UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

OR

o **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 MIRACLE-GRO COMPANY

(Exact Name of Registrant as Specified in Its Charter)

OHIO (State or Other Jurisdiction of Incorporation or Organization)	31-1414921 (I.R.S. Employer Identification No.)

14111 SCOTTSLAWN ROAD, MARYSVILLE, OHIO 43041
(Address of Principal Executive Offices) (Zip Code)

(937) 644-0011
(Registrant's Telephone Number, Including Area Code)

NO CHANGE
(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

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 ☑ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☑ Accelerated Filer o Non-accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of Common Shares, without par value, of the registrant outstanding as of August 2, 2007 was 63,698,005.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS MIRACLE-GRO COMPANY
CONDENSED, CONSOLIDATED STATEMENTS OF OPERATIONS
(IN MILLIONS EXCEPT PER SHARE AMOUNTS) (UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
Net sales	$ 1,098.4	$ 1,048.0	$ 2,362.9	$ 2,205.0
Cost of sales	675.7	642.0	1,516.5	1,399.0
Cost of sales — restructuring and other	—	—	—	0.1
Gross profit	422.7	406.0	846.4	805.9
Operating expenses:				
Selling, general and administrative	199.2	180.2	544.4	489.4
Impairment, restructuring and other charges	—	1.1	—	7.8
Other income, net	(3.6)	(4.6)	(7.0)	(7.0)
Income from operations	227.1	229.3	309.0	315.7
Costs related to refinancing	—	—	18.3	—
Interest expense	26.2	13.2	52.3	32.8
Income before income taxes	200.9	216.1	238.4	282.9
Income taxes	71.2	82.8	84.7	107.5
Net income	$ 129.7	$ 133.3	$ 153.7	$ 175.4
BASIC NET INCOME PER COMMON SHARE:				
Weighted-average common shares outstanding during the period	63.6	67.5	65.6	67.7
Basic net income per common share	$ 2.04	$ 1.97	$ 2.34	$ 2.59
DILUTED NET INCOME PER COMMON SHARE:				
Weighted-average common shares outstanding during the period plus dilutive potential common shares	65.4	69.4	67.5	69.7
Diluted net income per common share	$ 1.98	$ 1.92	$ 2.28	$ 2.52
Dividends declared per common share	$ 0.125	$ 0.125	$ 8.375	$ 0.375

See notes to condensed, consolidated financial statements

THE SCOTTS MIRACLE-GRO COMPANY
CONDENSED, CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)
(UNAUDITED)

	NINE MONTHS ENDED JUNE 30, 2007	NINE MONTHS ENDED JULY 1, 2006
OPERATING ACTIVITIES		
Net income	$ 153.7	$ 175.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment of intangible assets	—	1.0
Costs related to refinancing	18.3	—
Stock-based compensation expense	13.6	11.7
Depreciation	39.2	38.4
Amortization	12.1	12.2
Gain on of sale of property, plant, and equipment	(0.4)	—
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(321.4)	(314.3)
Inventories	(16.1)	(83.5)
Prepaid and other current assets	(8.8)	(2.4)
Accounts payable	69.6	76.7
Accrued liabilities	116.0	77.2
Restructuring reserves	(4.6)	(8.4)
Other non-current items	(7.9)	15.4
Other, net	(1.1)	4.7
Net cash provided by operating activities	62.2	4.1
INVESTING ACTIVITIES		
Proceeds from the sale of property, plant and equipment	0.5	—
Investment in property, plant and equipment	(37.8)	(36.6)
Investment in acquired businesses, net of cash acquired	(6.5)	(119.3)
Net cash used in investing activities	(43.8)	(155.9)
FINANCING ACTIVITIES		
Borrowings under borrowing agreements	2,458.3	706.4
Repayments under borrowing agreements	(1,489.3)	(495.7)
Repayments of 6 5/8% senior subordinated notes	(209.6)	—
Dividends paid	(536.3)	(25.2)
Purchase of common shares and related costs	(246.7)	(73.3)
Financing fees	(13.0)	—
Payments on seller notes	(1.9)	(3.5)
Excess tax benefits from share-based payment arrangements	14.5	5.6
Cash received from the exercise of stock options	23.6	15.6
Net cash (used in) provided by financing activities	(0.4)	129.9
Effect of exchange rate changes on cash	0.8	5.6
Net increase (decrease) in cash and cash equivalents	18.8	(16.3)
Cash and cash equivalents at beginning of period	48.1	80.2
Cash and cash equivalents at end of period	$ 66.9	$ 63.9
Supplemental cash flow information		
Interest paid, net of interest capitalized	50.9	34.3
Income taxes paid	9.7	13.3

See notes to condensed, consolidated financial statements

THE SCOTTS MIRACLE-GRO COMPANY
CONDENSED, CONSOLIDATED BALANCE SHEETS
(IN MILLIONS)

	UNAUDITED JUNE 30, 2007	UNAUDITED JULY 1, 2006	SEPTEMBER 30, 2006
ASSETS			
Current assets:			
Cash and cash equivalents	$ 66.9	$ 63.9	$ 48.1
Accounts receivable, less allowances of $12.9, $11.4 and $11.3, respectively	403.3	662.1	380.4
Accounts receivable pledged under MARP Agreement	307.8	—	—
Inventories, net	432.4	432.6	409.2
Prepaid and other assets	112.7	64.7	104.3
Total current assets	1,323.1	1,223.3	942.0
Property, plant and equipment, net of accumulated depreciation of $406.4, $366.3 and $370.0, respectively	364.8	356.0	367.6
Goodwill	477.7	473.3	458.1
Intangible assets, net	418.7	472.9	424.7
Other assets	34.6	21.0	25.2
Total assets	$ 2,618.9	$ 2,546.5	$ 2,217.6
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of debt	$ 237.2	$ 13.0	$ 6.0
Accounts payable	274.1	240.6	200.4
Accrued liabilities	410.0	403.1	289.8
Total current liabilities	921.3	656.7	496.2
Long-term debt	1,030.1	613.2	475.2
Other liabilities	161.4	137.9	164.5
Total liabilities	2,112.8	1,407.8	1,135.9
Commitments and contingencies (note 10)			
Shareholders' equity:			
Common shares and capital in excess of $.01 stated value per share, 63.7, 66.9 and 66.6 shares issued and outstanding, respectively	489.6	508.3	509.1
Retained earnings	308.1	741.7	690.7
Treasury shares, at cost: 4.5, 1.2, and 1.5 shares, respectively	(244.8)	(57.3)	(66.5)
Accumulated other comprehensive loss	(46.8)	(54.0)	(51.6)
Total shareholders' equity	506.1	1,138.7	1,081.7
Total liabilities and shareholders' equity	$ 2,618.9	$ 2,546.5	$ 2,217.6

See notes to condensed, consolidated financial statements

NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Scotts Miracle-Gro Company ("Scotts Miracle-Gro") and its subsidiaries (collectively, the "Company") are engaged in the manufacture, marketing and sale of lawn and garden care products. The Company's major customers include home improvement centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, food and drug stores, commercial nurseries and greenhouses, and specialty crop growers. The Company's products are sold primarily in North America and the European Union. The Company also operates the Scotts LawnService® business, which provides lawn and tree and shrub fertilization, insect control and other related services in the United States, and Smith & Hawken®, a leading brand in the outdoor living and gardening lifestyle category with sales in the retail, internet, catalog, trade and wholesale channels. Effective November 18, 2005, the Company entered the North America wild bird food category with the acquisition of Gutwein & Co. Inc. ("Gutwein").

Due to the nature of the lawn and garden business, the majority of shipments to retailers occur in the Company's second and third fiscal quarters. On a combined basis, net sales for the second and third fiscal quarters generally represent 70% to 75% of annual net sales. As a result of the seasonal nature of our business, results for the first nine months cannot be annualized to predict the results of the full year.

ORGANIZATION AND BASIS OF PRESENTATION

The Company's condensed, consolidated financial statements are unaudited; however, in the opinion of management, these financial statements are presented in accordance with accounting principles generally accepted in the United States of America. The condensed, consolidated financial statements include the accounts of Scotts Miracle-Gro and all wholly-owned and majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company's consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. Interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year. The interim financial statements and notes are presented as specified by Regulation S-X of the Securities and Exchange Commission, and should be read in conjunction with the consolidated financial statements and accompanying notes in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

The balance sheet at September 30, 2006 has been derived from the audited financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

REVENUE RECOGNITION

Revenue is recognized when title and risk of loss transfer, which generally occurs when products are received by the customer. Provisions for estimated returns and allowances are recorded at the time revenue is recognized based on historical rates of returns and are periodically adjusted for known changes in return levels. Shipping and handling costs are included in cost of sales. Scotts LawnService® revenues are recognized at the time service is provided to the customer.

Under the terms of the Amended and Restated Exclusive Agency and Marketing Agreement (the "Marketing Agreement") between the Company and Monsanto, the Company in its role as exclusive agent performs certain functions, such as sales support, merchandising, distribution and logistics, and incurs certain costs in support of the consumer Roundup® business. The actual costs incurred by the Company on behalf of Roundup® are recovered from Monsanto through the terms of the Marketing Agreement. The reimbursement of costs for which the Company is considered the primary obligor is included in net sales.

PROMOTIONAL ALLOWANCES

The Company promotes its branded products through cooperative advertising programs with retailers. Retailers also are offered in-store promotional allowances and rebates based on sales volumes. Certain products are promoted with direct consumer rebate programs and special purchasing incentives. Promotion costs (including allowances and rebates) incurred during the year are expensed to interim periods in relation to revenues and are recorded as a reduction of net sales. Accruals for expected payouts under these programs are included in the "Accrued liabilities" line in the Condensed, Consolidated Balance Sheets.

ADVERTISING

The Company advertises its branded products through national and regional media. Advertising costs incurred during the year are expensed to interim periods in relation to revenues. All advertising costs, except for external production costs, are expensed within the fiscal year in which such costs are incurred. External production costs for advertising programs are deferred until the period in which the advertising is first aired.

Scotts LawnService® promotes its service offerings primarily through direct mail campaigns. External costs associated with these campaigns that qualify as direct response advertising costs are deferred and recognized as advertising expense in proportion to revenues over a period not beyond the end of the subsequent calendar year. The costs deferred at June 30, 2007, July 1, 2006 and September 30, 2006 were $8.1 million, $3.9 million and $5.6 million, respectively.

STOCK-BASED COMPENSATION AWARDS

In fiscal 2003, the Company began expensing prospective grants of employee stock-based compensation awards in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." The Company adopted SFAS 123(R), "Share-Based Payment" effective October 1, 2005, following the modified prospective application approach. The Company was already in substantial compliance with SFAS 123(R) at the adoption date as the standard closely parallels SFAS 123. The fair value of awards is expensed ratably over the vesting period, generally three years, except for grants to members of the Board of Directors that have a shorter vesting period.

GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

In accordance with SFAS 142, "Goodwill and Other Intangible Assets", goodwill and intangible assets determined to have indefinite lives are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. 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 and is classified as "Impairment, restructuring, and other charges" in the Condensed, Consolidated Statements of Operations.

During the third quarter of fiscal 2007, the Company changed the timing of its annual goodwill impairment testing from the last day of the fiscal first quarter to the first day of the fiscal fourth quarter. As such, the annual impairment test was performed as of December 30, 2006 and will be performed again as of July 1, 2007. This accounting is preferable in the circumstances as moving the timing of the annual goodwill impairment testing better aligns with the seasonal nature of the business and the timing of the annual strategic planning process. The Company believes that this change in accounting principle will not delay, accelerate, or avoid an impairment charge. In addition, the Company also changed the date of its annual indefinite life intangible impairment testing to the first day of the fiscal fourth quarter, July 1, 2007 for the current year. The Company determined that the change in accounting principle related to the annual testing date does not result in adjustments to the financial statements applied retrospectively.

The impairment analysis for the first quarter of fiscal 2007 indicated that no impairment charges were required. The $1.0 million charge recorded in the first quarter of fiscal 2006 related to a tradename written off in the United Kingdom.

NET INCOME PER COMMON SHARE

The following reconciles the number of common shares used to compute basic net income per common share to the number of diluted common shares used to compute diluted net income per common share. Options with exercise prices greater than the average market price of the underlying common shares are excluded from the computation of diluted net income per common share because the effect would be antidilutive. The number of options excluded at June 30, 2007 and July 1, 2006 were immaterial.

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	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
Determination of common shares:				
Average common shares outstanding	63.6	67.5	65.6	67.7
Assumed exercise of dilutive options and SARs and vesting of restricted stock	1.8	1.9	1.9	2.0
Diluted average common shares outstanding	65.4	69.4	67.5	69.7
Basic net income per common share	$ 2.04	$ 1.97	$ 2.34	$ 2.59
Diluted net income per common share	$ 1.98	$ 1.92	$ 2.28	$ 2.52

See Note 2 for a discussion of the Company's recapitalization transactions that were consummated in the second quarter of fiscal 2007.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the condensed, consolidated financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from the estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 157 — Fair Value Measurements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company will be required to adopt SFAS 157 no later than October 1, 2008, the beginning of its 2009 fiscal year. The Company has not yet determined the effect, if any, that the adoption of SFAS 157 will have on its consolidated financial statements.

Statement of Financial Accounting Standards No. 158 — Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

The Financial Accounting Standards Board has issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS 158 will require the Company to recognize the underfunded status of its defined benefit postretirement plans as a liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 does not change the way the Company measures plan assets and benefit obligations as of the date of its balance sheet and in determining the amount of net periodic benefit cost.

The Company will be required to adopt the provisions of SFAS 158 as of September 30, 2007. At September 30, 2006, the Company's projected benefit obligation for its defined benefit plans exceeded the accumulated benefit obligation and the accumulated plan benefit obligation for its post-retirement medical plan exceeded the recorded liability. If the provisions of SFAS 158 were adopted as of September 30, 2006, the Company would have been required to record an additional long-term liability of $26.3 million, an additional long-term deferred tax asset of $9.6 million, and charge the "Accumulated other comprehensive loss" component of shareholders' equity for $16.7 million.

Statement of Financial Accounting Standards No. 159 —The Fair Value Option for Financial Assets and Financial Liabilities

On February 15, 2007, the Financial Accounting Standards Board issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159), which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS 159 further establishes certain additional disclosure requirements. SFAS 159 is effective for the Company's financial statements for the fiscal year beginning on October 1, 2008, with earlier adoption permitted. Management is currently evaluating SFAS 159 and whether to elect the fair value option for measuring certain financial assets and liabilities.

FIN 48 — Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109

The Financial Accounting Standards Board has issued Interpretation (FIN) 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109." This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company will be required to adopt the provisions of FIN 48 in respect of all the Company's tax positions as of October 1, 2007, the beginning of the 2008 fiscal year. The cumulative effect of applying the provisions of the Interpretation will be reported as an adjustment to the opening balance of retained earnings for the 2008 fiscal year. The Company has not completed its evaluation of FIN 48 and the effect the adoption of the Interpretation will have on the Company's consolidated financial statements. It is possible that the adoption of this Interpretation will have a material effect on future results of operations.

2. RECAPITALIZATION

On December 12, 2006, the Company announced a recapitalization plan to return $750 million to the Company's shareholders. This plan expanded and accelerated the previously announced five-year $500 million share repurchase program (which was canceled) under which the Company repurchased $87.9 million of its common shares during fiscal 2006. Pursuant to the recapitalization plan, on February 14, 2007, the Company completed a modified "Dutch auction" tender offer, resulting in the repurchase of 4.5 million of the Company's common shares for an aggregate purchase price of $245.5 million ($54.50 per share). On February 16, 2007, the Company's Board of Directors declared a special one-time cash dividend of $8.00 per share ($508 million in the aggregate), which was paid on March 5, 2007, to shareholders of record on February 26, 2007.

In order to fund these transactions, the Company entered into new credit facilities aggregating $2.15 billion and terminated its prior credit facility. As part of this debt restructuring, the Company also conducted a cash tender offer for any and all of its outstanding 6 5/8% senior subordinated notes in an aggregate principal amount of $200 million. Reference should be made to Note 6, "Debt" for further information as to the new credit facilities and the repayment and termination of the prior credit facility and the 6 5/8% senior subordinated notes.

The payment of the special one-time cash dividend required the Company to adjust the number of common shares subject to stock options and stock appreciation rights outstanding under the Company's share-based awards programs, as well as the price at which the awards may be exercised. Reference should be made to Note 9, "Stock-Based Compensation Awards" for further information.

The Company's interest expense will be significantly higher for periods subsequent to the recapitalization as a result of the borrowings incurred to fund the cash returned to shareholders. The following pro forma financial information has been compiled as if the Company had completed the recapitalization transactions as of October 1, 2005 for fiscal 2006 and as of October 1, 2006 for fiscal 2007. Borrowing rates in effect as of March 30, 2007 were used to compute pro forma interest expense. As the recapitalization involved a share repurchase, pro forma diluted common shares are also provided. No pro forma adjustments are necessary for the three-month period ended June 30, 2007, as the recapitalization transactions were consummated prior to the start of the period. Therefore, the information below for the three-month period ended June 30, 2007, displays actual results for that period and is provided for comparative purposes.

	PRO FORMA FINANCIAL INFORMATION			
	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
Income before income taxes, as reported	$ 200.9	$ 216.1	$ 238.4	$ 282.9
Add back reported interest expense	—	13.2	52.3	32.8
Add back costs related to refinancing	—	—	18.3	—
Deduct pro forma interest expense	—	(29.2)	(75.9)	(79.2)
Pro forma income before income taxes	200.9	200.1	233.1	236.5
Pro forma income taxes	71.2	77.1	82.8	90.6
Pro forma net income	$ 129.7	$ 123.0	$ 150.3	$ 145.9
Pro forma basic net income per common share	$ 2.04	$ 1.95	$ 2.38	$ 2.31
Pro forma diluted net income per common share	$ 1.98	$ 1.89	$ 2.31	$ 2.23
Reported interest expense	$ 26.2	$ 13.2	$ 52.3	$ 32.8
Incremental interest on recapitalization borrowings	—	13.3	21.8	39.4
New credit facility interest rate differential	—	2.5	1.5	6.4
Incremental amortization of new credit facility fees	—	0.2	0.3	0.6
Pro forma interest expense	$ 26.2	$ 29.2	$ 75.9	$ 79.2
Pro forma effective tax rates	35.5%	38.5%	35.5%	38.3%

	PRO FORMA SHARES			
	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS)			
Weighted-average common shares outstanding during the period	63.6	67.5	65.6	67.7
Incremental full period impact of repurchased common shares	—	(4.5)	(2.4)	(4.5)
Pro forma basic common shares	63.6	63.0	63.2	63.2
Weighted-average common shares outstanding during the period plus dilutive potential common shares	65.4	69.4	67.5	69.7
Incremental full period impact of repurchased common shares	—	(4.5)	(2.4)	(4.5)
Impact on dilutive potential common shares	—	0.3	0.1	0.3
Pro forma diluted common shares	65.4	65.2	65.2	65.5

3. DETAIL OF INVENTORIES, NET

Inventories, net of provisions for slow moving and obsolete inventory of $15.8 million, $15.9 million, and $15.1 million, as of June 30, 2007, July 1, 2006 and September 30, 2006, respectively, consisted of:

	JUNE 30, 2007	JULY 1, 2006	SEPTEMBER 30, 2006
	(IN MILLIONS)		
Finished goods	$ 303.6	$ 312.6	$ 267.4
Work-in-process	24.8	30.0	36.0
Raw materials	104.0	90.0	105.8
	$ 432.4	$ 432.6	$ 409.2

4. MARKETING AGREEMENT

The Company is Monsanto's exclusive agent for the domestic and international marketing and distribution of consumer Roundup® herbicide products. Under the terms of the Marketing Agreement with Monsanto, the Company is entitled to receive an annual commission from Monsanto in consideration for the performance of the Company's duties as agent. The annual gross commission under the Marketing Agreement is calculated as a percentage of the actual earnings before interest and income taxes (EBIT) of the consumer Roundup® business, as defined in the Marketing Agreement. Each year's percentage varies in accordance with the terms of the Marketing Agreement based on the achievement of two earnings thresholds and on commission rates that vary by threshold and program year. The Marketing Agreement also requires the Company to make annual payments to Monsanto as a contribution against the overall expenses of the consumer Roundup® business. The annual contribution payment is defined in the Marketing Agreement as $20 million.

Under the terms of the Marketing Agreement, the Company performs certain functions, primarily manufacturing conversion, selling and marketing support, on behalf of Monsanto in the conduct of the consumer Roundup® business. The actual costs incurred for these activities are charged to and reimbursed by Monsanto, for which the Company recognizes no gross profit or net income. The Company records costs incurred under the Marketing Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in "Cost of sales" and the reimbursement of these costs in "Net sales," with no effect on gross profit or net income. The net sales and cost of sales related to these reimbursed costs are $12.0 million and $11.5 million for the three-month periods and $32.1 million and $29.7 million for the nine-month periods ended June 30, 2007 and July 1, 2006, respectively.

The elements of the net commission earned under the Marketing Agreement and included in "Net sales" are as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS)		(IN MILLIONS)	
Gross commission	$ 29.0	$ 31.5	$ 50.4	$ 49.7
Contribution expenses	(5.0)	(5.0)	(15.0)	(15.0)
Amortization of marketing fee	(0.2)	(0.2)	(0.6)	(0.6)
Net commission income	23.8	26.3	34.8	34.1
Reimbursements associated with Marketing Agreement	12.0	11.5	32.1	29.7
Total net sales associated with Marketing Agreement	$ 35.8	$ 37.8	$ 66.9	$ 63.8

In consideration for the rights granted to the Company under the Marketing Agreement for North America, the Company was required to pay a marketing fee of $33 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 Marketing Agreement. Based on management's current assessment of the likely term of the Marketing Agreement, the useful life over which the marketing fee is being amortized is 20 years.

The Marketing Agreement has no definite term except as it relates to the European Union countries. With respect to the European Union countries, the term of the Marketing Agreement has been extended through September 30, 2008 and may be renewed at the option of both parties for two additional successive terms ending on September 30, 2015 and 2018, with a separate determination being made by the parties at least six months prior to the expiration of each such term as to whether to commence a subsequent renewal term. If Monsanto does not agree to the renewal term with respect to the European Union countries, the commission structure will be renegotiated within the terms of the Marketing Agreement. For countries outside of the European Union, the Marketing Agreement continues indefinitely unless terminated by either party.

The Marketing Agreement provides Monsanto with the right to terminate the Marketing Agreement for an event of default (as defined in the Marketing Agreement) by the Company or a change in control of Monsanto or the sale of the consumer Roundup® business. The Marketing Agreement provides the Company with the right to terminate the Marketing Agreement in certain circumstances including an event of default by Monsanto or the sale of the consumer Roundup® business. Unless Monsanto terminates the Marketing 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. If Monsanto terminates the Marketing Agreement upon a change of control of Monsanto or the sale of the consumer Roundup® business prior to September 30, 2008, the Company will be entitled to a termination fee in excess of $100 million. If the Company terminates the Marketing Agreement upon an uncured material breach, material fraud or material willful misconduct by Monsanto, it is entitled to receive a termination fee in excess of $100 million if the termination occurs prior to September 30, 2008. The termination fee declines over time from $100 million to a minimum of $16 million for terminations between September 30, 2008 and September 30, 2018. If Monsanto were to terminate the Marketing Agreement for cause, the Company would not be entitled to any termination fee, and it would lose all, or a significant portion, of the significant source of earnings and overhead

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expense absorption the Marketing Agreement provides. Monsanto may also be able to terminate the Marketing Agreement within a given region, including North America, without paying a termination fee if sales to consumers in that region decline: (1) over a cumulative three fiscal year period; or (2) by more than 5% for each of two consecutive years.

5. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES

FISCAL 2007 CHARGES

The Company has not recorded impairment, restructuring and other charges to date in fiscal 2007.

FISCAL 2006 CHARGES

During the three and nine month periods ended July 1, 2006, the Company recorded $1.1 million and $6.9 million, respectively, of restructuring and other charges relating to the profit improvement plan initiated in fiscal 2005, consisting primarily of severance and related costs. In addition, an impairment charge of $1.0 million was recorded during the first quarter of fiscal 2006 for a tradename no longer in use in our United Kingdom business.

The following is the detail of impairment, restructuring and other charges reported in the Condensed, Consolidated Statements of Operations:

	NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS)	
Restructuring and other charges:		
Severance	$ —	$ 5.5
Other related costs	—	1.4
	—	6.9
Impairment of other intangibles	—	1.0
	$ —	$ 7.9

The following is a roll forward of accrued restructuring and other charges, which are included in “Accrued liabilities” in the Condensed, Consolidated Balance Sheets:

	NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS)	
Amounts reserved for restructuring and other charges at beginning of fiscal year	$ 6.4	$ 15.6
Restructuring expense	—	6.9
Payments and other	(4.6)	(15.3)
Amounts reserved for restructuring and other charges at end of period	$ 1.8	$ 7.2

6. DEBT

The components of long-term debt as of June 30, 2007, July 1, 2006, and September 30, 2006 are as follows:

	JUNE 30, 2007	JULY 1, 2006	SEPTEMBER 30, 2006
		(IN MILLIONS)	
Credit Facilities:			
Revolving loans	$ 455.2	$ 401.7	$ 253.8
Term loans	560.0	—	—
Master Accounts Receivable Purchase Agreement	222.6	—	—
6 5/8% Senior Subordinated Notes	—	200.0	200.0
Notes due to sellers	15.2	6.1	15.4
Foreign bank borrowings and term loans	5.9	9.9	2.8
Other	8.4	8.5	9.2
	1,267.3	626.2	481.2
Less current portions	237.2	13.0	6.0
	$ 1,030.1	$ 613.2	$ 475.2

In connection with the recapitalization plan discussed in Note 2, Scotts Miracle-Gro and certain of its subsidiaries have entered into the following loan facilities totaling up to $2.15 billion in the aggregate: (a) a senior secured five-year term loan in the principal amount of $560 million and (b) a senior secured five-year revolving loan facility in the aggregate principal amount of up to $1.59 billion. Borrowings may be made in various currencies including United States dollars, Euro dollars, British pounds sterling, Australian dollars and Canadian dollars. The new $2.15 billion senior secured credit facilities replaced the Company's $1.05 billion senior credit facility. The terms of the new facilities provide for customary representations and warranties and affirmative covenants similar to the prior facility. The new credit facilities also contain customary negative covenants providing limitations, subject to negotiated carve-outs, on liens, contingent obligations, fundamental changes, acquisitions, investments, loans and advances, indebtedness, restrictions on subsidiary distributions, transactions with affiliates and officers, sales of assets, sale and leaseback transactions, changing the Company's fiscal year end, modifications of certain debt instruments, negative pledge clauses, entering into new lines of business and restricted payments (including dividend payments restricted to $75 million annually based on the current Leverage Ratio of the Company). The new credit facilities are secured by collateral that includes certain domestic accounts receivable (exclusive of any "sold" receivables), inventory, and equipment. The new credit facilities also require the maintenance of a specified Leverage Ratio and Minimum Interest Coverage (both as defined).

The new credit facilities have several borrowing options, including interest rates that are based on (i) a LIBOR rate plus a margin based on a Leverage Ratio (as defined) or (ii) the greater of the prime rate or the Federal Funds Effective Rate (as defined) plus 1/2 of 1% plus a margin based on a Leverage Ratio. Commitment fees are paid quarterly and are calculated as an amount equal to the product of a rate based on a Leverage Ratio (as defined) and the average daily unused portion of both the revolving and term credit facilities. Amounts outstanding under the new credit facilities at June 30, 2007 were at interest rates based on LIBOR applicable to the borrowed currencies plus 125 basis points.

On January 10, 2007, the Company also launched a cash tender offer for any and all of its outstanding 6 5/8% senior subordinated notes due 2013 in an aggregate principal amount of $200 million. Substantially all of the 6 5/8% senior subordinated notes were repurchased under the terms of the tender offer on February 14, 2007. The remaining senior subordinated notes not tendered were subsequently called and repurchased on March 26, 2007. Proceeds from the new credit facilities were used to fund the repurchase of the 6 5/8% senior subordinated notes, at an aggregate cost of $209.6 million including an early redemption premium.

At June 30, 2007, the Company had outstanding interest rate swaps with major financial institutions that effectively converted a portion of our variable-rate debt denominated in the Euro dollar, British pound and U.S. dollar to a fixed rate. The swap agreements have a total U.S. dollar equivalent notional amount of $713.9 million. The term, expiration date and rates of these swaps are shown in the table below.

CURRENCY	NOTIONAL AMOUNT IN USD	TERM	EXPIRATION DATE	FIXED RATE
British pound	$ 56.7	3 years	11/17/2008	4.76%
Euro dollar	57.2	3 years	11/17/2008	2.98%
US dollar	200.0	2 years	3/31/2009	4.90%
US dollar	200.0	3 years	3/31/2010	4.89%
US dollar	200.0	5 years	2/14/2012	5.20%

The Company has recorded a charge of $18.3 million (including approximately $8.0 million of noncash charges associated with the write-off of deferred financing costs) during the second quarter of fiscal 2007 relating to the refinancing of the $1.05 billion senior credit facility and the repurchase of the 6 5/8% senior subordinated notes.

Master Accounts Receivable Purchase Agreement

On April 11, 2007, the Company entered into a Master Accounts Receivable Purchase Agreement (the "MARP Agreement") with two banks with a stated termination date of April 10, 2008. The MARP Agreement provides for the sale, on a revolving basis, of account receivables generated by specified account debtors, with seasonally adjusted monthly aggregate limits ranging from $55 million to $300 million. The MARP Agreement also provides for specified account debtor sublimit amounts, which provide limits on the amount of receivables owed by individual account debtors that can be sold to the banks.

The MARP Agreement provides that although the specified receivables are sold to the banks, the banks have the right to require the Company to repurchase uncollected receivables if certain events occur, including the breach of certain covenants, warranties or representations made by the Company with respect to such receivables. However, the banks do not have the right to require the Company to repurchase any uncollected receivables if nonpayment is due to the account debtor's financial inability to pay. The

Company has the right at any time to repurchase any receivables which have been sold to the banks pursuant to the MARP Agreement. The banks receive a discount on the adjusted amount of the receivables purchased, which effectively is equal to the 30-day LIBOR rate plus a margin of .65% per annum. The Company continues to be responsible for the servicing and administration of the receivables purchased by the banks as agent and trustee for the banks.

The Company accounts for the sale of receivables under the MARP Agreement as short-term debt and continues to carry the receivables on its consolidated balance sheet, in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," primarily as a result of the Company's right to repurchase receivables sold to the banks. The caption "Accounts receivable pledged under MARP Agreement" reflecting the amount of $307.8 million on the accompanying Condensed, Consolidated Balance Sheet as of June 30, 2007, represents the pool of receivables that have been designated as "sold" and serve as collateral for short-term debt in the amount of $222.6 million as of that date.

7. COMPREHENSIVE INCOME

The components of other comprehensive income and total comprehensive income for the three and nine month periods ended June 30, 2007 and July 1, 2006, are as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS)		(IN MILLIONS)	
Net income	$ 129.7	$ 133.3	$ 153.7	$ 175.4
Other comprehensive income:				
Change in valuation of derivative instruments	3.9	0.1	3.9	0.2
Foreign currency translation adjustments	0.1	1.7	0.9	2.4
Comprehensive income	$ 133.7	$ 135.1	$ 158.5	$ 178.0

8. RETIREMENT AND RETIREE MEDICAL PLANS COST INFORMATION

The following summarizes the net periodic benefit cost for the various retirement and retiree medical plans sponsored by the Company:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS)		(IN MILLIONS)	
Frozen defined benefit plans	$0.4	$0.5	$1.3	$1.4
International benefit plans	1.7	2.0	5.5	6.0
Retiree medical plan	0.5	0.6	1.8	2.2

9. STOCK-BASED COMPENSATION AWARDS

The following is a recap of the share-based awards granted over the periods indicated:

	NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006
Key employees		
Options	821,200	801,400
Options and SARs due to recapitalization	872,147	—
Performance shares	—	30,000
Restricted stock	193,550	182,000
Board of Directors		
Options	127,000	126,000
Options due to recapitalization	202,649	—
Total share-based awards	2,216,546	1,139,400
Aggregate fair value at grant dates (in millions), excluding additional options and SARs issued due to the recapitalization	$ 22.3	$ 20.4

As discussed in Note 2, the Company consummated a series of transactions as part of a recapitalization plan in the quarter ended March 31, 2007. The payment of a special dividend is a recapitalization or adjustment event under the Company's share-based awards programs. As such, it was necessary to adjust the number of common shares subject to stock options and stock appreciation rights outstanding at the time of the dividend, as well as the price at which such awards may be exercised. The adjustments to the outstanding awards resulted in an increase in the number of common shares subject to outstanding stock options and stock appreciation rights awards in an aggregate amount of 1.1 million common shares. The methodology used to adjust the awards was consistent with IRS Code Section 409A and the then proposed regulations promulgated thereunder and IRC Section 424 and the regulations promulgated thereunder, compliance with which was necessary to avoid adverse tax issues for the holder of an award. Such methodology also resulted in a fair value for the adjusted awards post-dividend equal to that of the unadjusted awards pre-dividend, with the result that there is no additional compensation expense in accordance with the accounting for modifications to awards under SFAS 123(R), "Share-Based Payment."

Total share-based compensation and the tax benefit recognized in compensation expense were as follows for the periods indicated (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
Share-based compensation	$3.6	$2.9	$13.6	$11.7
Tax benefit recognized	1.3	1.1	4.8	4.4

10. 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, worker's compensation, property losses and other fiduciary liabilities for which the Company is self-insured or retains a high exposure limit. Self-insurance reserves are established based on actuarial estimates. Legal costs incurred in connection with the resolution of claims, lawsuits and other contingencies generally are expensed as incurred. 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.

Environmental Matters

In 1997, the Ohio EPA initiated an enforcement action against the Company with respect to alleged surface water violations and inadequate treatment capabilities at the Marysville, Ohio facility seeking corrective action under the federal Resource Conservation and Recovery Act. The action related to discharges from on-site waste water treatment and several discontinued on-site disposal areas. Pursuant to a Consent Order entered by the Union County Common Pleas Court in 2002, the Company is actively engaged in restoring the site to eliminate exposure to waste materials from the discontinued on-site disposal areas.

At June 30, 2007, $3.1 million was accrued for environmental and regulatory matters, primarily related to the Marysville facility. Most of the accrued costs are expected to be paid in fiscal 2007 and fiscal 2008; however, payments could be made for a period thereafter. While the amounts accrued are believed to be adequate to cover known environmental exposures based on current facts and estimates of likely outcome, the adequacy of these accruals is based on several significant assumptions:

- that all significant sites that must be remediated have been identified;
- that there are no significant conditions of contamination that are unknown to us; and
- that with respect to the agreed judicial Consent Order in Ohio, potentially contaminated soil can be remediated in place rather than having to be removed and only specific stream segments will require remediation as opposed to the entire stream.

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.

On April 27, 2007, the Company received a proposed Order On Consent from the New York State Department of Environmental Conservation (the "Proposed Order") alleging that during the calendar year 2003, the Company and James Hagedorn, individually and as Chairman of the Board and the Chief Executive Officer of the Company, unlawfully donated to a Port Washington, New York youth sports organization forty bags of Scotts® LawnPro Annual Program Step 3 Insect Control Plus Fertilizer which, while federally registered, was allegedly not registered in the state of New York. The Proposed Order requests penalties totaling $695,000. The Company is currently investigating this matter.

U.S. Horticultural Supply, Inc. (F/K/A E.C. Geiger, Inc.)

On November 5, 2004, U.S. Horticultural Supply, Inc. ("Geiger") filed suit against the Company in the U.S. District Court for the Eastern District of Pennsylvania. This complaint alleges that the Company conspired with another distributor, Griffin Greenhouse Supplies, Inc., to restrain trade in the horticultural products market, in violation of Section 1 of the Sherman Antitrust Act. On June 2, 2006, the Court denied the Company's motion to dismiss the complaint. Fact discovery ended on March 8, 2007. The Company is currently engaged in expert discovery, the deadline for completion of which is October 19, 2007. The deadline for dispositive motions is November 19, 2007.

The Company intends to vigorously defend against Geiger's claims. The Company believes that Geiger's claims are without merit and that the likelihood of an unfavorable outcome is remote. Therefore, no accrual has been established related to this matter. However, the Company cannot predict the ultimate outcome with certainty. If the above action is determined adversely to the Company, the result could have a material adverse effect on the Company's results of operations, financial position and cash flows. Geiger's damages expert specified $3.3 million in alleged damages (which may be trebled under the antitrust statutes) and discovery has not yet concluded, any potential exposure that the Company may face cannot be reasonably estimated at this time.

Other

The Company has been named a defendant in a number of cases alleging injuries that the lawsuits claim resulted from exposure to asbestos-containing products, apparently based on the Company's historic use of vermiculite in certain of its products. The complaints in these cases generally are not specific about the plaintiffs' contacts with the Company or its products. The Company in each case is one of numerous defendants and none of the claims seeks damages from the Company alone. The Company believes that the claims against it are without merit and is vigorously defending against them. It is not currently possible to reasonably estimate a probable loss, if any, associated with the cases and, accordingly, no accrual or reserves have been recorded in the consolidated financial statements. There can be no assurance that these cases, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material adverse effect on the Company's financial condition result of operations, or cash flows.

The Company is reviewing agreements and policies that may provide insurance coverage or indemnity as to these claims and is pursuing coverage under some of these agreements, although there can be no assurance of the results of these efforts.

The Company is involved in other lawsuits and claims which arise in the normal course of business. These claims individually and in the aggregate are not expected to result in a material adverse effect on the Company's results of operations, financial position or cash flows.

11. ACQUISITIONS

The Company continues to view strategic acquisitions as a means to enhance the core businesses. During fiscal 2006, the Company made the following acquisitions:

June 2006 — Certain brands and assets of Landmark Seed Company (professional seed and turfgrasses)

May 2006 — Certain brands and assets of Turf-Seed, Inc. (commercial turfgrasses)

November 2005 — All the outstanding shares of Gutwein & Co., Inc. (wild bird food)

October 2005 — All the outstanding shares of Rod McLellan Company (soil and landscape products).

These acquisitions required cash outlays of $115.0 million, the assumption of $17.0 million in liabilities and deferred payments, and a commitment to pay in 2012 consideration based on future performance that may approximate $15.0 million.

The Company also continues to invest in the growth of the Scotts LawnService® business. The Company invested $8.3 million and $4.1 million in acquisitions during the first nine months of fiscal 2007 and 2006, respectively. Subsequent to June 30, 2007, Scotts LawnService® acquired the 15,000 customers and certain assets of two lawn care businesses operated by a franchisee in the vicinity of Long Island and Westchester County, New York. The total purchase price for the two businesses, including assumed liabilities, was $13.4 million.

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12. SEGMENT INFORMATION

The Company is divided into the following segments — North America, Scotts LawnService®, International, and Corporate & Other. This division of reportable segments is consistent with how the segments report to and are managed by the chief operating decision makers of the Company. The following table presents segment financial information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Pursuant to SFAS No. 131, the presentation of the segment financial information is consistent with the basis used by management (i.e., certain costs not allocated to business segments for internal management reporting purposes are not allocated for purposes of this presentation). Certain reclassifications were made to prior period amounts to reflect the inclusion of biotech costs and certain other items in the Corporate and Other segment instead of the North America segment to be consistent with fiscal 2007 reporting.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1 2006	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS)		(IN MILLIONS)	
Net sales:				
North America	$ 783.2	$ 770.3	$ 1,674.7	$ 1,596.5
Scotts LawnService®	84.6	75.3	144.1	128.7
International	167.2	144.5	406.1	353.0
Corporate & Other	63.4	57.9	138.0	126.8
	$ 1,098.4	$ 1,048.0	$ 2,362.9	$ 2,205.0
Operating income (loss):				
North America	$ 196.9	$ 208.0	$ 356.9	$ 363.1
Scotts LawnService®	21.5	19.5	(11.6)	(5.4)
International	24.7	21.7	48.3	41.1
Corporate & Other	(11.6)	(13.9)	(72.5)	(63.0)
Segment total	231.5	235.3	321.1	335.8
Roundup® amortization	(0.2)	(0.2)	(0.6)	(0.6)
Amortization	(4.2)	(4.7)	(11.5)	(11.6)
Impairment of intangibles	—	—	—	(1.0)
Restructuring	—	(1.1)	—	(6.9)
	$ 227.1	$ 229.3	$ 309.0	$ 315.7

	JUNE 30, 2007	JULY 1, 2006	SEPTEMBER 30, 2006
		(IN MILLIONS)	
Total assets:			
North America	$ 1,596.8	$ 1,574.5	$ 1,339.2
Scotts LawnService®	175.4	164.4	161.6
International	591.0	581.5	450.9
Corporate & Other	255.7	226.1	265.9
	$ 2,618.9	$ 2,546.5	$ 2,217.6

Segment operating income or loss represents earnings before amortization of intangible assets, interest and taxes, since this is the measure of profitability used by management. Accordingly, the Corporate & Other operating loss for the three and nine month periods ended June 30, 2007 and July 1, 2006 includes unallocated corporate general and administrative expenses, and certain other income/expense items 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 & Other assets primarily include deferred financing and debt issuance costs, corporate intangible assets, deferred tax assets and Smith & Hawken® assets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Management's Discussion and Analysis ("MD&A") is organized in the following sections:

- Executive summary
- Results of operations
- Segment results
- Liquidity and capital resources

Executive Summary

We are dedicated to delivering strong, consistent financial results and outstanding shareholder returns by providing consumers with products of superior quality and value to enhance their outdoor living environments. We are a leading manufacturer and marketer of consumer branded products for lawn and garden care and professional horticulture in North America and Europe. We are Monsanto's exclusive agent for the marketing and distribution of consumer Roundup® non-selective herbicide products within the United States and other contractually specified countries. We entered the North America wild bird food category with the acquisition of Gutwein & Co. Inc. ("Gutwein") in November 2005 and the outdoor living category with the acquisition of Smith & Hawken® in October 2004. We have a presence in Australia, the Far East, Latin America and South America. Also, in the United States, we operate what we believe to be the second largest residential lawn service business, Scotts LawnService®. In fiscal 2007, our operations are divided into the following reportable segments: North America, Scotts LawnService®, International, and Corporate & Other. The Corporate & Other segment consists of our Smith & Hawken® business, and corporate general and administrative expenses.

As a leading consumer branded lawn and garden company, we focus our marketing efforts, including advertising and consumer research, on creating consumer demand to pull products through the retail distribution channels. In the past three years, we have spent approximately 5% of our net sales annually on media advertising to support and promote our products and brands. We have applied this consumer marketing focus for the past several years, and believe that we receive a significant return on these marketing expenditures. We expect to continue our marketing efforts focused toward the consumer and make additional targeted investments in consumer marketing in the future to continue to drive sales and market share growth.

Our sales are susceptible to global weather conditions. For instance, periods of wet weather can adversely impact sales of certain products, while increasing demand for other products. We believe that our diversified product line provides some mitigation to this risk. We also believe that our broad geographic diversification further reduces this risk.

	Percent Net Sales by Quarter		
	2006	2005	2004
First Quarter	9.3%	10.4%	8.7%
Second Quarter	33.6%	34.3%	35.2%
Third Quarter	38.9%	38.0%	38.2%
Fourth Quarter	18.2%	17.3%	17.9%

Due to the nature of our lawn and garden business, significant portions of our shipments occur in the second and third fiscal quarters. Over the past few years, retailers have reduced their pre-season inventories as they have come to place greater reliance on our ability to deliver products "in season" when consumers buy our products.

Management focuses on a variety of key indicators and operating metrics to monitor the health and performance of our business. These metrics include consumer purchases (point-of-sale data), market share, net sales (including volume, pricing and foreign exchange), gross profit margins, income from operations, net income and earnings per share. To the extent applicable, these measures are evaluated with and without impairment, restructuring and other charges. We also focus on measures to optimize cash flow and return on invested capital, including the management of working capital and capital expenditures.

Given the Company's strong performance and consistent cash flows, our Board of Directors has undertaken several actions over the past two years to return cash to our shareholders. We began paying a quarterly cash dividend of 12.5 cents per share in the fourth quarter of fiscal 2005. In fiscal 2006, our Board launched a five-year $500 million share repurchase program pursuant to which we repurchased 2.0 million common shares for $87.9 million during fiscal 2006. Most recently, on December 12, 2006, the Company announced a recapitalization plan to return $750 million to the Company's shareholders. This plan expanded and accelerated the previously announced five-year $500 million share repurchase program (which was canceled). Pursuant to the recapitalization plan, on February 14, 2007, the Company completed a modified "Dutch auction" tender offer, resulting in the repurchase of 4.5 million of the Company's common shares for an aggregate purchase price of $245.5 million ($54.50 per share). On February 16, 2007, the Company's Board of Directors declared a special one-time cash dividend of $8.00 per share ($508 million in the aggregate) which was paid on March 5, 2007, to shareholders of record on February 26, 2007.

In order to fund the recapitalization effective February 2007, the Company entered into new credit facilities aggregating $2.15 billion and terminated its prior credit facility. As part of this debt restructuring, the Company also conducted a cash tender offer for all of its outstanding 6 5/8% senior subordinated notes in an aggregate principal amount of $200 million. Reference should be made to Note 6 to the accompanying condensed, consolidated financial statements for further information as to the new credit facilities and the repayment and termination of the prior credit facility and the 6 5/8% senior subordinated notes.

The actions described above reflect management's confidence in the continued growth of the Company coupled with strong and consistent cash flows that can support the higher levels of debt incurred to finance these actions. Even with an increase in borrowings, we believe we will maintain the capacity to pursue targeted, strategic acquisitions that leverage our core competencies.

RESULTS OF OPERATIONS

The following table sets forth the components of income and expense as a percentage of net sales for the three and nine-month periods ended June 30, 2007 and July 1, 2006:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
	(UNAUDITED)		(UNAUDITED)	
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	61.5	61.3	64.2	63.5
Gross profit	38.5	38.7	35.8	36.5
Operating expenses:				
Selling, general and administrative	18.1	17.1	23.0	22.1
Impairment, restructuring and other charges	—	0.1	—	0.4
Other income, net	(0.3)	(0.4)	(0.3)	(0.3)
Income from operations	20.7	21.9	13.1	14.3
Costs related to refinancing	—	—	0.8	—
Interest expense	2.4	1.3	2.2	1.5
Income before income taxes	18.3	20.6	10.1	12.8
Income taxes	6.5	7.9	3.6	4.9
Net income	11.8%	12.7%	6.5%	7.9%

Net sales for the third quarter and first nine months of fiscal 2007 grew 4.8% and 7.2% respectively, versus the comparable periods of fiscal 2006. Foreign exchange rates favorably impacted sales growth rates for the third quarter and first nine months by 120 basis points and 170 basis points, respectively. Recent acquisitions favorably impacted sales growth for the third quarter by 0.7% and for the first nine months by 1.8%. Excluding acquisitions and foreign exchange, sales for the quarter and first nine months increased $30.8 million or 2.9% and $82.0 million or 3.7%, respectively. The quarter and year-to-date net sales in our North America segment were adversely affected by challenging weather conditions in the month of April that were not recovered in the May and June timeframe. Our international segment and Smith & Hawken® continued their strong fiscal 2007 sales trend in the quarter. While Scotts LawnService® continues to have strong revenue growth, fiscal 2007 customer count growth has been below expectations, which we believe is attributable to a number of factors including the effects of poor weather in April and broader economic conditions.

As a percentage of net sales, gross profit was 38.5% of net sales in the third quarter of fiscal 2007 compared to 38.7% in the third quarter of fiscal 2006. For the first nine months of fiscal 2007, our gross profit percentage declined to 35.8% from 36.5% in the comparable period of fiscal 2006. Most of the fiscal 2007 margin decrease was anticipated and is being driven by a combination of costs, acquisitions, and mix. Commodity costs continue to be volatile and have generally increased over the course of the year. These increases were planned for, with a variety of actions taken to mitigate the effects, including increasing prices of our products to offset the impact of input cost increases. Other actions include hedging, opportunistic purchasing, and flexible production schedules. Fiscal 2006 strategic acquisitions in the wild bird food category in the first quarter and in the professional turfgrass and grass seed market in the third quarter are dilutive to our overall gross margin rates. Finally, product mix is having a dilutive effect as we are growing relatively less profitable categories, such as growing media and wild bird food, faster than other categories. Margin rates are receiving focus across the Company, although it is difficult to materially influence them in the short term. Plans being finalized for fiscal 2008 in the areas of innovation and pricing are geared toward reversing the gross margin rate declines we have experienced over the past three fiscal years.

Selling, General and Administrative:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS) (UNAUDITED)		(IN MILLIONS) (UNAUDITED)	
Advertising	$ 61.7	$ 50.9	$ 125.4	$ 115.4
Other selling, general and administrative	133.3	124.6	407.5	362.4
Amortization of intangibles	4.2	4.7	11.5	11.6
	$ 199.2	$ 180.2	$ 544.4	$ 489.4

As compared to the same periods in fiscal 2006, advertising expenses increased $10.8 million to $61.7 million in the third quarter and $10.0 million to $125.4 million for the first nine months of fiscal 2007. The bulk of this increase occurred in our North America segment, in part, due to higher investments in media spending to drive sales growth after the slow start to the season. While we believe this spending helped us maintain or improve our market share in most categories, the additional investment in media did not generate adequate incremental sales to compensate for our disappointing April.

Other SG&A expenses increased $8.7 million to $133.3 million in the third quarter and $45.1 million to $407.5 million for the first nine months of fiscal 2007 versus the comparable period in fiscal 2006. Other SG&A expenses for the first nine months of fiscal 2006 reflect a $10.1 million benefit from an insurance recovery relating to past legal costs incurred in our defense of lawsuits regarding our use of vermiculite allegedly contaminated with asbestos. Increases in Other SG&A spending occurred in our rapidly expanding Scotts LawnService® business in the amount of $3.7 million for the third quarter and $11.6 million for the first nine months. Increased investments in innovation, marketing and selling efforts were partially offset by lower management incentives. Other SG&A expense increases of $1.9 million and $6.7 million in for the third quarter and year-to-date period, respectively, were due to foreign exchange.

Impairment, Restructuring and Other Charges, net:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS) (UNAUDITED)		(IN MILLIONS) (UNAUDITED)	
Impairment charges	$ —	$ —	$ —	$ 1.0
Restructuring — severance and related	—	1.1	—	6.8
	$ —	$ 1.1	$ —	$ 7.8

The Company historically has conducted its annual impairment review of indefinite-lived tradenames and goodwill during its first fiscal quarter. The impairment analysis for the first quarter of fiscal 2007 indicated that no impairment charges were required. The $1.0 million charge recorded in the first quarter of fiscal 2006 related to a tradename written off in the United Kingdom. Restructuring activities during fiscal 2006 related to further organizational adjustments associated with Project Excellence initiated in the third quarter of fiscal 2005.

During the third quarter of fiscal 2007, the Company changed the timing of its annual goodwill impairment testing from the last day of our fiscal first quarter to the first day of our fiscal fourth quarter. As such, we performed the annual impairment test as of December 30, 2006 and we will perform the test again as of July 1, 2007. This accounting is preferable in the circumstances as moving the timing of our annual goodwill impairment testing better aligns with the seasonal nature of our business and the timing of our annual strategic planning process. The Company believes that this change in accounting principle will not delay, accelerate, or avoid an impairment charge. In addition, the Company also changed the date of its annual indefinite life intangible impairment testing to the first day of our fiscal fourth quarter, July 1, 2007 for the current year. The Company determined that the change in accounting principle related to the annual testing date does not result in adjustments to the financial statements applied retrospectively.

Interest expense for the third quarter and first nine months of fiscal 2007 was $26.2 million and $52.3 million, respectively, compared to $13.2 million and $32.8 million for the third quarter and first nine months of fiscal 2006. These increases in interest expense are attributable to an increase in borrowings resulting from the recapitalization transactions that were consummated during the second quarter of fiscal 2007, coupled with an increase in our weighted average interest rate resulting from our increased leverage and higher LIBOR rates in general. Average borrowings increased $702.0 million and $313.0 million during the third quarter and first nine months of fiscal 2007, respectively, as compared to the prior year periods. For both the quarter and the first nine months, weighted average interest rates increased by 80 basis points. We also recorded $18.3 million in costs related to the refinancing undertaken to facilitate the recapitalization transactions.

Income tax expense was calculated assuming an effective tax rate of 35.5% for fiscal 2007, versus 38.0% for fiscal 2006. The effective tax rate used for interim reporting purposes is based on management's best estimate of factors impacting the effective tax rate for the fiscal year. Factors affecting the estimated rate include assumptions as to income by jurisdiction (domestic and foreign), the availability and utilization of tax credits, the existence of elements of income and expense that may not be taxable or deductible, as well as other items. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end. The estimated effective tax rate is subject to revision in later interim periods and at fiscal year end as facts and circumstances change during the course of the fiscal year.

Diluted average common shares used in the diluted net income per common share calculation decreased from 69.4 million for the quarter and 69.7 million for the nine months ended July 1, 2006 to 65.4 million for the quarter and 67.5 million for the nine months ended June 30, 2007. These decreases are attributable to the 4.5 million common shares repurchased as part of the recapitalization consummated during the second quarter of fiscal 2007, weighted for the period outstanding, and offset by common shares issued upon the exercise of share-based awards and the vesting of restricted stock. Diluted average common shares also include 1.8 million and 1.9 million equivalent shares for the quarter and year-to-date periods, respectively, in fiscal 2007 to reflect the effect of the assumed conversion of dilutive options and SARs and the vesting of restricted common share awards. Equivalent common shares used in fiscal 2006 were 1.9 million for the third quarter and 2.0 million for the year-to-date period.

SEGMENT RESULTS

Consistent with fiscal 2006, our fiscal 2007 operations are divided into the following reportable segments: North America (including Morning Song®), Scotts LawnService®, International, and Corporate & Other. The Corporate & Other segment consists of Smith & Hawken®, and corporate general and administrative expenses. Segment performance is evaluated based on several factors, including income from operations before amortization, and impairment, restructuring and other charges, which is a non-GAAP measure. Management uses this measure of operating profit to gauge segment performance because we believe this measure is the most indicative of performance trends and the overall earnings potential of each segment.

The following table sets forth net sales by segment:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2007	JULY 1, 2006	JUNE 30, 2007	JULY 1, 2006
	(IN MILLIONS) (UNAUDITED)		(IN MILLIONS) (UNAUDITED)	
North America	$ 783.2	$ 770.3	$ 1,674.7	$ 1,596.5
Scotts LawnService®	84.6	75.3	144.1	128.7
International	167.2	144.5	406.1	353.0
Corporate & Other	63.4	57.9	138.0	126.8
	$ 1,098.4	$ 1,048.0	$ 2,362.9	$ 2,205.0

The following table sets forth operating income by segment:

	THREE MONTHS ENDED JUNE 30, 2007	THREE MONTHS ENDED JULY 1, 2006	NINE MONTHS ENDED JUNE 30, 2007	NINE MONTHS ENDED JULY 1, 2006
	(IN MILLIONS) (UNAUDITED)		(IN MILLIONS) (UNAUDITED)	
North America	$ 196.9	$ 208.0	$ 356.9	$ 363.1
Scotts LawnService®	21.5	19.5	(11.6)	(5.4)
International	24.7	21.7	48.3	41.1
Corporate & Other	(11.6)	(13.9)	(72.5)	(63.0)
Consolidated	231.5	235.3	321.1	335.8
Roundup® amortization	(0.2)	(0.2)	(0.6)	(0.6)
Amortization	(4.2)	(4.7)	(11.5)	(11.6)
Impairment of intangibles	—	—	—	(1.0)
Restructuring and other charges	—	(1.1)	—	(6.9)
	$ 227.1	$ 229.3	$ 309.0	$ 315.7

North America

North America segment net sales were $783.2 million in the quarter and $1.67 billion for the first nine months of fiscal 2007, an increase of 1.7% and 4.9% from the quarter and first nine months of fiscal 2006, respectively. Excluding the impact of acquisitions, North America sales increased 1.0% and 2.6% for the quarter and first nine months of fiscal 2007, respectively. On a volume basis, sales were down 0.7% for the quarter and up 0.7% for the year-to-date period versus the fiscal 2006 comparable periods. Pricing served to increase sales for the third quarter by 1.5% and 1.7% for the year-to-date period versus the fiscal 2006 comparable periods. We believe inclement weather during the month of April was the primary contributor to a 19% decline in consumer purchases versus April of fiscal 2006, a decline that could not be recovered during the balance of the third quarter despite growth rates of 10% for the May to June period. Overall, consumer purchases for the quarter were down 1.0%, resulting in a year-to-date increase of 3.3%.

The following details sales performance by major category for fiscal 2007. Lawn fertilizer sales decreased by 8.8% in the quarter, primarily due to unfavorable weather conditions in the critical April selling period, resulting in flat sales on a year-to-date basis. From point of sale perspective (based on data supplied by our three largest North America customers), consumer purchases of lawn fertilizers were down 9% in the quarter and were flat for the nine months. In contrast, growing media sales increased 10.9% in the quarter and 12.0% year-to-date. This strong performance in growing media reflects strong consumer acceptance of our premium, value-added products, which we believe show potential for continued strong, sustainable growth. Consumer purchases of our growing media products increased 13.5% in the quarter and 15% year-to-date. Plant foods sales were down 2.0% for the quarter and down 3.9% year-to-date, while consumer purchases of plant foods were flat during the quarter and up 1.3% year-to-date. The comparative performance for plant foods reflects the successful launch of Miracle-Gro LiquaFeed® in fiscal 2006 and the initial pipeline fill coupled with strong promotional activity. We continue to see good consumer demand for LiquaFeed® refills, and remain bullish on the long-term prospects for the overall plant food category. Ortho® sales were down 1.0% for the quarter but up 3.9% for the nine months. Consumer purchases of Ortho® branded products increased 2.7% for the year-to-date period, with weed control products up 6.5% offset by flat performance of pest and disease control products.

Gross margin rates for the quarter and year-to-date periods decreased by approximately 70 and 90 basis points versus the comparable fiscal 2006 periods. Price increases during the last two years were designed to cover only cost increases, contributing to the decline in the gross margin rate. In addition, a sales mix that includes an increasing percentage of lower margin growing media and wild bird food products has put downward pressure on margins.

Operating income generated by the North America segment decreased by $11.1 million and $6.2 million in the quarter and first nine months of fiscal 2007. In response to the unseasonable early April weather, we extended an already aggressive spring media campaign. While we believe this incremental media campaign was beneficial, it did not generate sufficient incremental sales to offset the impact of the unseasonable April weather. Overall, selling, general, and administrative costs increased by 12.8% in the quarter and 9.3% in the year-to-date period versus fiscal 2006. Part of this increase was planned, most notably in marketing and R&D spending, while increases in media spending exceeded our plan. The combination of these factors led to the decline in operating income.

Scotts LawnService®

Compared to the same periods in the prior fiscal year, Scotts LawnService® revenues increased 12.4% to $84.6 million in the third quarter and 12.0% to $144.1 million in the first nine months of fiscal 2007. Revenue growth for the third quarter and year-to-date periods is primarily attributable to a 10% increase in average customer count, with the remainder due to mix improvement (more premium services and full programs). The increase in sales and the 10% increase in customer count in fiscal 2007 are lower than we expected. We believe the extended cold weather from mid-February through mid-April had a significant impact on the realized rate of growth. We further believe that relative to our core business, our service segment is more sensitive to the impact of broader economic factors on consumer spending.

Operating income for this segment increased to $21.5 million for the quarter, while the operating loss increased to $11.6 million for the year-to-date period versus fiscal 2006. The increase in operating income for the quarter was driven by improved labor productivity, offsetting higher fertilizer and fuel costs, which is particularly encouraging given the productivity pressures weather placed on the business early in the quarter. The increase in the operating loss for the first nine months of fiscal 2007 is primarily attributable to higher planned SG&A spending to support higher volume and continued service improvements.

International

Net sales for the International segment increased to $167.2 million or 15.7% for the third quarter and $406.1 million or 15.0% for the first nine months of fiscal 2007. Excluding the effect of exchange rates, net sales increased 8.0% and 5.5% for the third quarter and first nine months of fiscal 2007.

France and the International Professional business performed strongest, benefiting from a more balanced product portfolio, innovation and reasonable weather. Sales growth in the United Kingdom was less robust due to a more aggressive competitive environment, recent extreme weather, and a product portfolio more dependent on lawn fertilizers. From a product category perspective, plant foods and growing media are leading the group, reflecting the launch of LiquaFeed® and an aggressive focus on replicating the successful soils strategy employed by the North America segment.

Gross margin rates for the quarter and year-to-date period were in line with our expectations, though down 60 basis points in each period, from fiscal 2006. As we have focused heavily on building our European growing media business, we have seen gross margin pressure from product mix. Partially offsetting the pressures on gross margin from product mix has been savings from globalization of the supply chain, which is driving other benefits, including improved service levels and increased inventory turns.

International SG&A remains under tight control with only marginal increases in fiscal 2007. Operating income was up 13.8% in the quarter and 17.5% on a year-to-date basis, or 7.0% and 7.9% respectively, excluding exchange rates.

Corporate & Other

Net sales for this segment increased to $63.4 million or 9.5% for the quarter and to $138.0 million or 8.8% year to date, driven primarily by our Smith & Hawken® business. We are pleased with the progress in this business, primarily in the retail, trade and wholesale channels. Within retail, third quarter comparative store sales were up 13%, and year-to-date comparatives were up 6%. Two areas where the business has fallen short of plan are in the direct-to-consumer channel, particularly catalogs, and in gross margin rates partially due to a conscious decision to increase markdowns on slow-moving inventory. These two factors will prevent us from generating the type of bottom line improvement we had hoped for, though our current forecast still suggests that Smith & Hawken® will reduce its losses from last year.

The operating loss for Corporate & Other decreased by $2.3 million in the quarter and increased by $9.5 million for the first nine months of fiscal 2007. The increase in the year-to-date loss is primarily attributable to an insurance recovery relating to past legal costs incurred in our defense of lawsuits regarding our use of vermiculite allegedly contaminated with asbestos. The insurance recovery positively impacted SG&A expenses in the amount of $10.1 million for the first nine months of fiscal 2006.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities increased to $62.2 million for the nine months ended June 30, 2007 versus $4.1 million for the comparable period in fiscal 2006. The increased level of operating cash flow in fiscal 2007 versus the prior year is due largely to lower spending on inventory during fiscal 2007 due to the carryover of the inventory build that occurred in the fourth quarter of fiscal 2006.

Cash used in investing activities was $43.8 million and $155.9 million for the nine months ended June 30, 2007 and July 1, 2006, respectively. Our acquisitions of Gutwein and the Rod McLellan Company required a net cash outlay of approximately $98.0 million in the first quarter of 2006, which was financed with borrowings under our then existing lines of credit. Acquisition activity in the first nine months of fiscal 2007 was insignificant, with $6.5 million spent on acquisitions relating to our Scotts LawnService® business. Other capital spending on property, plant and equipment done in the normal course of business was fairly consistent, with $37.8 million spent during the first nine months of fiscal 2007 as compared to the $36.6 million spent in the first nine months of fiscal 2006.

Cash used in financing activities was $0.4 million for the nine months ended June 30, 2007, while financing activities provided cash of $129.9 million for the nine months ended July 1, 2006. The higher financing needs in the first nine months of fiscal 2006 versus fiscal 2007 were necessary to finance higher inventory levels and acquisitions.

Our recapitalization plan that was consummated during the second quarter of fiscal 2007 returned $750 million to shareholders. In addition, we repurchased all of our 6 5/8% senior subordinated notes in an aggregate principal amount of $200 million. These actions were financed by replacing, effective February 7, 2007, our prior Revolving Credit Agreement with new senior secured $2.15 billion multicurrency credit facilities that provide for revolving credit and term loans through February 7, 2012.

In April of fiscal 2007, we entered into a Master Accounts Receivable Purchase Agreement (the "MARP Agreement") with two banks with a stated termination date of April 10, 2008, as permitted under our credit facilities. The MARP Agreement was entered into as it provides an interest rate savings of 60 basis points as compared to borrowing under our new senior secured credit facilities. The MARP Agreement provides for the sale, on a revolving basis, of account receivables generated by specified account debtors, with seasonally adjusted monthly aggregate limits ranging from $55 million to $300 million. The MARP Agreement also provides for specified account debtor sublimit amounts, which provide limits on the amount of receivables owed by individual account debtors that can be sold to the banks. Borrowings under the MARP Agreement at June 30, 2007 were $222.6 million.

At June 30, 2007, the Company had outstanding interest rate swaps with major financial institutions that effectively converted a portion of our variable-rate debt denominated in the Euro dollar, British pound and U.S. dollar to a fixed rate. The swap agreements have a total U.S. dollar equivalent notional amount of $713.9 million. The term, expiration date and rates of these swaps are shown in the table below.

CURRENCY	NOTIONAL AMOUNT IN USD	TERM	EXPIRATION DATE	FIXED RATE
British pound	$ 56.7	3 years	11/17/2008	4.76%
Euro dollar	57.2	3 years	11/17/2008	2.98%
US dollar	200.0	2 years	3/31/2009	4.90%
US dollar	200.0	3 years	3/31/2010	4.89%
US dollar	200.0	5 years	2/14/2012	5.20%

As of June 30, 2007, there was $1.1 billion of availability under our credit facilities and we were in compliance with all debt covenants. Our primary sources of liquidity are cash generated by operations and borrowings under our credit facilities. We believe our new facilities will continue to provide the Company with the capacity to pursue targeted, strategic acquisitions that leverage our core competencies.

We are party to various pending judicial and administrative proceedings arising in the ordinary course of business. These include, among others, proceedings based on accidents or product liability claims and alleged violations of environmental laws. We have reviewed our pending environmental and legal proceedings, including the probable outcomes, reasonably anticipated costs and expenses, reviewed the availability and limits of our insurance coverage and have established what we believe to be appropriate reserves. We do not believe that any liabilities that may result from these proceedings are reasonably likely to have a material adverse effect on our liquidity, financial condition or results of operations; however, there can be no assurance that future quarterly or annual operating results will not be materially affected by final resolution of these matters.

In our opinion, cash flows from operations and capital resources will be sufficient to meet debt service, working capital, capital expenditure, and dividend payment needs during fiscal 2007 and thereafter for the foreseeable future. However, we cannot ensure that our business will generate sufficient cash flow from operations 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.

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 actions 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 our future quarterly or annual results of operations, financial condition or cash flows. Additional information on environmental matters affecting us is provided in the fiscal 2006 Annual Report on Form 10-K under "ITEM 1. BUSINESS — Environmental and Regulatory Considerations," "ITEM 1. BUSINESS — Regulatory Actions" and "ITEM 3. LEGAL PROCEEDINGS."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preceding discussion and analysis of the consolidated results of operations and financial position should be read in conjunction with our Condensed, Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q. Our Annual Report on Form 10-K for the fiscal year ended September 30, 2006 includes additional information about the Company, our operations, our financial position, our critical accounting policies and accounting estimates, and should be read in conjunction with this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks have not changed significantly from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

ITEM 4. CONTROLS AND PROCEDURES

With the participation of the Company's principal executive officer and principal financial officer, the Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's principal executive officer and principal financial officer have concluded that:

(A) information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and the other reports that the Company files or submits under the Exchange Act would be accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;

(B) information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and the other reports that the Company files or submits under the Exchange Act would be recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms; and

(C) the Company's disclosure controls and procedures are effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

In addition, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Pending material legal proceedings have not changed significantly since the second quarter of fiscal 2007.

ITEM 1A. RISK FACTORS

Cautionary Statement on 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 this Quarterly Report on Form 10-Q and in other contexts relating to future growth and profitability targets and strategies designed to increase total shareholder value. Forward-looking statements also include, but are not limited to, information regarding our future economic and financial condition, the plans and objectives of our management and our assumptions regarding our performance and these plans and objectives.

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

Some forward-looking statements that we make in this Quarterly Report on Form 10-Q and in other contexts represent challenging goals for the 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 included in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by those cautionary statements.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Issuer Purchases of Equity Securities

No equity securities were purchased during the quarter ended June 30, 2007.

ITEM 6. EXHIBITS

See Index to Exhibits at page 28 for a list of the exhibits included herewith.

SIGNATURES

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

THE SCOTTS MIRACLE-GRO COMPANY

Date: August 8, 2007

/s/ David C. Evans

David C. Evans
Executive Vice President and Chief Financial Officer,
(Principal Financial and Principal Accounting Officer)
(Duly Authorized Officer)

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THE SCOTTS MIRACLE-GRO COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007
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EXHIBIT NO.	DESCRIPTION	LOCATION
10.1	First Amendment, dated as of April 10, 2007, to the Amended and Restated Credit Agreement, dated as of February 7, 2007, by and among The Scotts Miracle-Gro Company as the “Borrower”; the Subsidiary Borrowers (as defined in the Amended and Restated Credit Agreement); the several banks and other financial institutions from time to time parties to the Amended and Restated Credit Agreement; the Syndication Agent and the Documentation Agents named in the Amended and Restated Credit Agreement and JPMorgan Chase Bank, N.A., as Administrative Agent	Incorporated herein by reference to the Registrant’s Current Report on Form 10-Q for the quarterly period ended June 30, 2007 (File No. 1-13292) [Exhibit 4(b)]
10.2	Master Accounts Receivable Purchase Agreement, dated as of April 11, 2007, by and among The Scotts Company LLC as seller, The Scotts Miracle-Gro Company as guarantor and LaSalle Bank National Association as purchaser	Incorporated herein by reference to the Registrant’s Current Report on Form 8-K filed April 17, 2007 (File No. 1-13292) [Exhibit 10.1]
18	Letter from Independent Public Accounting Firm	*
31(a)	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	*
31(b)	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)	*
32	Section 1350 Certification (Principal Executive Officer and Principal Financial Officer)	*

* Filed herewith

Exhibit 18

Deloitte.

Deloitte & Touche LLP
155 East Broad Street
18th floor
Columbus, OH 43215-3611
USA

Tel: +1 614 221 1000
Fax: +1 614 229 4647
www.deloitte.com

August 7, 2007

The Scotts Miracle-Gro Company
14111 Scottslawn Road
Marysville, Ohio

Dear Sirs/Madams:

At your request, we have read the description included in your Quarterly Report on Form 10-Q to the Securities and Exchange Commission for the quarter ended June 30, 2007, of the facts relating to a change in the date of the Company's annual impairment test of goodwill and indefinite-lived intangible assets in accordance with Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets." We believe, on the basis of the facts so set forth and other information furnished to us by appropriate officials of the Company, that the accounting change described in your Form 10-Q is to an alternative accounting principle that is preferable under the circumstances.

We have not audited any consolidated financial statements of The Scotts Miracle-Gro Company and its consolidated subsidiaries as of any date or for any period subsequent to September 30, 2006. Therefore, we are unable to express, and we do not express, an opinion on the facts set forth in the above-mentioned Form 10-Q, on the related information furnished to us by officials of the Company, or on the financial position, results of operations, or cash flows of The Scotts Miracle-Gro Company and its consolidated subsidiaries as of any date or for any period subsequent to September 30, 2006.

Yours truly,

Deloitte & Touche LLP

Member of
Deloitte Touche Tohmatsu

Exhibit 31(a)

Rule 13a-14(a)/15d-14(a) Certification
(Principal Executive Officer)

I, James Hagedorn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company for the quarterly period ended June 30, 2007;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 8, 2007

By: /s/ James Hagedorn
Printed Name: James Hagedorn
Title: President, Chief Executive Officer and Chairman of the Board

Exhibit 31(b)

Rule 13a-14(a)/15d-14(a) Certification
(Principal Financial Officer)

I, David C. Evans, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company for the quarterly period ended June 30, 2007;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 8, 2007

By: /s/ David C. Evans
Printed Name: David C. Evans
Title: Executive Vice President and Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATION*

In connection with the Quarterly Report of The Scotts Miracle-Gro Company (the “Company”) on Form 10-Q for the quarterly period ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned James Hagedorn, President, Chief Executive Officer and Chairman of the Board of the Company, and David C. Evans, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company and its subsidiaries.

/s/ James Hagedorn	/s/ David C. Evans
James Hagedorn	David C. Evans
President, Chief Executive Officer and Chairman of the Board	Executive Vice President and Chief Financial Officer
August 8, 2007	August 8, 2007

* THIS CERTIFICATION IS BEING FURNISHED AS REQUIRED BY RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934 (THE “EXCHANGE ACT”) AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE, AND SHALL NOT BE DEEMED “FILED” FOR PURPOSES OF SECTION 18 OF THE EXCHANGE ACT OR OTHERWISE SUBJECT TO THE LIABILITY OF THAT SECTION. THIS CERTIFICATION SHALL NOT BE DEEMED TO BE INCORPORATED BY REFERENCE INTO ANY FILING UNDER THE SECURITIES ACT OF 1933 OR THE EXCHANGE ACT, EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES THIS CERTIFICATION BY REFERENCE.