal 2000 - a gross amount of $29,333 per month), car allowance and medical and insurance benefits (less normal deductions) will be paid through the end of October 2000.
* ----------------

1. At your option, Scotts will discount this amount using Scotts' pre-tax borrowing rate and pay you in a lump sum (less applicable withholding taxes) on or before November 26, 2000.

3

However, you will resign your position as Group Executive Vice President International and all other offices, directorships and committee memberships you may hold with the Company or any of its subsidiaries as of October 13, 2000, by executing the attached resignation letter.

1. You will be eligible for a payout under the 2000 Executive Annual Incentive Plan. Payouts under the terms of this Plan are expected to be made in late November 2000.
2. Medical, dental and vision insurance coverages as you elected under the terms of the plans available will be continued through the end of October 2000. You will be eligible for continuation of benefit coverage (COBRA) at the Company's expense for the lesser of 18 months from November 1, 2000 or the date on which you become eligible for primary coverage under another group plan (at which time your medical, dental and vision benefits shall cease).
3. You agree that the 35,000 options that would have vested on October 20, 2000, are rescinded. As consideration for your agreement, Scotts agrees to pay you, on or before January 31, 2001, an amount equal to the difference between the strike price for the 35,000 options and the highest closing price of Scotts shares on the NYSE between October 16, 2000 and January 12, 2001.

You will have 90 days following the termination of your employment with the Company to exercise any vested options you may own. The Company has agreed that this 90-day period shall commence on November 6, 2000 and shall end on February 2, 2001. Any options not exercised by you as of the close of business on February 2, 2001 shall expire.

1. You will be entitled to keep the laptop computer and cellular telephone currently in your possession.
2. You will continue to be eligible to participate in the Retirement Savings Plan and the Executive Retirement Plan of the Company through October 31, 2000. Your benefits pursuant to each such Plan will be handled according to your election under the Plan options. You should discuss the tax effect of any decisions you make with respect to such Plans with your legal or tax advisor.
3. Eligibility for short and long term disability benefits under Scotts' group plans expired on October 13, 2000. Life insurance coverage will continue through October 31, 2000. Within 30 days following the

4

expiration of your life insurance coverage, you have the right to convert all or part of your group life insurance.

1. Outplacement services will be provided at the Company's expense through Lee Hecht Harrison.
2. The AYCO program will be available to you through December 31, 2001.

Except as set forth in this letter, all other benefits to which you were entitled as a full-time Scotts' associate cease as of October 13, 2000.

You are reminded of the terms of the Key Management Scott Associate Agreement, a copy of which is attached.

Scotts is proposing to provide you with the opportunity to receive this package on an exception basis and in return for your signature of the legal release contained in this Agreement. By executing this Agreement, you acknowledge and agree that the payments to be made to you and the other benefits extended to you exceed the normal policies and practices of the Company and that you have received full and fair consideration for signing this Agreement.

If you determine to accept this package, you should sign this Agreement as discussed below. By signing you agree, except for the obligations set forth in this Agreement, that all of Scotts' other obligations and any claims you may have (except with respect to Scotts' Retirement Savings Plan and the Scotts' Executive Retirement Plan as set forth below), whether now known or unknown to you against Scotts, its affiliated corporations and directors or employees thereof ("Releasees") are released. In consideration of the benefits provided to you herein, you agree not to sue Releasees under any or all causes of action and agree not to file any complaint or other action with any governmental agency, including claims of age discrimination in employment under the Federal Age Discrimination in Employment Act and the Older Workers Benefit Protection Act. Except as specifically stated herein and except as provided in the Scotts' Retirement Savings Plan and the Scotts' Executive Retirement Plan, you agree that you have no claim for and will not be entitled to any other benefits, bonus, compensation, perquisites, sick pay allowance or any kind of other remuneration arising out of your employment or the termination of employment on October 31, 2000.

You agree to keep the terms of this Agreement confidential and not to disclose any information concerning these matters to anyone (excluding your spouse and any attorney or financial advisor you may retain), including but not limited to past, present or future employees of Scotts or its affiliates. You also agree not to disparage or speak negatively about Scotts or any of its employees, directors or officers after termination of your employment. You agree to indemnify Releasees from any loss or costs arising from any breach by you of this Agreement.

5

Scotts agrees that you are entitled to rely on the indemnification provisions of its Code of Regulations and any applicable insurance coverage in connection with your actions as an employee and officer of Scotts or as an employee, officer or director of any of its subsidiaries or affiliates. In addition, Scotts agrees that it will not disparage or speak negatively about you after the termination of your employment.

You will have until November 8, 2000 to consider this offer. If you accept, you will have seven (7) calendar days from the date of acceptance to revoke this Agreement. This Agreement will not be effective until the expiration of such seven (7) day period. If you do not sign this Agreement, you will be paid through October 31, 2000 and all benefits will cease as of your last day worked.

This Agreement contains the release of important legal rights. You should consult with an attorney before executing it.

This Agreement will be construed in accordance with the substantive laws of the State of Ohio. The rights and duties of the parties shall not be assignable. The Agreement may not be amended except in writing signed by the party against whom an obligation is to be enforced. You acknowledge that no representations, other than those contained herein, have been made as an inducement for you to accept the terms of this Agreement.

Intending to be legally bound hereby, we have executed this Agreement this 6TH day of NOVEMBER, 2000.

THE SCOTTS COMPANY

By: /S/ CHARLES M. BERGER (BY GRL)

----------------------------------

Charles M. Berger

Chairman and CEO

ACCEPTANCE:

/S/ Jean H. Mordo

-----------------------

Jean H. Mordo

1. Charles M. Roesch, Esq. Attachments

1

EXHIBIT 10(q)

Letter Agreement, dated June 8, 2000, between the

Registrant and Patrick J. Norton

2

Hadia Lefavre

- -------------

Senior Vice President, Human Resources Worldwide

June 5, 2000

Mr. Pat Norton

41 South High Street, Suite 3500

Columbus, OH 43215

Dear Pat:

I am very pleased to confirm our offer of employment to you as Executive Vice President and Chief Financial Officer of The Scotts Company from May 18, 2000 reporting to Chuck Berger.

BASE SALARY AND EXECUTIVE INCENTIVE PLAN

- ----------------------------------------

Your initial annual base is $300,000 with a target bonus under the Executive Plan of 50% of salary. Since our fiscal year is October through September, your 2000 bonus will be calculated on a pro-rata basis as of March 1, 2000.

STOCK OPTIONS

- -------------

As a key member of the Executive Team, your initial grant of stock options is 75,000, which will be priced at the closing "asked" price ($36.0625) on May 18, 2000, the date you officially joined the company. These stock options will cliff vest on May 18, 2003. You will be eligible for consideration for additional grants as of the fall of 2000 subject to the terms of those grants.

SCOTTS MILLENNIUM GROWTH PLAN (SMGP)

- ------------------------------------

You will be eligible for grants under the SMGP as of this year. In your case, all grants under this plan will be subject to a participation end date as of December 31, 2002 with all payments pro-rated accordingly.

3

PERSONAL FINANCIAL PLANNING

- ---------------------------

Personal financial planning services are provided through the AYCO Corporation. The value of the confidential service is $4,000, which will be added to your W-2. Some or all of this value may be deducted.

CAR ALLOWANCE

- -------------

The company will provide you with a car allowance of $12,000 per year. In accordance with IRS regulations, the value of this car allowance will be reflected in your W-2. It is our understanding that you may deduct the part of this value that is for business purposes.

MISCELLANOUS ITEMS

- ------------------

You will be allowed to work from your home four days per month. In addition, the company will provide the necessary equipment to outfit your Arizona home office.

DIRECTORS' FEES

- ---------------

Your director fee for FY2000 will be pro-rated to reflect the time you served as an outside director with the balance ($11,250) being deducted from your first bonus check. Your outside director fee and stock options will be suspended for the time you serve as an Executive Officer of the Company. When you resume your sole duties as an outside director on January 1, 2003, we will reinstate both your fee and stock options on a pro-rated basis.

BENEFITS PROGRAM

- ----------------

You will be eligible for coverage under The Scotts Company Comprehensive Benefit Program, which will be available the first day of the month following your date of employment. This includes participation in our medical and dental plans, life insurance including dependent coverage, The Scotts Company Retirement Savings Plan, Executive Retirement Plan (participation in this program requires three years of service), which includes a supplemental retirement program (SURP), flexible spending account program (medical and dependent), tuition reimbursement program, vacation, stock purchase program and short term and long term disability benefits will be available once the required waiting periods are met. Additional details on the SURP are being compiled and will be forwarded to you shortly.

This offer is contingent upon a satisfactory completion of a drug screen required by all Scotts' associates.

4

\* \* \*

Pat, I take great pleasure in extending you this offer on behalf of The Scotts Company. Your addition to the company will solidify our team effort to drive the business forward. As a key player in our executive team, all of us at Scotts will extend our resources in support of your effort. We truly look forward to you joining the Scotts family.

Sincerely,

/s/ Hadia Lefavre

Hadia Lefavre

Senior Vice President,

Human Resources Worldwide

ACCEPTED:

|  |  |  |
| --- | --- | --- |
| /S/ Patrick J. Norton | 6/8/00 |  |
| Pat--------------------------------------Norton | -------------------- |  |
| Date |  |

1

EXHIBIT 21

Subsidiaries of the Registrant

2

SUBSIDIARIES OF THE SCOTTS COMPANY

\*EG Systems, Inc., dba Scotts Lawn Service, an Indiana corporation Hyponex Corporation, a Delaware corporation

EarthGro, Inc., a Connecticut corporation

OMS Investments, Inc., a Delaware corporation

Republic Tool & Manufacturing Corp., a Delaware corporation \*Sanford Scientific, Inc., a New York corporation

Scotts Manufacturing Company, a Delaware corporation Miracle-Gro Lawn Products, Inc., a New York corporation

Scotts Products Company, an Ohio corporation

Scotts Professional Products Co., an Ohio corporation Scotts-Sierra Horticultural Products Company, a California corporation

Scotts-Sierra Crop Protection Company, a California corporation Scotts-Sierra Investments, Inc., a Delaware corporation

ASEF BV (Netherlands)

Scotts Australia Pty Ltd. (Australia)

Scotts Belgium BVBA (Belgium)

Scotts Canada Ltd. (Canada)

Scotts Czech s.r.o.(Czech Republic)

Scotts de Mexico SA de CV (Mexico)

The Scotts Company Denmark ApS (Denmark)

Scotts Finland Oy (Finland)

Scotts France Holdings SARL (France)

Scotts France SARL (France)

\*\*Scotts France SAS (France)

Scotts Holding GmbH (Germany)

Scotts Celaflor GmbH & Co. KG (Germany)

Scotts Celaflor HG (Austria)

Scotts Holdings Limited (United Kingdom)

Levington Group Ltd. (United Kingdom)

Levington Trustees Ltd. (United Kingdom)

Murphy Home and Garden Ltd. (United Kingdom)

The Scotts Company (UK) Ltd. (United

Kingdom)

The Scotts Company (Manufacturing)

Ltd. (United Kingdom)

O M Scott International Investments Ltd. (United

Kingdom)

Levington Horticulture Ltd. (United Kingdom)

Miracle Holdings Ltd. (United Kingdom)

Miracle Garden Care Limited (United

Kingdom)x

O. M. Scott & Sons Ltd. (United Kingdom)

Corwen Home and Garden Limited (United

Kingdom)

Scotts International B.V. (Netherlands)

Scotts Deutschland GmbH (Germany)

3

Scotts OM Espana S.A. (Spain)

Scotts Italia SRL (Italy)

Scotts Horticulture Ltd. (Ireland)

Scotts Hungary KFT (Hungary)

The Scotts Company Italia S.r.l. (Italy)

The Scotts Co. Kenya Ltd. (Kenya)

Scotts Malaysia (incorp in Progress) (Malaysia)

Scotts Norway AS (Norway)

Scotts Poland Sp.z.o.o. (Poland)

Scotts Sweden AB (Sweden)

Scotts Switzerland SARL (Switzerland)

Swiss Farms Products, Inc., a Delaware corporation

------------------

\*Not wholly-owned

\*\*Scotts France SARL owns remaining .1% of Scotts France SAS

1

Exhibit 23

----------

CONSENT OF INDEPENDENT ACCOUNTANTS

2

We hereby consent to the incorporation by reference in the Registration Statements on Form S-4, (File Nos. 333-76739) and Form S-8 (File Nos. 333-35942, 33-47073, 33-60056, 333-00021, 333-06061, 333-27561, 333-72715, and 333-76697) of The Scotts Company of our reports dated October 31, 2000 relating to the financial statements and financial statement schedules, which appear in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Columbus, Ohio

December 27, 2000

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF OPERATIONS OF THE SCOTTS COMPANY AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 2000.

12-MOS

SEP-30-2000

OCT-01-1999

SEP-30-2000

33,000,000

0

227,700,000

(11,700,000)

307,500,000

643,900,000

472,785,000

(182,279,000)

1,761,400,000

412,400,000

0

0

0

300,000

477,600,000

1,761,400,000

1,800,600,000

1,795,200,000

840,937,000

1,584,800,000

(5,114,000)

(4,800,000)

93,900,000

116,300,000

43,200,000

73,100,000

0

0

0

73,100,000

2.39

2.25