FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JANUARY 1, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____________ TO ____________

COMMISSION FILE NUMBER 1-11593

THE SCOTTS COMPANY
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

OHIO	31-1414921
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

41 SOUTH HIGH STREET, SUITE 3500
COLUMBUS, OHIO 43215
(Address of principal executive offices)
(Zip Code)

(614) 719-5500
(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 registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

27,953,206 Common Shares, voting, no par value	Outstanding at February 14, 2000

THE SCOTTS COMPANY AND SUBSIDIARIES

INDEX

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS COMPANY AND SUBSIDIARIES
CONDENSED, CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN MILLIONS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED	
	JANUARY 1, 2000	JANUARY 2, 1999
Net sales	$191.5	$184.4
Cost of sales	117.6	119.7
Gross profit	73.9	64.7
Commission earned from agency agreement, net	(1.0)	5.0
Operating expenses:		
Advertising and promotion	23.7	16.7
Selling, general and administrative	68.1	53.9
Amortization of goodwill and other intangibles	5.9	4.9
Restructuring and other charges	--	1.4
Other expense (income), net	1.3	(0.1)
Loss from operations	(26.1)	(7.1)
Interest expense	23.7	9.8
Loss before income taxes	(49.8)	(16.9)
Income tax benefit	(20.2)	(6.9)
Net loss before extraordinary item	(29.6)	(10.0)
Extraordinary loss on early extinguishment of debt, net of tax	--	0.4
Net loss	(29.6)	(10.4)
Payments to preferred shareholders	6.4	2.4
Loss applicable to common shareholders	$(36.0)	$(12.8)
Basic earnings per common share:		
Before extraordinary item	$ (1.28)	$ (.68)
Extraordinary item, net of tax	--	(.02)
	(1.28)	(.70)
Diluted earnings per common share:		
Before extraordinary item	$ (1.28)	$ (.68)
Extraordinary item, net of tax	--	(.02)
	(1.28)	(.70)
Common shares used in basic earnings per share calculation	28.2	18.3
Common shares and potential common shares used in diluted earnings per share calculation	28.2	18.3

See notes to condensed, consolidated financial statements

THE SCOTTS COMPANY AND SUBSIDIARIES
CONDENSED, CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN MILLIONS)

	THREE MONTHS ENDED	
	JANUARY 1, 2000	JANUARY 2, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (29.6)	$ (10.4)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15.0	11.8
Net change in certain components of working capital	(150.1)	(134.9)
Net change in other assets and liabilities and other adjustments	(4.6)	(29.9)
Net cash used in operating activities	(169.3)	(163.4)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in property, plant and equipment	(7.2)	(13.8)
Investment in acquired businesses, net of cash acquired	--	(160.7)
Other, net	--	(7.6)
Net cash used in investing activities	(7.2)	(182.1)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings under revolving and bank lines of credit	202.1	88.6
Gross borrowings under term loans	--	525.0
Gross repayments under term loans	(6.3)	--
Repayment of outstanding balance on previous credit facility	--	(241.0)
Settlement of interest rate locks	--	(15.2)
Financing and issuance fees	--	(10.2)
Payments to preferred shareholders	(6.4)	(4.9)
Repurchase of treasury shares	(21.0)	--
Other, net	(5.6)	0.9
Net cash provided by financing activities	162.8	343.2
Effect of exchange rate changes on cash	(0.8)	(0.1)
Net decrease in cash	(14.5)	(2.4)
Cash and cash equivalents at beginning of period	30.3	10.6
Cash and cash equivalents at end of period	$ 15.8	$ 8.2
SUPPLEMENTAL CASH FLOW INFORMATION:		
Investment in Acquired Businesses:		
Fair value of assets acquired, net of cash		$ 259.1
Liabilities assumed		(67.3)
Net assets acquired		191.8
Notes issued to seller		35.7
Cash paid		4.8
Debt issued		151.3

See notes to condensed, consolidated financial statements

THE SCOTTS COMPANY AND SUBSIDIARIES
CONDENSED, CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT SHARE INFORMATION)

ASSETS

	UNAUDITED JANUARY 1, 2000	UNAUDITED JANUARY 2, 1999	SEPTEMBER 30, 1999
Current assets:			
Cash and cash equivalents	$ 15.8	$ 8.2	$ 30.3
Accounts receivable, less allowances of $17.5, $8.6 and $16.4, respectively	225.3	206.7	201.4
Inventories, net	442.1	298.2	313.2
Current deferred tax asset	28.6	31.4	29.3
Prepaid and other assets	60.3	21.5	67.5
Total current assets	772.1	566.0	641.7
Property, plant and equipment, net	256.0	208.9	259.4
Intangible assets, net	774.0	608.6	794.1
Other assets	74.7	62.0	74.4
Total assets	$1,876.8	$1,445.5	$1,769.6

LIABILITIES AND SHAREHOLDERS' EQUITY

	UNAUDITED JANUARY 1, 2000	UNAUDITED JANUARY 2, 1999	SEPTEMBER 30, 1999
Current liabilities:			
Short-term debt	$ 120.4	$ 24.4	$ 56.4
Accounts payable	149.5	112.5	133.5
Accrued liabilities	153.8	111.5	177.0
Total current liabilities	423.7	248.4	366.9
Long-term debt	1,006.5	754.8	893.6
Other liabilities	63.5	51.2	65.8
Total liabilities	1,493.7	1,054.4	1,326.3
Commitments and contingencies			
Shareholders' equity:			
Class A Convertible Preferred Stock, no par value	--	177.3	173.9
Common shares, no par value per share, $.01 stated value per share, issued 31.4, 21.1 and 21.3, respectively	0.3	0.2	0.2
Capital in excess of par value	387.9	208.9	213.9
Retained earnings	94.1	63.8	130.1
Treasury stock, 3.4, 2.8, and 2.9 shares, respectively, at cost	(82.9)	(55.5)	(61.9)
Accumulated other comprehensive expense	(16.3)	(3.6)	(12.9)
Total shareholders' equity	383.1	391.1	443.3
Total liabilities and shareholders' equity	$1,876.8	$1,445.5	$1,769.6

See notes to condensed, consolidated financial statements

NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(All amounts are in millions except per share data or otherwise noted)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Organization and Basis of Presentation

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

The condensed, consolidated balance sheets as of January 1, 2000 and January 2, 1999, and the related condensed, consolidated statements of operations and cash flows for the three month periods ended January 1, 2000 and January 2, 1999 are unaudited; however, in the opinion of management, such financial statements contain all adjustments necessary for the fair presentation of the Company's financial position and results of operations. Interim results reflect all normal 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 financial statements and accompanying notes in Scotts' fiscal 1999 Annual Report on Form 10-K.

Use of Estimates

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

Advertising and Promotion

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

Reclassifications

Certain reclassifications have been made in prior periods' financial statements to conform to fiscal 2000 classifications.

2. AGENCY AGREEMENT

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

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

In fiscal 1999, the Company recorded commission based on its pro-rata share of Roundup(R) EBIT for the quarter. In fiscal 2000, in accordance with revenue recognition guidance recently put forward by the SEC, the Company will not record commission under the Roundup(R) agency agreement until minimum EBIT thresholds as required by the agreement are achieved. The cost of $1.0 million recorded in the first quarter of fiscal 2000 primarily represents amortization of the fiscal 2000 annual contribution payment due to Monsanto.

3. RESTRUCTURING AND OTHER CHARGES

1999 CHARGES

During fiscal 1999, the Company recorded $1.4 million of restructuring charges associated with management's decision to reorganize the North American Professional Business Group to strengthen distribution and technical sales support, integrate brand management across market segments and reduce annual operating expenses. These charges represent the cost to sever approximately 60 in-house sales associates that were terminated in fiscal 1999. Approximately $1.1 million of severance payments were made to these former associates during fiscal 1999, $0.1 million was paid in the first quarter of fiscal 2000 and the remainder is expected to be paid in fiscal 2000.

1998 CHARGES

During fiscal 1998, the Company recorded charges of $9.3 million in connection with its decision to close nine composting sites. As of September 30, 1999, $0.9 million remained accrued in the Company's consolidated balance sheet for costs to be incurred under contractual commitments and remaining lease obligations (a detailed discussion and rollforward is included in the Company's fiscal 1999 Annual Report on Form 10-K). In the first quarter of fiscal 2000, $0.3 million of the remaining obligations had been paid. The Company expects to make all remaining payments in fiscal 2000.

4. ACQUISITIONS

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

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

Each of the above acquisitions was made in exchange for cash or notes due to seller and was accounted for under the purchase method of accounting. Accordingly, the purchase prices have been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Final determination of the purchase price of the Ortho business, as well as the allocation of the purchase price to the net assets acquired was not complete as of January 1, 2000. The excess of the estimated purchase price for the Ortho business over the value of tangible assets acquired is currently recorded as an intangible asset and is being amortized over a period of 35 years.

The following unaudited pro forma results of operations give effect to the Ortho acquisition as if it had occurred on October 1, 1998.

	THREE MONTHS ENDED JANUARY 2, 1999
Net sales	$204.3
Loss before extraordinary loss	(19.5)
Net loss	(19.9)
Basic earning per share:	
Before extraordinary loss	$ (1.20)
After extraordinary loss	(1.22)
Diluted earnings per share:	
Before extraordinary loss	$ (1.20)
After extraordinary loss	$ (1.22)

The pro forma information provided does not purport to be indicative of actual results of operations if the Ortho acquisition had occurred as of October 1, 1998 and is not intended to be indicative of future results or trends.

5. INVENTORIES

Inventories, net of provisions for slow moving and obsolete inventory of $30.9 million, $15.0 million, and $30.5 million, respectively, consisted of:

	JANUARY 1, 2000	JANUARY 2, 1999	SEPTEMBER 30, 1999
Finished goods	$346.5	$227.3	$206.4
Raw materials	94.6	70.4	106.5
FIFO cost	441.1	297.7	312.9
LIFO reserve	1.0	0.5	0.3
Total	$442.1	$298.2	$313.2

6. INTANGIBLE ASSETS, NET

	JANUARY 1, 2000	JANUARY 2, 1999	SEPTEMBER 30, 1999
Goodwill	$499.1	$386.6	$508.6
Trademarks	202.4	141.9	207.9
Other	72.5	80.1	77.6
Total	$774.0	$608.6	$794.1

7. LONG-TERM DEBT

	JANUARY 1, 2000	JANUARY 2, 1999	SEPTEMBER 30, 1999
Revolving loans under credit facility	$ 257.8	$ 98.3	$ 64.2
Term loans under credit facility	502.9	525.0	509.0
Senior Subordinated Notes	318.3	99.5	318.0
Notes due to sellers	30.9	42.8	37.0
Foreign bank borrowings and term loans	14.2	9.0	17.6
Capital lease obligations and other	2.8	4.6	4.2
	1,126.9	779.2	950.0
Less current portions	120.4	24.4	56.4
	$1,006.5	$754.8	$893.6

On December 4, 1998, the Company and certain of its subsidiaries entered into a credit facility which provides for borrowings in the aggregate principal amount of $1.025 billion and consists of term loan facilities in the aggregate amount of $525 million and a revolving credit facility in the amount of $500 million. Financial covenants included as part of the facility include, amongst others, minimum net worth, interest coverage and net leverage ratios. At January 1, 2000, the Company was in violation of the minimum net worth covenant. The Company obtained a waiver to cure default on February 15, 2000.

In January 1999, the Company completed an offering of $330 million of 8 5/8% Senior Subordinated Notes ("the Notes") due 2009. The net proceeds from the offering, together with borrowings under the Company's credit facility, were used to fund the Ortho acquisition and to repurchase approximately 97% of Scotts $100.0 million outstanding 9 7/8% Senior Subordinated Notes due August 2004. In August 1999, the Company repurchased the remaining $2.9 million of the 9 7/8% Senior Subordinated Notes.

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

In conjunction with the acquisitions of Rhone-Poulenc Jardin and Sanford Scientific, notes were issued for certain portions of the total purchase price that are to be paid in annual installments over a four-year period. The present value of remaining note payments is $25.9 million and $5.0 million, respectively. The Company is imputing interest on the non-interest bearing notes using an interest rate prevalent for similar instruments at the time of acquisition.

The foreign term loans of $3.9 million issued on December 12, 1997, have an 8-year term and bear interest at 1% below LIBOR. The loans are denominated in Pounds Sterling and can be redeemed, on demand, by the note holder. The foreign bank borrowings of $10.3 million at January 1, 2000 represent lines of credit for foreign operations and are denominated in French Francs, Australian Dollars and Dutch Gilders.

8. EARNINGS PER COMMON SHARE

The following table presents information necessary to calculate basic and diluted earnings per common share ("EPS"). For each period presented, basic and diluted EPS are equal since common share equivalents (stock options, Class A Convertible Preferred Stock and warrants) outstanding for each period were anti-dilutive and thus not considered in the diluted earnings per common share calculations.

	THREE MONTHS ENDED	
	JANUARY 1, 2000	JANUARY 2, 1999
Net loss before extraordinary item	$(29.6)	$(10.0)
Extraordinary item, net of tax	--	0.4
Net loss	(29.6)	(10.4)
Payments to preferred shareholders	(6.4)	(2.4)
Loss applicable to common shareholders	$(36.0)	$(12.8)
Weighted-average common shares outstanding during the period	28.2	18.3
Basic and diluted earnings per common share before extraordinary item	$ (1.28)	$ (.68)
Extraordinary item, net of tax	$ --	$ (.02)
Basic and diluted earnings per common share	$ (1.28)	$ (.70)

9. STATEMENT OF COMPREHENSIVE INCOME

Effective October 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income". SFAS 130 requires that changes in the amounts of certain items, including foreign currency translation adjustments, be presented in the Company's financial statements. The components of other comprehensive income and total comprehensive income for the three months ended January 1, 2000 and January 2, 1999 are as follows:

	THREE MONTHS ENDED	
	JANUARY 1, 2000	JANUARY 2, 1999
Net loss	$(29.6)	$(10.4)
Other comprehensive income (expense):		
Foreign currency translation adjustments	(3.4)	(0.4)
Comprehensive income (expense)	$(33.0)	$(10.8)

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

OHIO ENVIRONMENTAL PROTECTION AGENCY

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

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

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

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

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

Since receiving the notice of enforcement action in June 1997, management has continually assessed the potential costs that may be incurred to satisfactorily remediate the Marysville site and to pay any penalties sought by the State. Because the Company and the Ohio Environmental Protection Agency have not agreed as to the extent of any possible contamination and an appropriate remediation plan, the Company has developed and initiated an action plan to remediate the site based on its own assessments and consideration of specific actions which the Ohio Environmental Protection Agency will likely require. Because the extent of the ultimate remediation plan is uncertain, management is unable to predict with certainty the costs that will be incurred to remediate the site and to pay any penalties. Management estimates that the range of possible loss that could be incurred in connection with this matter is $2 million to $10 million. The Company has accrued for the amount it considers to be the most probable within that range and believes the outcome will not differ materially from the amount reserved. Many of the issues raised by the State are already being investigated and addressed by the Company during the normal course of conducting business.

LAFAYETTE

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

AGREVO ENVIRONMENTAL HEALTH

On June 3, 1999, AgrEvo Environmental Health, Inc. ("AgrEvo") filed a complaint in the District Court for the Southern District of New York, against the Company, a subsidiary of the Company and Monsanto seeking damages and injunctive relief for alleged antitrust violations and breach of contract by the Company and its subsidiary and antitrust violations and tortious interference with contact by Monsanto. The Company purchased a consumer herbicide business from AgrEvo in May 1998. AgrEvo claims in the suit that the Company's subsequent agreement to become Monsanto's exclusive sales and marketing agent for Monsanto's consumer Roundup(R) business violated the federal antitrust laws. AgrEvo contends that Monsanto attempted to or did monopolize the market for non-selective herbicides and conspired with the Company to eliminate the herbicide the Company previously purchased from AgrEvo, which competed with Monsanto's Roundup(R), in order to achieve or maintain a monopoly position in that market. AgrEvo also contends that the Company's execution of various agreements with Monsanto, including the Roundup(R) marketing agreement, as well as the Company's subsequent actions, violated the purchase agreements between AgrEvo and the Company.

AgrEvo is requesting unspecified damages as well as affirmative injunctive relief, and seeking to have the court invalidate the Roundup(R) marketing agreement as violative of the federal antitrust laws. On September 20, 1999, the Company filed an answer denying liability and asserting counterclaims that it was fraudulently induced to enter into the agreement for purchase of the consumer herbicide business and the related agreements, and that AgrEvo breached the representations and warranties contained in those agreements. On October 1, 1999, the Company moved to dismiss the antitrust allegations against it on the ground that the claims fail to state claims for which relief may be granted. On October 12, 1999, AgrEvo moved to dismiss the Company's counterclaims. On January 27, 2000, AgrEvo sought leave to move to amend its complaint to add a claim for fraud and to incorporate the Delaware action described below. Under the indemnification provisions of the Roundup(R) marketing agreement, Monsanto and the Company each have requested that the other indemnify against any losses arising from this lawsuit.

On June 29, 1999, AgrEvo also filed a complaint in the Superior Court for the State of Delaware against two of the Company's subsidiaries seeking damages for alleged breach of contract. AgrEvo alleges that, under the contracts by which a subsidiary of the Company purchased a herbicide business from AgrEvo in May 1998, two of the Company's subsidiaries have failed to pay AgrEvo approximately $0.6 million. AgrEvo is requesting damages in this amount, as well as pre and post-judgment interest and attorneys' fees and costs. The Company's subsidiaries have moved to dismiss or stay this action. On January 31, 2000, the Delaware court stayed AgrEvo's action pending the resolution of a motion to amend the action in the Southern District of New York.

BRAMFORD

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

OTHER

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

11. CONVERSION OF PREFERRED STOCK

In October 1999, all of the then outstanding Class A Convertible Preferred Shares were converted into 10.1 million common shares. The Company paid the holders of the Preferred Shares $6.4 million. The amount represents the dividends on the Preferred Shares that otherwise would have been payable through May 2000, the month during which the Preferred Shares could first be redeemed by the Company. In fiscal 1999, certain of the Preferred Shares were converted into 0.2 million common shares at the holders option.

12. NEW ACCOUNTING STANDARDS

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

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

In December 1999, the Securities and Exchange Commission issued SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." This staff accounting bulletin summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company believes its annual accounting policies are consistent with the staff's views. The Company will be required, however, to conform its interim period revenue recognition policies for the commission under the Roundup(R) marketing agreement to be consistent with the staff's views. The impact of conforming the Company's interim period revenue recognition policies for the commission under the Roundup(R) marketing agreement will require the Company to defer the recognition of commission earned in interim periods but will not impact the commission earned on an annual basis.

13. SEGMENT INFORMATION

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

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

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

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

The following table presents segment financial information in accordance with SFAS No. 131. "Disclosures about Segments of an Enterprise and Related Information". Pursuant to that statement, the presentation of the segment financial information is consistent with the basis used by management (i.e., certain costs not allocated to business segments for internal management reporting purposes are not allocated for purposes of this presentation).

(in millions)		N.A. CONSUMER	PROFESSIONAL	INTERNATIONAL	OTHER/ CORPORATE	TOTAL
Sales:						
	Q1 2000	$ 101.6	$ 23.6	$ 66.3		$ 191.5
	Q1 1999	$ 72.8	$ 32.5	$ 79.1		$ 184.4
Operating Income (Loss):						
	Q1 2000	$ (4.9)	$ (0.3)	$ (1.9)	$(19.0)	$ (26.1)
	Q1 1999	(2.0)	(0.6)	9.5	(14.0)	(7.1)
Operating Margin:						
	Q1 2000	(4.8%)	(1.3%)	(2.9%)	nm	(13.6%)
	Q1 1999	(2.7%)	(1.8%)	12.0%	nm	(3.9%)
Total Assets:						
	Q1 2000	1,077.7	200.9	508.6	89.6	1,876.8
	Q1 1999	661.4	194.0	535.1	55.0	1,445.5

nm Not meaningful.

Operating loss reported for the Company's three operating segments represents earnings before amortization of intangible assets, interest and taxes, since this is the measure of profitability used by management. Accordingly, Corporate operating loss for the three month periods ended January 1, 2000 and January 2, 1999 includes amortization of certain intangible assets, corporate general and administrative expenses, and certain "other" income/expense not allocated to the business segments. In the first quarter of fiscal 2000, management changed the measure of profitability for the business segments as compared to the method used at September 30, 1999, to include the allocation of certain costs to the business segments which historically were included in corporate costs. Such costs include research and development, administrative and certain "other" income/expense items which could be directly attributable to a business segment. The results shown above for the first quarter of fiscal 1999 have been reclassified to conform to the fiscal 2000 basis of presentation.

Total assets reported for the Company's operating segments include the intangible assets for the acquired business within those segments. Corporate assets primarily include deferred financing and debt issuance costs, corporate fixed assets as well as deferred tax assets.

14. FINANCIAL INFORMATION FOR SUBSIDIARY GUARANTORS AND NON-GUARANTORS

In January 1999, the Company issued $330 million of 8 5/8% Senior Subordinated Notes due 2009 to qualified institutional buyers under the provisions of Rule 144A of the Securities Act of 1993. The Company intends to register these Notes under the Securities Act.

The Notes are general obligations of the Company and are guaranteed by all of the existing and future wholly-owned and significant domestic subsidiaries of the Company. The following unaudited information presents consolidating Statements of Operations, Statements of Cash Flows and Balance Sheets for the three month periods ended January 1, 2000 and January 2, 1999.

STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED JANUARY 1, 2000 (in millions)
(Unaudited)

	PARENT AND SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Sales	$122.4	$ 69.1		$191.5
Cost of sales	79.0	38.6		117.6
Gross profit	43.4	30.5	--	73.9
Commission earned for agency agreement, net	(1.0)			(1.0)
Operating Expenses:				
Advertising and promotion	14.8	8.9		23.7
Selling, general and administration	44.0	24.1		68.1
Amortization or goodwill and other intangibles	3.6	2.3		5.9
Restructuring and other changes				--
Equity income in non-guarantors	7.2		(7.2)	
Intracompany allocations	(1.3)	1.3		--
Other expense (income), net	1.4	(0.1)		1.3
Income (loss) from operations	(27.3)	(6.0)	7.2	(26.1)
Interest expense	17.5	6.2		23.7
Income (loss) before income taxes	(44.8)	(12.2)	7.2	(49.8)
Income taxes	(15.2)	(5.0)		(20.2)
Net income (loss)	(29.6)	(7.2)	7.2	(29.6)

STATEMENT OF CASH FLOWS

FOR THE THREE MONTH PERIOD ENDED JANUARY 1, 2000 (in millions)
(Unaudited)

	PARENT AND SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$ (29.6)	$ (7.2)	$ 7.2	$ (29.6)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	11.3	3.7		15.0
Equity income in non-guarantors	7.2		(7.2)	--
Net Change in certain components of working capital	(133.2)	(16.9)		(150.1)
Net changes in other assets and liabilities and other adjustments	2.4	(7.0)		(4.6)
Net cash used in operating activities	(141.9)	(27.4)	--	(169.3)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in property, plant and equipment	(5.6)	(1.6)		(7.2)
Investments in non-guarantors	(7.1)		7.1	--
Net cash used in investing activities	(12.7)	(1.6)	7.1	(7.2)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings under revolving and bank lines of credit	174.5	27.6		202.1
Gross borrowings under term loans				--
Gross repayments under term loans	(0.5)	(5.8)		(6.3)
Dividends on Class A Convertible Preferred Stock	(6.4)			(6.4)
Repurchase of treasury shares	(21.0)			(21.0)
Investments from parent		7.1	(7.1)	
Other, net	0.2	(5.8)		(5.6)
Net cash provided by financing activities	146.8	23.1	(7.1)	162.8
Effect of exchange rate changes on cash		(0.8)		(0.8)
Net decrease in cash	(7.8)	(6.7)		(14.5)
Cash and cash equivalents, beginning of period	11.6	18.7		30.3
Cash and cash equivalents, end of period	$ 3.8	$ 12.0	$ --	$ 15.8

BALANCE SHEET

AS OF JANUARY 1, 2000 (in millions, except share information)
(Unaudited)

	PARENT AND SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 3.8	$ 12.0		$ 15.8
Accounts receivable, net	144.4	80.9		225.3
Inventories, net	356.4	85.7		442.1
Current deferred tax asset	28.6			28.6
Prepaid and other assets	40.9	19.4		60.3
Total current assets	574.1	198.0	--	772.1
Property, plant and equipment, net	215.5	40.5		256.0
Intangible assets, net	492.3	281.7		774.0
Other assets	65.4	9.3		74.7
Investment in affiliates	93.9		(93.9)	0.0
Intracompany assets	12.4		(12.4)	0.0
Total assets	1,453.6	529.5	(106.3)	1,876.8
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Short-term debt	95.1	25.3		120.4
Accounts payable	100.0	49.5		149.5
Accrued liabilities	120.0	33.8		153.8
Total current liabilities	315.1	108.6	--	423.7
Long-term debt	701.0	305.5		1,006.5
Other liabilities	42.3	21.2		63.5
Intracompany liabilities	--	12.4	(12.4)	--
Total liabilities	1,058.4	447.7	(12.4)	1,493.7
Commitments and contingencies				
Shareholders' equity:				
Investment from parent		57.4	(57.4)	--
Common shares, no par value per share, $.01 stated value per share	0.3			0.3
Capital in excess of par value	387.9			387.9
Retained earnings	94.1	36.5	(36.5)	94.1
Treasury stock, 3.4 shares at cost	(82.9)			(82.9)
Accumulated other comprehensive income	(4.2)	(12.1)		(16.3)
Total shareholders' equity	395.2	81.8	(93.9)	383.1
Total liabilities and shareholders' equity	$1,453.6	$529.5	$(106.3)	$1,876.8

STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED JANUARY 2, 1999 (in millions)
(Unaudited)

	PARENT AND SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Sales	$103.3	$81.1		$184.4
Cost of sales	74.7	45.0		119.7
Gross profit	28.6	36.1	--	64.7
Commission earned from agency agreement	5.0			5.0
Operating Expenses:				
Advertising and promotion	9.1	7.6		16.7
Selling, general and administration	34.2	19.7		53.9
Amortization or goodwill and other intangibles	2.8	2.1		4.9
Restructuring and other changes	1.4			1.4
Equity income in non-guarantors	(1.7)		1.7	--
Intracompany allocations	(0.9)	0.9		--
Other expenses, net	0.1	(0.2)		(0.1)
Income (loss) from operations	(11.4)	6.0	(1.7)	(7.1)
Interest expense	6.6	3.2		9.8
Income (loss) before income taxes	(18.0)	2.8	(1.7)	(16.9)
Income taxes	(8.0)	1.1		(6.9)
Income (loss) before extraordinary item	(10.0)	1.7	(1.7)	(10.0)
Extraordinary loss on early extinguishment of debt, net of income tax benefit	0.4			0.4
Net income (loss)	$(10.4)	$ 1.7	$(1.7)	$(10.4)

STATEMENT OF CASH FLOWS

FOR THE THREE MONTH PERIOD ENDED JANUARY 2, 1999 (in millions)
(Unaudited)

	PARENT AND SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss				
Adjustments to reconcile net loss to net cash used in operating activities:	$ (10.4)	$ 1.7	$ (1.7)	$ (10.4)
Depreciation and amortization	7.6	4.2		11.8
Equity income in non-guarantors	(1.7)		1.7	
Net Change in certain components of working capital	(87.5)	(47.4)		(134.9)
Net changes in other assets and	(38.9)	9.0		(29.9)
Net cash used in operating activities	(130.9)	(32.5)	--	(163.4)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in property, plant and equipment	(12.1)	(1.7)		(13.8)
Investments in acquired businesses,	(28.6)		28.6	
net of cash acquired		(160.7)		(160.7)
Investments in non-guarantors	(7.3)	(0.3)		(7.6)
Net cash used in investing activities	(48.0)	(162.7)	28.6	(182.1)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings under revolving and bank lines of credit	185.4	(96.8)		88.6
Gross borrowings under term loans	260.0	265.0		525.0
Gross repayments under term loans				--
Repayment of outstanding balance on previous credit facility	(241.0)			(241.0)
Dividends on Class A Convertible Preferred Stock	(4.9)			(4.9)
Investments from parent		28.6	(28.6)	
Other, net	(24.5)			(24.5)
Net cash provided by financing activities	175.0	196.8	(28.6)	343.2
Effect of exchange rate changes on cash		(0.1)		(0.1)
Net increase (decrease) in cash	(3.9)	1.5		(2.4)
Cash and cash equivalents, beginning of period	2.8	7.8		10.6
Cash and cash equivalents, end of period	$ (1.1)	$ 9.3	$ --	$ 8.2

BALANCE SHEET

AS OF JANUARY 2, 1999 (IN MILLIONS, EXCEPT SHARE INFORMATION)
(Unaudited)

	PARENT AND SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
ASSETS				
Current Assets:				
Cash and cash equivalents	$ (1.1)	$ 9.3		$ 8.2
Accounts receivable, net	113.2	93.5		206.7
Inventories, net	222.5	75.7		298.2
Current deferred tax asset	20.8	10.6		31.4
Prepaid and other assets	11.2	10.3		21.5
Total current assets	366.6	199.4	--	566.0
Property, plant and equipment, net	170.0	38.9		208.9
Intangible assets, net	291.4	317.2		608.6
Other assets	61.8	0.2		62.0
Investment in affiliates	99.2	--	(99.2)	0.0
Intracompany assets	--	0.2	(0.2)	0.0
Total assets	989.0	555.9	(99.4)	1,445.5
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Short-term debt	1.1	23.3		24.4
Accounts payable	68.7	43.8		112.5
Accrued liabilities	62.6	48.9		111.5
Total current liabilities	132.4	116.0	--	248.4
Long-term debt	425.9	328.9		754.8
Other liabilities	36.0	15.2		51.2
Intracompany liabilities	0.2	----	(0.2)	0.0
Total liabilities	594.5	460.1	(0.2)	1,054.4
Commitments and contingencies				
Shareholders' equity:				
Class A Convertible Preferred Stock, no par value	177.3			177.3
Investment from parent		57.4	(57.4)	0.0
Common shares, no par value per share, $.01 stated value per share, issued 21.1 shares in 1998 and 1997	0.2			0.2
Capital in excess of par value	208.9			208.9
Retained earnings	63.8	41.8	(41.8)	63.8
Treasury stock, 2.8 shares at cost	(55.5)			(55.5)
Accumulated other comprehensive income	(0.2)	(3.4)		(3.6)
Total shareholders' equity	394.5	95.8	(99.2)	391.1
Total liabilities and shareholders' equity	$989.0	$555.9	$(99.4)	$1,445.5

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

(ALL AMOUNTS ARE IN MILLIONS EXCEPT PER SHARE DATA OR AS OTHERWISE NOTED)

OVERVIEW

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

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

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

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

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

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

Over the past two years, we have made several other acquisitions to strengthen our global market position in the lawn and garden category. In October 1998, we purchased Rhone-Poulenc Jardin, a leading European lawn and garden business, for approximately $170.0 million. This acquisition provides a significant addition to our existing European platform and strengthens our foothold in the continental European consumer lawn and garden market. Through this acquisition, we have established a strong presence in France, Germany, Austria, and the Benelux countries. This acquisition may also mitigate, to a certain extent, our susceptibility to weather conditions by expanding the regions in which we operate.

In December 1998, we acquired Asef Holding B.V., a privately-held Netherlands-based lawn and garden products company. In February 1998, we acquired EarthGro, Inc., a Northeastern U.S. growing media producer. In December 1997, we acquired Levington Group Limited, a leading producer of consumer and professional lawn fertilizer and growing media in the United Kingdom. In January 1997, we acquired the approximate two-thirds interest in Miracle Holdings Limited which we did not already own. Miracle Holdings owns Miracle Garden Care Limited, a manufacturer and distributor of lawn and garden products in the United Kingdom. These acquisitions are consistent with our stated objective of becoming the world's foremost branded lawn and garden company.

The following discussion and analysis of the consolidated results of operations and financial position should be read in conjunction with our Condensed, Consolidated Financial Statements included elsewhere in this report. Scotts' Annual Report on Form 10-K for the fiscal year ended September 30, 1999 includes additional information about the Company, our operations, and our financial position, and should be read in conjunction with this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

The following table sets forth sales by business segment for the three months ended January 1, 2000 and January 2, 1999:

	FOR THE THREE MONTHS ENDED JANUARY 1, 2000	JANUARY 2, 1999	PERIOD TO PERIOD % CHANGE
North American Consumer:			
Lawns	$ 47.9	$ 39.1	22.5%
Gardens	14.2	13.2	7.6
Growing Media	19.9	20.0	(0.5)
Ortho	18.2	--	NA
Canada	1.4	0.5	180.0
Total	101.6	72.8	39.6
Professional	23.6	32.5	(27.4)
International	66.3	79.1	(16.2)
Consolidated	$191.5	$184.4	3.9%

The following table sets forth the components of income and expense as a percentage of sales for the three months ended January 1, 2000 and January 2, 1999:

	FOR THE THREE MONTHS ENDED JANUARY 1, 2000	JANUARY 2, 1999
Net sales	100.0%	100.0%
Cost of sales	61.4	64.9
Gross profit	38.6	35.1
Commission earned from agency agreement, net	(0.5)	2.7
Operating expenses:		
Advertising and promotion	12.4	9.1
Selling, general and administrative	35.6	29.2
Amortization of goodwill and other intangibles	3.1	2.7
Restructuring and other charges	0.0	0.8
Other expense (income), net	0.7	(0.1)
Loss from operations	(13.6)	(3.9)
Interest expense	12.4	5.3
Loss before income taxes	(26.0)	(9.2)
Income tax benefit	(10.5)	(3.7)
Net loss before extraordinary item	(15.5)	(5.4)
Extraordinary item, net of tax	0.0	0.2
Net loss	(15.5)	(5.6)
Payments to preferred shareholders	3.3	1.3
Loss applicable to common shareholders	(18.8)%	(6.9)%

THREE MONTHS ENDED JANUARY 1, 2000 VERSUS THREE MONTHS ENDED JANUARY 2, 1999

Sales for the three months ended January 1, 2000 were $191.5 million, an increase of 3.9% over the three months ended January 2, 1999 of $184.4 million. On a pro forma basis, assuming that the Ortho acquisition had occurred on October 1, 1998, sales for the first quarter of fiscal 2000 were 6.3% lower than pro forma sales for the first quarter of fiscal 1999 of $204.3 million. The decrease in pro forma sales was driven primarily by decreases in sales in the Professional and International segments as discussed below.

North American Consumer segment sales were $101.6 million in the first quarter of fiscal 2000, an increase of $28.8 million, or 39.6%, over sales for the first quarter of fiscal 1999 of $72.8 million. Sales in the Consumer Lawns business group within this segment increased $8.8 million, or 22.5%, from fiscal 1999 to fiscal 2000, reflecting increased early season sales to distributors facilitated by improved product availability when compared to the prior year. Sales in the Consumer Gardens business group increased $1.0 million, or 7.6%, from the first quarter of fiscal 1999 to fiscal 2000, primarily due to strong volume in the specialty fertilizers and feeders product lines. On a proforma basis, sales in the Ortho business group declined 9.0% from the first quarter of fiscal 1999, reflecting initiatives to reduce trade inventory levels for certain significant retailers. Selling price changes did not have a material impact in the North American Consumer segment in the first quarter of fiscal 2000.

Professional segment sales of $23.6 million in the first quarter of fiscal 2000 were $8.9 million lower than first quarter of fiscal 1999 sales of $32.5 million. The decrease in sales for the Professional segment was primarily due to lower sales of ProTurf(R) products. In the second quarter of fiscal 1999, we changed from selling direct to customers to selling through distributors. The timing of this change and continuing performance issues with one of our largest ProTurf(R) distributors caused sales to decrease when compared to the prior year. Sales of horticulture products within this segment also decreased year-to-year as a result of de-emphasizing early season incentives to distributors which previously contributed to high pre-season inventory levels.

International segment sales of $66.3 million in the first quarter of fiscal 2000 were $12.8 million lower than sales for the first quarter of fiscal 1999 of $79.1 million. The decrease in sales was primarily due to shifting our business models in the United Kingdom and France toward direct distribution to customers and away from using third-party distributors. This change is expected to reduce pre-season inventory levels and shift sales from the first quarter to the remainder of the year.

Gross profit increased to $73.9 million in the first quarter of fiscal 2000, an increase of 14.2% over fiscal 1999 gross profit of $64.7 million. As a percentage of sales, gross profit was 38.6% of sales for fiscal 2000 compared to 35.1% of sales for the first quarter of fiscal 1999. This increase in profitability on sales was driven by decreased unit costs for products manufactured in our Marysville facility reflecting higher production levels and improved efficiencies this year and a shift in sales mix toward higher margin products, particularly within the Consumer Lawns business group.

The "commission earned from agency agreement" in the first quarter of fiscal 2000 represents net costs incurred of $1.0 million compared to income of $5.0 million in the first quarter of fiscal 1999. In the prior year, we recorded commission based on our estimated pro-rata share of Roundup(R) EBIT for the quarter. In fiscal 2000, in accordance with revenue recognition guidance recently put forward by the SEC, we will not record commission under the Roundup(R) agency agreement until minimum EBIT thresholds as required by the agreement are achieved. We expect to begin recognizing commission in the second quarter of fiscal 2000 and do not expect that this policy will have any effect on the recognition of commission on a full-year basis. The costs of $1.0 million recorded in the first quarter of fiscal 2000 primarily represents amortization of the fiscal 2000 contribution payment due to Monsanto as required by the marketing agreement.

Advertising and promotion expenses in the first quarter of fiscal 2000 were $23.7 million, an increase of $7.0 million, or 41.9% over fiscal 1999 advertising and promotion expenses of $16.7 million. This increase was primarily due to advertising and promotion expenses for the Ortho business, support of the increase in sales within the North American Consumer segment and investments in advertising and promotion to drive future sales growth in the International segment.

Selling, general and administrative expenses in the first quarter of fiscal 2000 were $68.1 million, an increase of $14.2 million, or 26.3% over similar expenses in the first quarter of fiscal 1999 of $53.9 million. As a percentage of sales, selling, general and administrative expenses were 35.6% for the first quarter of fiscal 2000 compared to 29.2% for fiscal 1999. The increase in selling, general and administrative expenses was primarily related to support of the increased sales levels in the Consumer Lawns business group, infrastructure expenses within the International segment, and selling, general and administrative expenses for the Ortho business group which were not incurred in the first quarter of fiscal 1999 due to the timing of the acquisition in January 1999.

Amortization of goodwill and other intangibles increased to $5.9 million in the first quarter of fiscal 2000, compared to $4.9 million in the prior year, due to additional intangibles resulting from the Ortho acquisition.

Restructuring and other charges were $1.4 million in the first quarter of fiscal 1999. These charges represent severance costs associated with the reorganization of North American Professional Business Group to strengthen distribution and technical sales support, integrate brand management across market segments and reduce annual operating expenses. To date, approximately $1.2 million has been paid.

Other expense for the first quarter of fiscal 2000 was $1.3 million compared to other income of $0.1 million in the prior year. The increase in expense was primarily due to losses associated with the disposal of fixed assets.

Loss from operations for the first quarter of fiscal 2000 was $26.1 million compared to $7.1 million for the first quarter of fiscal 1999. The increase in the loss was primarily due to the factors described above: lower sales in the Professional segment; delayed sales in the International segment due to the changes in distribution to retailers; and a reduction in Roundup(R) commission due to a change in the method for recognizing commission within the year.

Interest expense for the first quarter of fiscal 2000 was $23.7 million, an increase of $13.9 million over fiscal 1999 interest expense of $9.8 million. The increase in interest expense was due to increased borrowings to fund the Ortho acquisition and increased working capital, and an increase in average borrowing rates under our credit facility.

Income tax benefit was $20.2 million for fiscal 2000 compared to a benefit of $6.9 million in the prior year due to the increased loss recognized in the first quarter of fiscal 2000. The Company's effective tax rate did not change significantly from quarter to quarter.

On December 4, 1998, Scotts and certain of its subsidiaries entered into a credit facility and used borrowings under the facility to repay amounts outstanding under the then existing credit facility. The write-off of deferred financing costs associated with the previous credit facility resulted in an extraordinary loss in the first quarter of fiscal 1999, net of income taxes, of $0.4 million.

Scotts reported a net loss of $29.6 million for the first quarter of fiscal 2000, or $1.28 loss per common share on a basic and diluted basis, compared to a net loss of $10.4 million for fiscal 1999, or $0.70 loss per common share on a basic and diluted basis. Due to the early conversion of the then outstanding preferred shares on October 1, 1999, as discussed in "Liquidity and Capital Resources", there were approximately 28.2 million shares outstanding for the first quarter of fiscal 2000. There were 18.3 million common shares outstanding during the first quarter of fiscal 1999.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities totaled $169.3 million for the three months ended January 1, 2000 compared to a use of $163.4 million for the three months ended January 2, 1999. The seasonal nature of our operations generally requires cash to fund significant increases in working capital (primarily inventory and accounts receivable) during the first and second quarters. The third fiscal quarter is a period for collecting accounts receivable and liquidating inventory levels. The slight increase in cash used in operating activities for the first quarter of fiscal 2000 compared to the prior year is attributable to the increased loss in the quarter and the build of inventory levels to meet anticipated seasonal demand, partially offset by a smaller increase in accounts receivable resulting from the factors affecting sales as described above and the payment of Roundup(R) marketing fees made in the first quarter of fiscal 1999.

Cash used in investing activities was $7.2 million for the first quarter of fiscal 2000 compared to $182.1 million in the prior year. In the first quarter of fiscal 1999, we purchased the Rhone-Poulenc Jardin and Asef businesses for approximately $160 million. Additionally, capital investments decreased by $6.6 million to $7.2 million in the first quarter of fiscal 2000 compared to $13.8 million in the first quarter of fiscal 1999.

Financing activities generated cash of $162.8 million for the three months ended January 1, 2000 compared to $343.2 million in the prior year. In the first quarter of fiscal 1999, Scotts borrowed funds under its credit facility in order to purchase the Rhone-Poulenc Jardin and Asef businesses, to pay marketing fees associated with the Roundup(R) agency agreement, to pay financing fees associated with the new credit facility and to settle the then outstanding interest rate locks (as described below). In addition, on October 1, 1999, all of the then outstanding Class A Convertible Preferred Shares were converted into 10.1 million common shares. In connection with the conversion, the Company paid the holders of the Preferred Shares $6.4 million. The amount represents the dividends on the Preferred Shares that otherwise would have been payable through May 2000, the month during which the Preferred Shares could first be redeemed by the Company.

Total debt was $1,126.9 million as of January 1, 2000, an increase of $176.9 million compared with debt at September 30, 1999 and an increase of $347.7 compared with debt levels at January 2, 1999. The increase in debt period to period was primarily due to funding the Ortho acquisition and increased working capital levels as described above.

Our primary sources of liquidity are funds generated by operations and borrowings under our credit facility. The credit facility provides for borrowings in the aggregate principal amount of $1.025 billion and consists of term loan facilities in the aggregate amount of $525 million and a revolving credit facility in the amount of $500 million.

We funded the acquisition of the Rhone-Poulenc Jardin and Asef businesses with borrowings under our credit facility. Additional borrowings under the credit facility, along with proceeds from the January 1999 offering of $330 million of 10-year 8 5/8% Senior Subordinated Notes due 2009, were used to fund the Ortho acquisition and to repurchase approximately 97% of Scotts' then outstanding $100.0 million 9 7/8% Senior Subordinated Notes.

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

In July 1998, our Board of Directors authorized the repurchase of up to $100 million of our common shares on the open market or in privately negotiated transactions on or prior to September 30, 2001. As of January 1, 2000, 1,025,495 common shares (or $37.7 million) have been repurchased under the new repurchase program limit. The timing and amount of any purchases under the new repurchase program will be at our discretion and will depend upon market conditions and our operating performance and liquidity.

Any repurchase will also be subject to the covenants contained in our credit facility as well as our other debt instruments. The repurchased shares will be held in treasury and will thereafter be used for the exercise of employee stock options and for other valid corporate purposes. We anticipate that any repurchases will be made in the open market or in privately negotiated transactions, and that Hagedorn Partnership, L.P. will sell its pro rata share (approximately 42%) of such repurchased shares in the open market.

As of January 1, 2000 the Company was in violation of the minimum net worth covenant contained in our credit facility. The Company obtained a waiver to cure default on February 15, 2000.

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

ENVIRONMENTAL MATTERS

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking action aimed at ensuring compliance with, such laws and regulations. We are involved in several environmental related legal actions with various governmental agencies. While it is difficult to quantify the potential financial impact of actions involving environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established reserves, should not have a material adverse effect on our financial position; however, there can be no assurance that the resolution of these matters will not materially affect future quarterly or annual operating results. Additional information on environmental matters affecting us is provided in Note 10 to the Company's unaudited Condensed, Consolidated Financial Statements as of and for the three months ended January 1, 2000 and in the 1999 Annual Report on Form 10-K under "ITEM 1 BUSINESS... ENVIRONMENTAL AND REGULATORY CONSIDERATIONS" and "ITEM 3 LEGAL PROCEEDINGS" sections.

YEAR 2000 READINESS

In order to address issues surrounding the potential inability of our computer software applications and other business systems to properly identify the Year 2000, we established a readiness program to assess the extent and impact of potential business interruptions and other risks. The readiness program included a review of all significant information technology systems within the Company, as well as significant non-information technology business systems including machinery and equipment operating control systems, telecommunications systems, building air management systems, security and fire control systems and electrical and natural gas systems. Remediation, upgrade or replacement of the affected systems was made as necessary.

The readiness program also included evaluation of the year 2000 readiness of significant third-party suppliers through confirmation and follow-up procedures, including selected site assessments, where necessary.

Excluding the cost of internally dedicated resources, we have incurred approximately $5.5 million to address potential year 2000 risks as of January 1, 2000. These costs, with the exception of relatively small capital expenditures, were expensed as incurred and were funded through operating cash flows or from borrowings under our credit facility. We do not expect to incur any significant additional costs related to the year 2000 issue.

Through January 2000, we have not experienced any significant issues related to the ability of our information technology and business systems to recognize the year

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

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

ENTERPRISE RESOURCE PLANNING ("ERP")

In July 1998, we announced a project designed to bring our information system resources in line with our current strategic objectives. The project includes the redesign of certain key business processes in connection with the installation of new software on a world-wide basis over the course of the next several fiscal years. We estimate that the project will cost approximately $65 million, of which we expect 75% will be capitalized and depreciated over a period of four to eight years. SAP has been selected as the primary software provider for this project.

EURO

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

RECENT DEVELOPMENTS

On February 7, 2000, the Company announced that it had signed a letter of intent to sell its North American Professional Turf business. The Company expects the transaction to close in the third quarter of fiscal 2000 and does not expect the transaction to have a material impact on its fiscal 2000 results of operations. The Company will retain the professional horticulture and grass seed segments of its Professional Business Segment.

MANAGEMENT'S OUTLOOK

Results for the first quarter of fiscal 2000 are in line with management's expectations and position us to continue our trend of significant sales and earnings growth. We are coming off a very strong fiscal 1999 as we reported record sales of $1.65 billion, achieved market share growth in every one of our major U. S. categories and established a number one market share position in most of the significant lawn and garden categories across the world. The performance in 1999 reflected the successful continuation of our primary growth drivers: to emphasize consumer-oriented marketing efforts to pull demand through distribution channels, and to make strategic acquisitions to increase market share in global markets and within segments of the lawn and garden category.

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

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

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

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

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

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

(1) Sales growth of 10% per year;

(2) An aggregate operating margin improvement of 1/2 to 1% per year;

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

(4) Return on equity of 18%.

FORWARD-LOOKING STATEMENTS

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

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

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

- ADVERSE WEATHER CONDITIONS COULD ADVERSELY IMPACT FINANCIAL RESULTS.

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

- OUR HISTORICAL SEASONALITY COULD IMPAIR OUR ABILITY TO MAKE INTEREST PAYMENTS ON INDEBTEDNESS.

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

- PUBLIC PERCEPTIONS THAT THE PRODUCTS WE PRODUCE AND MARKET ARE NOT SAFE COULD ADVERSELY AFFECT US.

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

- OUR SUBSTANTIAL INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL HEALTH AND PREVENT US FROM FULFILLING OUR OBLIGATIONS.

  Our substantial indebtedness could:

  - make it more difficult for us to satisfy our obligations;

  - increase our vulnerability to general adverse economic and industry conditions;

  - limit our ability to fund future working capital, capital expenditures, research and development costs and other general corporate requirements;

- require us to dedicate a substantial portion of cash flow from operations to payments on our indebtedness, which would reduce the cash flow available to fund working capital, capital expenditures, research and development efforts and other general corporate requirements;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

- place us at a competitive disadvantage compared to our competitors that have less debt; and

- limit our ability to borrow additional funds.

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

- TO SERVICE OUR INDEBTEDNESS, WE WILL REQUIRE A SIGNIFICANT AMOUNT OF CASH, WHICH WE MAY NOT BE ABLE TO GENERATE.

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

- WE MIGHT NOT BE ABLE TO INTEGRATE OUR RECENT ACQUISITIONS INTO OUR BUSINESS OPERATIONS SUCCESSFULLY.

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

- BECAUSE OF THE CONCENTRATION OF OUR SALES TO A SMALL NUMBER OF RETAIL CUSTOMERS, THE LOSS OF ONE OR MORE OF OUR TOP CUSTOMERS COULD ADVERSELY AFFECT OUR FINANCIAL RESULTS.

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

- IF MONSANTO WERE TO TERMINATE THE MARKETING AGREEMENT FOR CONSUMER ROUNDUP(R) PRODUCTS, WE WOULD LOSE A SUBSTANTIAL SOURCE OF FUTURE EARNINGS.

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

  - Over a cumulative three year fiscal year period; or

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

- THE EXPIRATION OF PATENTS RELATING TO ROUNDUP(R) AND THE SCOTTS TURF BUILDER(R) LINE OF PRODUCTS COULD SUBSTANTIALLY INCREASE OUR COMPETITION IN THE UNITED STATES.

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

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

- THE INTERESTS OF THE FORMER MIRACLE-GRO SHAREHOLDERS COULD CONFLICT WITH THOSE OF OUR OTHER SHAREHOLDERS.

  The former shareholders of Stern's Miracle-Gro Products, Inc., through Hagedorn Partnership, L.P., beneficially own approximately 42% of the outstanding common shares of Scotts on a fully diluted basis. The former Miracle-Gro shareholders have sufficient voting power to significantly control the election of directors and the approval of other actions requiring the approval of our shareholders. The interests of the former Miracle-Gro shareholders could conflict with those of our other shareholders.

- COMPLIANCE WITH ENVIRONMENTAL AND OTHER PUBLIC HEALTH REGULATIONS COULD INCREASE OUR COST OF DOING BUSINESS.

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

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

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

The costs of compliance, remediation or products liability have adversely affected operating results in the past and could materially affect future quarterly or annual operating results.

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

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

During fiscal 1999, we made approximately $1.1 million in environmental capital expenditures and $5.9 million in other environmental expenses, compared with approximately $0.7 million in environmental capital expenditures and $3.1 million in other environmental expenses in fiscal 1998. Management anticipates that environmental capital expenditures and other environmental expenses for fiscal 2000 will not differ significantly from those incurred in fiscal 1999. If we are required to significantly increase our actual environmental capital expenditures and other environmental expenses, it could adversely affect our financial results.

- OUR INABILITY, OR THE INABILITY OF OUR SUPPLIERS OR CUSTOMERS, TO RECOGNIZE AND ADDRESS ISSUES RELATED TO THE YEAR 2000 WHICH HAVE YET TO BE ENCOUNTERED, COULD ADVERSELY AFFECT OUR OPERATIONS.

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

could adversely affect our operations. In addition, the failure of our retailer customers adequately to address the year 2000 problem could adversely affect our financial results.

- THE IMPLEMENTATION OF THE EURO CURRENCY IN SOME EUROPEAN COUNTRIES BETWEEN 1999 AND 2002 COULD ADVERSELY AFFECT US.

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

- OUR SIGNIFICANT INTERNATIONAL OPERATIONS MAKE US MORE SUSCEPTIBLE TO FLUCTUATIONS IN CURRENCY EXCHANGE RATES AND TO THE COSTS OF INTERNATIONAL REGULATION.

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

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

  - fluctuations in currency exchange rates;

  - limitations on the conversion of foreign currencies into U.S. dollars;

  - limitations on the remittance of dividends and other payments by foreign subsidiaries;

  - additional costs of compliance with local regulations; and

  - historically, higher rates of inflation than in the United States.

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

- WE COULD EXPERIENCE DIFFICULTIES WITH OUR IMPLEMENTATION OF SAP THAT COULD ADVERSELY AFFECT OUR OPERATIONS.

  Our implementation of SAP is in progress and is currently being utilized to provide information to three of our business groups. While the implementation has not created business interruption to this point, there can be no assurance that we will not experience difficulties in the remainder of the implementation process over the next several years.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As noted in Note 10 to the Company's unaudited Condensed, Consolidated Financial Statements as of and for the three months ended January 1, 2000, the Company is involved in several pending environmental matters. Pending other material legal proceedings are as follows:

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

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

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

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

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

ITEM 5. OTHER INFORMATION

On February 7, 2000, the Company announced that it had signed a letter of intent to sell its North American Professional Turf business. The Company expects the transaction to close in the third quarter of fiscal 2000 and does not expect the transaction to have a material impact on its fiscal 2000 results of operations. The Company will retain the professional horticulture and grass seed segments of its Professional Business Segment.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) See Exhibit Index at page 42 for a list of the exhibits included herewith.

(b) The Registrant filed a Current Report on Form 8-K dated October 5, 1999, reporting under "Item 5. Other Events", the conversion by the holders thereof of all the Class A Convertible Preferred Shares into approximately 10.1 million common shares effective October 1, 1999.

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 COMPANY

Dated February 15, 2000

/s/ Christopher L. Nagel
Principal Accounting Officer,
Vice President and Corporate
Controller

THE SCOTTS COMPANY

QUARTERLY REPORT ON FORM 10-Q FOR
FISCAL QUARTER ENDED JANUARY 1, 2000

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	PAGE NUMBER
10(d)	The Scotts Company 1996 Stock Option Plan (as amended through February 14, 2000)	*
27	Financial Data Schedule	*
99	Press release regarding the sale of the North American Professional Turf business.	*

* Filed herewith

Exhibit 10(d)

THE SCOTTS COMPANY
1996 STOCK OPTION PLAN
(AS AMENDED THROUGH FEBRUARY 14, 2000)

THE SCOTTS COMPANY
1996 STOCK OPTION PLAN
(REFLECTS AMENDMENTS THROUGH FEBRUARY 14, 2000)

SECTION 1.

PURPOSE

The purpose of the Plan is to foster and promote the long-term financial success of the Company and materially increase shareholder value by (a) encouraging and providing for the acquisition of an ownership interest in the Company by Employees and Eligible Directors, and (b) enabling the Company to attract and retain the services of an outstanding management team upon whose judgment, interest, and special effort the successful conduct of its operations is largely dependent.

SECTION 2.

DEFINITIONS

2.1 Definitions. Whenever used herein, the following terms shall have the respective meanings set forth below:

(a) "Act" means the Securities Exchange Act of 1934, as amended.

(b) "Award" means any Option.

(c) "Board" means the Board of Directors of the Company.

(d) "Cause" means (i) the willful failure by a Participant to perform substantially his duties as an Employee of the Company (other than due to physical or mental illness) after reasonable notice to the Participant of such failure, (ii) the Participant's engaging in serious misconduct that is injurious to the Company or any Subsidiary, (iii) the Participant's having been convicted of, or entered a plea of nolo contendere to, a crime that constitutes a felony or (iv) the breach by the Participant of any written covenant or agreement with the Company or any Subsidiary not to disclose any information pertaining to the Company or any Subsidiary or not to compete or interfere with the Company or any Subsidiary.

(e) "Change in Control" means the occurrence of any of the following events:

(i) the members of the Board at the beginning of any consecutive twenty-four calendar month period (the "Incumbent Directors") cease for any reason other than due to death to constitute at least a majority of the members of the Board, provided that any director whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the members of the Board then still in office who were members of the Board at the beginning of such twenty-four calendar month period, shall be treated as an Incumbent Director; or

(ii) any "person," including a "group" (as such terms are used in Sections 13(d) and 14(d)(2) of the Act, but excluding the Company, any of its Subsidiaries, or any employee benefit plan of the Company or of any of its Subsidiaries,) is or becomes the "beneficial owner" (as defined in Rule 13(d)(3) under the Act), directly or indirectly, of securities of the Company representing more than 49% of the combined voting power of the Company's then outstanding securities; or

(iii) the shareholders of the Company shall approve a definitive agreement (1) for the merger or other business combination of the Company with or into another corporation, a majority of the directors of which were not directors of the Company immediately prior to the merger and in which the shareholders of the Company immediately prior to the effective date of such merger own less than 50% of the voting power in such corporation; or (2) for the sale or other disposition of all or substantially all of the assets of the Company; or

(iv) the purchase of Stock pursuant to any tender or exchange offer made by any "person," including a "group" (as such terms are used in Sections 13(d) and 14(d)(2) of the Act), other than the Company, any of its Subsidiaries, or an employee benefit plan of the Company or of any of its Subsidiaries, for more than 49% of the Stock of the Company.

(f) "Change in Control Price" means the highest price per share of Stock offered in conjunction with any transaction resulting in a Change in Control (as determined in good faith by the Committee if any part of the offered price is payable other than in cash) or, in the case of a Change in Control occurring solely by reason of a change in the composition of the Board, the highest Fair Market Value of the Stock on any of the 30 trading days immediately preceding the date on which a Change in Control occurs.

(g) "Code" means the Internal Revenue Code of 1986, as amended.

(h) "Committee" means the Compensation and Organization Committee of the Board which shall have the meaning ascribed to a "compensation committee" in Section 1.162-27(c)(4) of the final regulations promulgated under Section 162(m) of the Code and which shall consist of three or more members, each of whom shall be (i) a person from time to time permitted by the rules promulgated under Section 16 of the Act in order for grants of Awards to be exempt transactions under said Section 16 and (ii) receiving remuneration in no other capacity than as a director, except as permitted under Section 1.162-27(e)(3) of the final regulations promulgated under Section 162(m) of the Code and the rulings thereunder.

(i) "Company" means The Scotts Company, an Ohio corporation, and any successor thereto.

(j) "Director Option" means a "nonstatutory stock option" ("NSO") granted to each Eligible Director pursuant to Section 6.6 without any action by the Board or the Committee.

(k) "Disability" means the inability of the Participant to perform his duties for a period of at least six months due to a physical or medical infirmity. Notwithstanding the foregoing, with respect to Incentive Stock Options, the term "Disability" shall be defined as such term is defined in Section 22(e)(3) of the Code.

(l) "Eligible Director" means, on any date, a person who is serving as a member of the Board and who is not an Employee.

(m) "Employee" means any officer or other key executive and management employee of the Company or of any of its Subsidiaries.

(n) "Fair Market Value" means, on any date, the closing price of the Stock as reported on the New York Stock Exchange (or on such other recognized market or quotation system on which the trading prices of the Stock are traded or quoted at the relevant time) on such date. In the event that there are no Stock transactions reported on the New York Stock Exchange (or such other market or system) on such date, Fair Market Value shall mean the closing price on the immediately preceding date on which Stock transactions were so reported.

(o) "Option" means the right to purchase Stock at a stated price for a specified period of time. For purposes of the Plan, an Option may be either (i) an "Incentive Stock Option" (ISO) within the meaning of Section 422 of the Code or (ii) a NSO which does not qualify for treatment as an "Incentive Stock Option."

(p) "Participant" means any Employee designated by the Committee to participate in the Plan.

(q) "Plan" means The Scotts Company 1996 Stock Option Plan, as in effect from time to time.

(r) "Retirement" means termination of a Participant's employment on or after the normal retirement date or, with the Committee's approval, on or after any early retirement date established under any retirement plan maintained by the Company or a Subsidiary in which the Participant participates.

(s) "Stock" means the Common Shares, without par value, of the Company.

(t) "Subsidiary" means any corporation or partnership in which the Company owns, directly or indirectly, 50% or more of the total combined voting power of all classes of stock of such corporation or of the capital interest or profits interest of such partnership.

2.2 Gender and Number. Except when otherwise indicated by the context, words in the masculine gender used in the Plan shall include the feminine gender, the singular shall include the plural, and the plural shall include the singular.

SECTION 3.

ELIGIBILITY AND PARTICIPATION

Except as otherwise provided in Section 6.6, the only persons eligible to participate in the Plan shall be those Employees selected by the Committee as Participants.

SECTION 4.

POWERS OF THE COMMITTEE

4.1 Power to Grant. The Committee shall determine the Participants to whom Awards shall be granted, the type or types of Awards to be granted and the terms and conditions of any and all such Awards. The Committee may establish different terms and conditions for different types of Awards, for different Participants receiving the same type of Award and for the same Participant for each Award such Participant may receive, whether or not granted at different times.

4.2 Administration. The Committee shall be responsible for the administration of the Plan. The Committee, by majority action thereof, is authorized to prescribe, amend, and rescind rules and regulations relating to the Plan, to provide for conditions deemed necessary or advisable to protect the interests of the Company, and to make all other determinations (including, without limitation, whether a Participant has incurred a Disability) necessary or advisable for the administration and interpretation of the Plan in order to carry out its provisions and purposes. Determinations, interpretations, or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final, binding, and conclusive for all purposes and upon all persons.

SECTION 5.

STOCK SUBJECT TO PLAN

5.1 Number. Subject to the provisions of Section 5.3, the number of shares of Stock subject to Awards under the Plan may not exceed 5,500,000 shares of Stock. Subject to the provisions of Section 5.3, no Employee shall receive Awards for more than 150,000 shares of Stock over any one-year period. For this purpose, to the extent that any Award is cancelled (as described in Section 1.162-27(e)(2)(vi)(B) of the final regulations promulgated under Section 162(m) of the Code), such cancelled Award shall continue to be counted against the maximum number of shares of Stock for which Awards may be granted to an Employee under the Plan. The shares of Stock to be delivered under the Plan may consist, in whole or in part, of treasury Stock or authorized but unissued Stock, not reserved for any other purpose.

5.2 Cancelled, Terminated, or Forfeited Awards. Except as provided in Section 5.1, any shares of Stock subject to an Award which for any reason is cancelled, terminated or otherwise settled without the issuance of any Stock shall again be available for Awards under the Plan.

5.3 Adjustment in Capitalization. In the event of any Stock dividend or Stock split, recapitalization (including, without limitation, the payment of an extraordinary dividend), merger, consolidation, combination, spin-off, distribution of assets to shareholders, exchange of shares, or other similar corporate change, the aggregate number of shares of Stock available for Awards under Section 5.1 or subject to outstanding Awards and the respective prices and/or limitations applicable to outstanding Awards may be appropriately adjusted by the Committee, whose determination shall be conclusive. If, pursuant to the preceding sentence, an adjustment is made to the number of shares subject to outstanding Options held by Participants a corresponding adjustment shall be made to the number of shares subject to outstanding Director Options and if an adjustment is made to the number of shares of Stock authorized for issuance under the Plan, a corresponding adjustment shall be made to the number of shares subject to each Director Option thereafter granted pursuant to Section 6.6.

SECTION 6.

OPTIONS

6.1 Grant of Options. Options may be granted to Participants at such time or times as shall be determined by the Committee. Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) NSOs. The Committee shall have complete discretion in determining the number of Options, if any, to be granted to a Participant. Without limiting the foregoing, the Committee may grant Options containing provisions for the issuance to the Participant, upon exercise of such Option and payment of the exercise price therefor with previously owned shares of Stock, of an additional Option for the number of shares so delivered, having such other terms and conditions not inconsistent with the Plan as the Committee shall determine. Each Option shall be evidenced by an Option agreement that shall specify the type of Option granted, the exercise price, the duration of the Option, the number of shares of Stock to which the Option pertains, and such other terms and conditions not inconsistent with the Plan as the Committee shall determine.

6.2 Option Price. NSOs and Incentive Stock Options granted pursuant to the Plan shall have an exercise price which is not less than the Fair Market Value of the Stock on the date the Option is granted. To the extent that an Incentive Stock Option is granted to a

Participant who owns (actually or constructively under the provisions of Section 424(d) of the Code) Stock possessing more than 10% of the total combined voting power of all classes of Stock of the Company or of any Subsidiary, such Incentive Stock Option shall have an exercise price which is not less than 110% of the Fair Market Value on the date the Option is granted.

6.3 Exercise of Options. Options awarded to a Participant under the Plan shall be exercisable at such times and shall be subject to such restrictions and conditions including the performance of a minimum period of service, as the Committee may impose, either at or after the time of grant of such Options; provided, however, that if the Committee does not specify another exercise schedule at the time of grant, each Option shall become exercisable on the third anniversary of the date of grant, subject to the Committee's right to accelerate the exercisability of such Option in its discretion. Notwithstanding the foregoing, no Option shall be exercisable for more than 10 years after the date on which it is granted; provided, however, in the case of an Incentive Stock Option granted to a Participant who owns (actually or constructively under the provisions of Section 424(d) of the Code) Stock possessing more than 10% of total combined voting power of all classes of Stock of the Company or any Subsidiary, such Incentive Stock Option shall not be exercisable for more than 5 years after the date on which it is granted.

6.4 Payment. The Committee shall establish procedures governing the exercise of Options, which shall require that written notice of exercise be given and that the Option price be paid in full in cash or equivalents, including by personal check, at the time of exercise or pursuant to any arrangement that the Committee shall approve. The Committee may, in its discretion, permit a Participant to make payment in Stock already owned by him, valued at its Fair Market Value on the date of exercise, as partial or full payment of the exercise price. As soon as practicable after receipt of a written exercise notice and full payment of the exercise price, the Company shall deliver to the Participant a certificate or certificates representing the acquired shares of Stock.

6.5 Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of any Participant affected thereby, to cause any Incentive Stock Option previously granted to fail to qualify for the Federal income tax treatment afforded under Section 421 of the Code. Further, the aggregate Fair Market Value (determined as of the time an Incentive Stock Option is granted) of the Stock with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all option plans of the Company and all Subsidiaries of the Company) shall not exceed $100,000.

6.6 Director Options. Notwithstanding anything else contained herein to the contrary, on the first business day following the date of each annual meeting of shareholders during the term of the Plan, each Eligible Director shall receive a Director Option to purchase 5,000 shares of Stock at an exercise price per share equal to the Fair Market Value of the Stock on the date of grant. An Eligible Director who is a member of one or more Board committees, shall receive an additional grant of 500 shares of Stock for each committee on which he or she serves. An Eligible Director who chairs one or more Board committees shall receive an additional grant of 1,500 shares of Stock for each committee which he or she chairs. Each Director Option shall be exercisable six months after the date of grant and shall remain exercisable until the earlier to occur of (i) the tenth anniversary of the date of grant or (ii) the first anniversary of the date the Eligible Director ceases to be a member of the Board, except that (a) if the Eligible Director ceases to be a member of the Board after having been convicted of, or pled guilty or nolo contendere to, a felony, his Director Options shall be cancelled on the date he ceases to be a director, or (b) if the Eligible Director ceases to be a member of the Board due to a Director Retirement, any Director Options granted to such Director which are then outstanding (whether or not exercisable prior to the date of such Director Retirement), may be exercised at any time prior to the expiration of the term of the Director Options or within five(5) years following the Director Retirement, whichever period is shorter. For the purposes of this Section 6.6, "Director Retirement" means the retirement of an Eligible Director from service on the Board after having served at least 10 years as a member of the Board and attained the age of 55, unless the Board specifies a shorter period of required service. An Eligible Director may exercise a Director Option in the manner described in Section 6.3.

SECTION 7.

TERMINATION OF EMPLOYMENT

7.1 Termination of Employment Due to Retirement. Unless otherwise determined by the Committee at the time of grant, in the event a Participant's employment terminates by reason of Retirement, any Options granted to such Participant which are then outstanding (whether or not exercisable prior to the date of such termination) may be exercised at any time prior to the expiration of the term of the Options or within five (5) years (or such shorter period as the Committee shall determine at the time of grant) following the Participant's termination of employment, whichever period is shorter. Notwithstanding any provision contained herein, with respect to any Incentive Stock Option, a Participant who terminates his employment by reason of Retirement may exercise such Incentive Stock Option at any time prior to the expiration of the term of the Option or within three (3) months following the Participant's termination of employment, whichever period is shorter.

7.2 Termination of Employment Due to Death or Disability. Unless otherwise determined by the Committee at the time of grant, in the event a Participant's employment terminates by reason of death or Disability, any Options granted to such Participant which are then outstanding (whether or not exercisable prior to the date of such termination) may be exercised by the Participant or the Participant's designated beneficiary, and if none is named, in accordance with Section 10.2, at any time prior to the expiration date of the term of the Options or within five (5) years (or such shorter period as the Committee shall determine at the time of grant) following the Participant's termination of employment, whichever period is shorter. Notwithstanding any provision contained herein, with respect to any Incentive Stock Option, a Participant whose employment terminates by reason of death or Disability may exercise (or his designated beneficiary may exercise, in the case of death) such Incentive Stock Option at any time prior to the expiration of the term of the Option or within one (1) year following the Participant's termination of employment, whichever period is shorter.

7.3 Termination of Employment For Cause. Unless otherwise determined by the Committee at the time of grant, in the event a Participant's employment is terminated for Cause, any Options granted to such Participant which are then outstanding (whether or not exercisable prior to the date of such termination) shall be forfeited.

7.4 Termination of Employment for Any Other Reason. Unless otherwise determined by the Committee at or after the time of grant, in the event the employment of the Participant shall terminate for any reason other than one described in Section 7.1, 7.2 or 7.3, any Options granted to such Participant which are exercisable at the date of the Participant's termination of employment, or on such accelerated basis as the Committee may have determined in its discretion, shall remain exercisable until the earlier to occur of (i) the expiration of the term of such Options or (ii) the ninetieth day following the Participant's termination of employment, whichever period is shorter.

7.5 Limitations on Exercisability Following Termination of Employment. No Options shall be exercisable after termination of employment unless the Participant shall have, during the time period in which the Options are exercisable, (a) refrained from serving as an officer, director or employee of any individual, partnership or corporation, or the owner of a business, or a member of a partnership which conducts business in competition with the Company or renders any service (including, without limitation, advertising agencies and business consultants) to competitors with any portion of the business of the Company, (b) been available, if so requested by the Company, at reasonable times and upon a reasonable basis, to consult with, supply information to, and otherwise cooperate with, the Company, and (c) refrained from engaging in a deliberate action which has been determined by the Committee to cause substantial harm to the interests of the Company. If any of these conditions is not fulfilled, the Committee may require the Participant to forfeit all rights to any Options which have not been exercised prior to the date of the breach of the condition.

SECTION 8.

CHANGE IN CONTROL

8.1 Accelerated Vesting and Payment. Subject to the provisions of Section 8.2 below, in the event of a Change in Control, each Participant shall be permitted, in his discretion, to surrender any Option (excluding any Director Option) or portion thereof in exchange for a payment in cash of an amount equal to the excess of the Change in Control Price over the exercise price of the Option. Such right to surrender an Option in exchange for a payment in cash shall remain in effect only during the fifteen-day period commencing with the day following the date of a Change in Control. Thereafter, the Option shall only be exercisable in accordance with the terms and conditions of the Stock Option Agreement and the provisions of the Plan.

8.2 Alternative Awards. Notwithstanding Section 8.1, no cancellation or cash settlement or other payment shall occur with respect to any Award or any class of Awards if the Committee reasonably determines in good faith prior to the occurrence of a Change in Control that such Award or Awards shall be honored or assumed, or new rights substituted therefor (such honored, assumed or substituted award hereinafter called an "Alternative Award"), by a Participant's employer (or the parent or a subsidiary of such employer) immediately following the Change in Control, provided that any such Alternative Award must:

(i) be based on stock which is traded on an established securities market, or which will be so traded within 60 days of the Change in Control;

(ii) provide such Participant (or each Participant in a class of Participants) with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under such Award, including, but not limited to, an identical or better exercise or vesting schedule and identical or better timing and methods of payment;

(iii) have substantially equivalent economic value to such Award (determined at the time of the Change in Control); and

(iv) have terms and conditions which provide that in the event that the Participant's employment is involuntarily terminated or constructively terminated, any conditions on a Participant's rights under, or any restrictions on transfer or exercisability applicable to, each such Alternative Award shall be waived or shall lapse, as the case may be.

For this purpose, a constructive termination shall mean a termination by a Participant following a material reduction in the Participant's compensation, a material reduction in the Participant's responsibilities or the relocation of the Participant's principal place of employment to another location, in each case without the Participant's written consent.

8.3 Director Options. Upon a Change in Control, each Director Option granted to an Eligible Director shall be cancelled in exchange for a payment in cash of an amount equal to the excess of the Change in Control Price over the exercise price for such Director Option unless (i) the Stock remains traded on an established securities market following the Change in Control and (ii) such Eligible Director remains on the Board following the Change in Control.

8.4 Options Granted Within Six Months of the Change in Control. If any Option (including a Director Option) granted within six months of the date on which a Change in Control occurs (i) is held by a person subject to the reporting requirements of Section 16(a) of the Act and (ii) is to be cashed out pursuant to Section 8.1 or 8.3, such cash out shall not occur unless and until, in the opinion of the Company's counsel, such cash out could occur without such reporting person being potentially subject to liability under Section 16(b) of the Act by reason of such cash out.

SECTION 9.

AMENDMENT, MODIFICATION, AND TERMINATION OF PLAN

The Board or the Committee may at any time terminate or suspend the Plan, and from time to time may amend or modify the Plan; provided, however, that no amendment may be made to Section 6.6 or any other provision of the Plan relating to Director Options within six months of the last date on which any such provision was amended. Any such amendment, termination or suspension may be made without the approval of the shareholders of the Company except as such shareholder approval may be required (a) to satisfy the requirements of Rule 16b-3 under the Act, or any successor rule or regulation, (b) to satisfy applicable requirements of the Code or (c) to satisfy applicable requirements of any securities exchange on which are listed any of the Company's equity securities. No amendment of the Plan shall result in any Committee member's losing his status as a "disinterested person" as defined in Rule 16b-3 under the Act, or any successor rule or regulation, with respect to any employee benefit plan of the Company or result in the Plan's losing its status as a plan satisfying the requirements of said Rule 16b-3. No amendment, modification, or termination of the Plan shall in any manner adversely affect any Award therefore granted under the Plan, without the consent of the Participant.

SECTION 10.

MISCELLANEOUS PROVISIONS

10.1 Assignability. With the permission of the Committee, a Participant or a specified group of Participants who has or have been granted a NSO under the Plan, may transfer such Option to a revocable inter vivos trust as to which the Participant is the settlor or may transfer such an Option to a "Permissible Transferee." A Permissible Transferee shall be defined as any member of the immediate family of the Participant, any trust, whether revocable or irrevocable, solely for the benefit of members of the Participant's immediate family, or any partnership or limited liability company whose only partners or members are members of the Participant's immediate family. Any such transferee of a NSO shall remain subject to all of the terms and conditions applicable to such NSO and subject to the rules and regulations prescribed by the Committee. A NSO may not be retransferred by a Permissible Transferee except by will or the laws of descent and distribution and then only to another Permissible Transferee. Other than as described above, an Award granted under the Plan may not be transferred except by will or the laws of descent and distribution and, during the lifetime of the Participant to whom granted, may be exercised only by him, his guardian or legal representative.

10.2 Beneficiary Designation. Each Participant and each Eligible Director under the Plan may from time to time name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid or by whom any right under the Plan is to be exercised in case of his death. Each designation shall revoke all prior designations by the same Participant or Eligible Director, shall be in a form prescribed by the Committee, and shall be effective only when filed in writing with the Committee. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to or exercised by his surviving spouse, if any, or otherwise to or by his estate and Director Options outstanding at the Eligible Director's death shall be exercised by his surviving spouse, if any, or otherwise by his estate.

10.3 No Guarantee of Employment or Participation. Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Company or any Subsidiary. No Employee shall have a right to be selected as a Participant, or, having been so selected, to receive any future Awards. Nothing in the Plan shall confer upon an Eligible Director a right to continue to serve on the Board or to be nominated for reelection to the Board.

10.4 Tax Withholding. The Company shall have the power to withhold, or require a Participant or Eligible Director to remit to the Company, an amount sufficient to satisfy Federal, State, and local withholding tax requirements on any Award under the Plan, and the Company may defer payment of cash or issuance of Stock until such requirements are satisfied. The Committee may, in its discretion, permit a Participant to elect, subject to such conditions as the Committee shall impose, (i) to have shares of Stock otherwise issuable under the Plan withheld by the Company or (ii) to deliver to the Company previously acquired shares of Stock having a Fair Market Value sufficient to satisfy all or part of the Participant's estimated total Federal, state, and local tax obligation associated with the transaction.

10.5 Indemnification. Each person who is or shall have been a member of the Committee or of the Board shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be made a party or in which he may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit, or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive and shall be independent of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or Code of Regulations, by contract, as a matter of law, or otherwise.

10.6 No Limitation on Compensation. Nothing in the Plan shall be construed to limit the right of the Company to establish other plans or to pay compensation to its Employees or directors, in cash or property, in a manner which is not expressly authorized under the Plan.

10.7 International Employees. It is the Company's desire to provide the same motivation to materially increase shareholder value and to enable the Company to attract and retain the services of outstanding managers in the international locations where the Company maintains facilities and employs people. To this end, the Company will adopt incentives in its foreign locations that provide as closely as possible the same motivational effect as Options provide to domestic Participants. The Committee may grant Awards to employees who are subject to the tax laws of nations other than the United States, which Awards may have terms and conditions that differ from other Awards granted under the Plan for the purposes of complying with foreign tax laws.

10.8 Requirements of Law. The granting of Awards and the issuance of shares of Stock shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. Notwithstanding the foregoing, no Stock shall be issued under the Plan unless the Company is satisfied that such issuance will be in compliance with applicable federal and state securities laws. Certificates for Stock delivered under the Plan may be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed or traded, the Nasdaq National Market or any applicable federal or state securities law. The Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions.

10.9 Term of Plan. The Plan shall be effective upon its adoption by the Committee, subject to approval by the Board and approval by the affirmative vote of the holders of a majority of the shares of voting stock present in person or represented by proxy at the 1996 Annual Meeting of Shareholders. The Plan shall continue in effect, unless sooner terminated pursuant to Section 9, until the tenth anniversary of the date on which it is adopted by the Board.

10.10 Governing Law. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Ohio.

10.11 No Impact On Benefits. Plan Awards are not compensation for purposes of calculating an Employee's rights under any employee benefit plan.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF OPERATIONS OF THE SCOTTS COMPANY AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FORM 10-Q FOR THE QUARTER ENDED JANUARY 1, 2000.

U.S. DOLLARS

OTHER
SEP-30-2000
OCT-01-1999
JAN-01-2000
1
15,800,000
0
242,800,000
(17,500,000)
442,100,000
772,100,000
459,500,000
(203,500,000)
1,876,800,000
423,700,000
0
0
0
300,000
382,800,000
1,876,800,000
191,500,000
190,500,000
117,600,000
97,700,000
(1,300,000)
0
23,700,000
(49,800,000)
20,200,000
(29,600,000)
0
0
0
(29,600,000)
(1.28)
(1.28)

THE SCOTTS COMPANY NEWS

SCOTTS TO SELL PROFESSIONAL TURF BUSINESS

RETAINS VALUE-ADDED SEED AND HORTICULTURE BUSINESSES

COLUMBUS, OHIO - February 7, 2000 -- The Scotts Company (NYSE: SMG) today announced that it has signed a letter of intent to sell, for an undisclosed amount, its North American Professional Turf business to The Andersons, Inc. (NASDAQ: ANDE) and Nu-Gro Corporation (TSE: NU).

Scotts expects the transaction to close no later than May 2000 and to have no material impact on its financial results for the year.

James Hagedorn, President, Scotts North America said, "Scotts' Professional Turf business is well established as a supplier of quality products and trusted brands among professional turf managers. Our decision to sell this business is a strategic decision to focus our resources on markets where our consumer brands and consumer marketing expertise have the greatest potential to create value for Scotts' shareholders."

Scotts will retain the professional horticulture and grass seed segments of its Professional Business Group, which is important to Scotts' biotechnology efforts of value-added seeds and plants, which leverage the power of Scotts' consumer brands. For example, Scotts' horticulture business is conducting test markets using Miracle-Gro(R) branded plants to penetrate the $5 billion market for grass, flowers and woody ornamentals sold by professional growers.

Under the Professional Turf sales agreement, The Andersons would acquire the rights in the U.S. to the Pro-Turf(R), Contec(TM), AccuPro(TM) and other professional turf brands and their associated distribution network and product inventories. Nu-Gro would acquire the same brands and their associated distribution network and inventories in Canada. The Scotts(R) brand name is not part of this transaction.

The transaction includes a supply agreement under which Scotts will use its proprietary manufacturing processes to produce value-added professional turf products for The Andersons and Nu-Gro. The employees of the Professional Turf business are expected to remain with the operations under the new owners.

The Andersons, based in Maumee, Ohio, is a leading regional supplier in the grain industry and a leader in particle size technology in the production of professional turf products, including its Tee Time(R), Andersons Professional Turf Products(TM) and other granular products.

Nu-Gro, based in Brantford, Ontario, is a leading Canadian manufacturer and marketer of consumer lawn and garden and professional turf products, including the CIL(R) and Wilson(R) brands Through its subsidiaries in Canada and the United States, the company produces and distributes controlled-release nitrogen products to the fertilizer industry worldwide. Its products include Nitroform, Nutralene, Sulphur Coated Urea and IB Nitrogen.

For more information on The Scotts Company including access to the Company's SEC filings, please visit the Company's investor relations web site at www.smgnyse.com.

The Scotts Company is the world's leading supplier of consumer products for lawn and garden care, with a full range of products for professional turf care and horticulture as well. The Company owns what are by far the industry's most recognized brands. In the U.S., consumer awareness of the Company's Scotts(R), Miracle-Gro(R) and Ortho(R) brands outscores the nearest competitors in their categories by several times, as does awareness of the consumer Roundup(R) brand which is marketed in North America and most of Europe exclusively by Scotts and owned by Monsanto. In the U.K., Scotts' brands include Weedol(R) and Pathclear(R), the top-selling consumer herbicides; Evergreen(R), the leading lawn fertilizer line; the Levington(R) line of lawn and garden products; and Miracle-Gro(R), the leading plant fertilizer. The Company's leading brands in continental Europe include KB(R) and Fertiligene(R) in France and NexaLotte(R) and Celaflor(R) in Germany.

Statement under the Private Securities Litigation Act of 1995: Certain of the statements contained in this press release, including, but not limited to, information regarding the future economic performance and financial condition of the Company, the plans and objectives of the Company's management, and the Company's assumptions regarding such performance and plans are forward looking in nature. Actual results could differ materially from the forward looking information in this release, due to a variety of factors, including, but not limited to:

o Continued marketplace acceptance of the Company's "pull" advertising marketing strategies;

o The ability to maintain profit margins and to produce products and add production capacity on a timely basis;

o Competition in the North American and European consumer and professional segments;

o Competition between and the recent consolidation within the retail outlets selling the Company's products;

o Public perceptions regarding the safety of the Company's products;

o Changes in economic conditions, interest rates and currency exchange rates in the countries in which the Company operates;

o The possibility of new competitors entering into the Company's business;

o The ability to improve processes and business practices to keep pace with the economic, competitive and technological environment, including successful completion of the Company's Enterprise Resource Planning project;

o The Company's ability, and that of its third party suppliers and customers, to address information technology issues related to the year 2000; and

o The ability to integrate several recent acquisitions.

Additional detailed information concerning a number of the important factors that could cause actual results to differ materially from the forward looking information contained in this release is readily available in the Company's publicly filed quarterly, annual, and other reports.