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 3, 1998

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	31-1199481
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14111 Scottslawn Road
Marysville, Ohio 43041
(Address of principal executive offices)
(Zip Code)

(937) 644-0011
(Registrant's telephone number, including area code)

No change
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether 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.

18,678,146	Outstanding at February 6, 1998
Common Shares, voting, no par value	

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THE SCOTTS COMPANY AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in millions except per share amounts)

	Three Months Ended	
	January 3, 1998	December 28, 1996
Net sales	$ 125.1	$ 100.2
Cost of sales	83.5	67.6
Gross profit	41.6	32.6
Advertising and promotion	10.3	9.8
Selling, general and administrative	31.9	25.3
Amortization of goodwill and other intangibles	2.7	2.2
Other expense (income), net	(0.3)	0.3
Loss from operations	(3.0)	(5.0)
Interest expense	6.7	5.6
Loss before income taxes	(9.7)	(10.6)
Income tax benefit	(4.2)	(4.6)
Net loss	(5.5)	(6.0)
Preferred stock dividends	2.4	2.4
Loss applicable to common shareholders	$ (7.9)	$ (8.4)
Loss per common share:		
Basic	$ (.42)	$ (.45)
Diluted	$ (.42)	$ (.45)
Common shares used in loss per common share computation	18.7	18.6

See Notes to Consolidated Financial Statements

THE SCOTTS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Three Months Ended	
	January 3, 1998	December 28, 1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5.5)	$ (6.0)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8.1	7.4
Net change in certain components of working capital	(89.2)	(64.6)
Net change in other assets and liabilities and other adjustments	(1.9)	(0.7)
Net cash used in operating activities	(88.5)	(63.9)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in property, plant and equipment, net	(7.6)	(1.2)
Acquisitions, net of cash acquired	(88.8)	-
Net cash used in investing activities	(96.4)	(1.2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Revolving lines of credit and bank line of credit, net	194.4	62.9
Dividends on preferred stock	(2.4)	(2.4)
Other, net	0.4	(0.2)
Net cash provided by financing activities	192.4	60.3
Effect of exchange rate changes on cash	(0.1)	0.1
Net increase (decrease) in cash	7.4	(4.7)
Cash at beginning of period	13.0	10.6
Cash at end of period	$ 20.4	$ 5.9
SUPPLEMENTAL CASH FLOW INFORMATION		
Businesses Acquired:		
Fair value of assets acquired	$137.4	
Liabilities assumed	(27.5)	
Debt issued	106.9	

See Notes to Consolidated Financial Statements

THE SCOTTS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in millions)

ASSETS

	January 3, 1998	December 28, 1996	September 30, 1997
Current Assets:			
Cash	$ 20.4	$ 5.9	$ 13.0
Accounts receivable, less allowances of $6.5, $4.2 and $5.7, respectively	148.0	121.6	104.3
Inventories	210.4	195.5	146.1
Prepaid and other assets	22.7	22.3	22.4
Total current assets	401.5	345.3	285.8
Property, plant and equipment, net	168.7	136.1	146.1
Goodwill, net	278.8	178.9	215.6
Other intangibles, net	135.3	104.8	136.6
Other assets	4.0	13.6	3.5
Total Assets	$ 988.3	$ 778.7	$ 787.6

LIABILITIES AND SHAREHOLDERS' EQUITY

	January 3, 1998	December 28, 1996	September 30, 1997
Current Liabilities:			
Revolving credit line and other short-term debt	$ 93.7	$ 1.9	$ 1.5
Accounts payable	62.2	44.9	54.1
Accrued liabilities	65.7	44.1	57.8
Accrued taxes	21.9	13.0	25.9
Total current liabilities	243.5	103.9	139.3
Term debt, less current portion	324.5	286.4	219.8
Other liabilities	39.8	33.3	39.3
Total Liabilities	607.8	423.6	398.4
Commitments and Contingencies			
Shareholders' Equity:			
Class A Convertible Preferred Stock, no par value	177.3	177.3	177.3
Common shares, no par value per share, $.01 stated value per share, issued 21.1 shares	0.2	0.2	0.2
Capital in excess of par value	207.9	207.6	207.8
Retained earnings	42.2	11.9	50.1
Cumulative foreign currency translation account	(5.5)	1.5	(4.3)
Treasury stock, 2.4, 2.5, and 2.4 shares, respectively, at cost	(41.6)	(43.4)	(41.9)
Total Shareholders' Equity	380.5	355.1	389.2
Total Liabilities and Shareholders' Equity	$ 988.3	$ 778.7	$ 787.6

See Notes to Consolidated Financial Statements

THE SCOTTS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements (all amounts are in millions except per share data or as 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 consolidated financial statements include the accounts of The Scotts Company ("Scotts") and its wholly-owned subsidiaries, Hyponex Corporation ("Hyponex"), Republic Tool and Manufacturing Corp. ("Republic"), Scotts-Sierra Horticultural Products Company ("Sierra"), Scotts' Miracle-Gro Products, Inc. ("Miracle-Gro"), Miracle Holdings Limited ("Miracle Holdings"), and Levington Group Limited ("Levington"), (collectively, the "Company"). All material intercompany transactions have been eliminated.

The consolidated balance sheets as of January 3, 1998 and December 28, 1996, and the related consolidated statements of operations and cash flows for the three month periods ended January 3, 1998 and December 28, 1996 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 1997 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. Costs for these advertising and promotional programs are generally expensed ratably over the year in relation to revenues or related performance measures.

THE SCOTTS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements (all amounts are in millions except per share data or as otherwise noted)

In the quarter ended March 29, 1997, the Company changed its method of accounting for advertising expenses in interim periods. The newly adopted method assigns anticipated advertising costs to interim periods based on projected sales of advertised product categories and was applied retroactive to the beginning of fiscal 1997 (October 1, 1996). The change impacts interim periods only; all advertising costs are to be expensed within the fiscal year. Management believes this method of interim accounting for advertising costs provides better matching of revenues and expenses in interim periods, and is consistent with companies in the consumer packaged goods industry.

This change in interim accounting had the effect of increasing advertising expense for the first quarter of fiscal 1997 by $3.3. Net income for the first quarter of fiscal 1997 decreased by $1.9 or $0.10 per share.

Reclassifications

Certain reclassifications have been made in prior periods' financial statements to conform to fiscal 1998 classifications.

2. Acquisitions

Effective December 1997, the Company acquired for $93.7, including deal costs and refinancing of assumed debt, all the shares of Levington, the leading producer of consumer and professional lawn fertilizer and growing media in the U.K. A final allocation of the purchase price to acquired net assets is pending. The excess of the purchase price over the net book value of acquired assets is currently recorded on the balance sheet as goodwill.

Effective January 1997, the Company acquired the approximately two-thirds interest in Miracle Holdings which the Company did not already own. Miracle Holdings owns Miracle Garden Care Limited ("MGC"), a manufacturer and distributor of lawn and garden products in the U.K.

The Levington and Miracle Holdings acquisitions were accounted for under the purchase method of accounting. The following pro forma results of operations give effect to the Levington and Miracle Holdings acquisitions as if they had occurred October 1, 1996.

	Three Months Ended	
	January 3, 1998	December 28, 1996
Net sales	$ 143.1	$ 136.7
Net loss	$ (4.7)	$ (4.6)
Basic and diluted loss per common share	$ (.38)	$ (.38)

The pro forma information does not purport to be indicative of actual results of operations if the Levington and Miracle Holdings acquisitions had occurred as of October 1, 1996, and is not intended to be indicative of future results or trends.

3. Inventories

Inventories, net of provisions of $10.7, $9.9 and $11.8, respectively, consisted of:

	January 3, 1998	December 28, 1996	September 30, 1997
Finished goods	$ 159.0	$ 137.9	$ 102.8
Raw materials	51.4	57.6	43.3

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$ 210.4	$ 195.5	$ 146.1
=====	=====	=====

THE SCOTTS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements (all amounts are in millions except per share data or as otherwise noted)

4. Long-Term Debt

	January 3, 1998	December 28, 1996	September 30, 1997
Revolving credit line	$ 318.6	$ 188.7	$ 121.8
9 7/8% Senior Subordinated Notes $100.0 face amount (net of unamortized discount)	99.5	99.4	99.4
Capital lease obligations and other	0.1	0.2	0.1
	418.2	288.3	221.3
Less current portions	93.7	1.9	1.5
	$ 324.5	$ 286.4	$ 219.8

Maturities of term debt and capital leases for the next five calendar years are as follows:

1998	93.7
1999	0
2000	0
2001	225.0
2002	0
Thereafter	100.0

5. Net Loss Per Common Share

Effective the first quarter of fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("FAS 128"), which establishes standards for computing and presenting earnings per share ("EPS"). FAS 128 requires the presentation of basic and diluted EPS. Basic EPS is computed by dividing loss applicable to common shareholders by the weighted average number of common shares outstanding during the period.

The following table presents information necessary to calculate basic and diluted loss per common share. For each period presented, basic and diluted EPS are equal as 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 loss per common share calculations.

	Three Months Ended	
	January 3, 1998	December 28, 1996
Net loss	$ (5.5)	$ (6.0)
Preferred Stock dividends	(2.4)	(2.4)
Loss applicable to common shareholders	$ (7.9)	$ (8.4)
Common shares used in loss per common share computation	18.7	18.6
Basic and diluted loss per common share	$ (.42)	$ (.45)

6. Contingencies

Management continually evaluates the Company's contingencies, including various lawsuits and claims which arise in the normal course of business. 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 details are the more significant of the Company's identified contingencies.

OHIO ENVIRONMENTAL PROTECTION AGENCY

The Company has been assessing and, as required, addressing certain environmental issues regarding the wastewater treatment plants currently operating at the Marysville facility. After considering whether to upgrade the existing treatment plants or to undertake to connect the facility's wastewater system with the City of Marysville's municipal treatment system, the Company is proceeding with plans to connect to the City's system, subject to successful completion of pending annexation proceedings. 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 ("OEPA") 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 ("OAG"). Representatives from the OEPA, the OAG and the Company subsequently met on several occasions, and continue to meet, to discuss these issues.

In June 1997, the Company received formal notice of an enforcement action and draft Findings and Orders ("F&O") from the OEPA. The draft F&O elaborated on the subject of the referral to the OAG 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 OAG which covers many of the same issues contained in the draft F&O including RCRA corrective action.

In accordance with the Company's past efforts to enter into Ohio's VAP, the Company submitted to the OEPA 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. Pursuant to 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 OEPA 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.

The Company is continuing to meet with the OAG and the OEPA in an effort to negotiate an amicable resolution of these issues but is unable at this stage to predict the outcome of the negotiations. The Company believes that it has viable defenses to the State's enforcement action, including that it had been proceeding under VAP to address certain environmental issues, and will assert those defenses in any such action.

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The Company does not believe the ultimate outcome of any proceedings which may result from the OEPA's referral of these matters to the OAG will have a material adverse effect on the business or the financial condition of the Company but is unable, at this stage, to predict the outcome of the issues. 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. Management does not believe that the outcome of this case will have a material adverse effect on the Company's operations or its financial condition. Furthermore, management believes the Company has sufficient raw material supplies available such that service to customers will not be materially adversely affected by continued closure of this peat harvesting operation.

HERSHBERGER

In September 1991, the Company was identified by the OEPA as a Potentially Responsible Party ("PRP") with respect to a site in Union County, Ohio (the "Hershberger site") that has allegedly contained waste which included hazardous substances whose transportation, treatment or disposal the Company allegedly arranged. Pursuant to an Administrative Order with the OEPA, the Company, together with four other PRPs identified to date, investigated the extent of contamination in the Hershberger site. The investigation confirmed that the site presents a low degree of risk and that the hazardous substances identified are not compounds generally used by the Company. However, due to the fact that the Company was originally named as a PRP, and due to the potential joint and several liability of PRPs, the Company has chosen to participate in an agreed voluntary remedial action at the site. The workplan for the remedial action has been approved by the OEPA. Such action is to consist of leachate collection and treatment/disposal, landfill cap repair, landfill gas management, ground water monitoring and institutional and engineering site controls. It is expected that in fiscal 1998, the Company and the four other named PRPs will execute an Administrative Order on Consent with the OEPA, by which the named PRPs will fund the referenced remedial action. Management does not believe that such obligations will have a material adverse effect on the Company's results of operations or financial condition.

FIFRA

In January 1996, the United States EPA served a Complaint and Notice of Opportunity for Hearing upon Sierra's wholly-owned subsidiary, Scotts-Sierra Crop Protection Company ("Crop Protection"). The Complaint alleged labeling violations under the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA") during fiscal 1992 and 1993 and proposed

THE SCOTTS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements (all amounts are in millions except per share data or as otherwise noted)

penalties totaling $0.8, the maximum allowable under FIFRA according to management's calculations. In February 1997, the United States EPA's Motion for Accelerated Decision was granted on the issue of liability, with the amount of the civil penalty to be resolved at hearing. The hearing is scheduled for February 1998. Based upon Crop Protection's good faith compliance actions and the United States EPA's position regarding penalty reductions, management believes Crop Protection's liability in this action is substantially less than the maximum. The Company does not believe that the outcome of this proceeding will have a material adverse effect on its financial condition or results of operations.

YEAR 2000

The Company has developed a long-term information systems strategy, one aspect of which is to address exposures related to the impact on its computer systems of the Year 2000 issues. Key financial information and operational systems have been assessed and plans developed in order to mitigate the Year 2000 issues. These plans include conversion of in-house developed software and upgrades to purchased software. The Company is currently in various stages of completing these conversions and upgrades: some upgrades have already been made, while detailed conversion plans are being developed. The Company has also engaged an outside consultant to review the Company's plans for addressing the Year 2000 issues and to assist in implementation. Management believes its plans will adequately address the Year 2000 issues and does not currently anticipate a material impact on the Company as a result of addressing these issues. However, if such conversions and upgrades are not made, or are not timely completed, the Year 2000 issues could have a material impact on the operations of the Company.

7. New Accounting Standards

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information". Each standard is effective for financial statements for fiscal years beginning after December 15, 1997.

SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses). SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company is evaluating this pronouncement and has not yet determined the ultimate impact of this pronouncement on its future financial statements.

SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. This statement defines business segments as components of an enterprise about which separate financial information is available and used internally for evaluating segment performance and decision making on resource allocations. SFAS No. 131 requires reporting a measure of segment profit or loss, certain specific revenue and expense items, and segment assets; and other reporting about geographic and customer matters. The Company plans to adopt SFAS No. 131 in the first quarter of fiscal 1999; however, the Company believes that the business segments identified and set forth in Note 14 to the Scotts' fiscal 1997 Annual Report on Form 10-K are in substantial compliance with SFAS No. 131.

See Note 5 for discussion of SFAS No. 128.

8. Subsequent Events

On February 13, 1998, the Company completed its acquisition of all of the outstanding shares of Earthgro, Inc. for approximately $47.0, including assumption of debt and estimated deal costs. Earthgro is a regional organics company headquartered in Glastonbury, Connecticut, with production facilities located in Maine, New Jersey, Pennsylvania, Connecticut, Virginia and North Carolina.

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)

The following discussion and analysis of the consolidated results of operations, cash flows and financial position of the Company should be read in conjunction with the Consolidated Financial Statements of the Company included elsewhere in this report. Scott's Annual Report on Form 10-K for the fiscal year ended September 30, 1997 includes additional information about the Company, its operations, and its 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 for the first quarter of fiscal 1998 and 1997:

	For the Three Months Ended		Period to Period
	January 3, 1998	December 28, 1996	% Change
Consumer Lawns	$ 30.4	$ 33.8	(10.1)%
Consumer Gardens	12.3	10.4	18.3
Consumer Organics	16.3	14.4	13.2
Domestic Consumer	59.0	58.6	0.7
Professional	32.4	26.6	21.8
International	33.7	15.0	124.7
Consolidated	$ 125.1	$ 100.2	24.9%

The following table sets forth the components of income and expense for the first quarter of fiscal 1998 and 1997 on a percent-of-sales basis:

	For the Three Months Ended		Period to Period
	January 3, 1998	December 28, 1996	% Change
Net sales	100.0%	100.0%	24.9%
Cost of sales	66.7	67.5	23.5
Gross profit	33.3	32.5	27.6
Operating expenses:			
Advertising and promotion	8.2	9.8	5.1
Selling, general and administrative	25.5	25.2	26.1
Amortization of goodwill and other intangibles	2.2	2.2	22.7
Other expenses (income), net	(0.2)	0.3	nm
Loss from operations	(2.4)	(5.0)	40.0
Interest expense	5.4	5.6	19.6
Loss before income taxes	(7.8)	(10.6)	(8.5)
Income tax benefit	(3.4)	(4.6)	(8.7)
Net loss	(4.4)	(6.0)	(8.3)
Preferred stock dividends	1.9	2.4	nm

Loss applicable to common shareholders	(6.3)%	(8.4)%	nm
	=======	=======	

Three Months Ended January 3, 1998 versus the Three Months Ended December 28, 1996

Net sales for the three months ended January 3, 1998 totaled $125.1, an increase of $24.9 or 24.9% over prior year. On a pro forma basis, assuming Levington and the remaining two-thirds interest in Miracle Holdings were acquired at the beginning of fiscal 1997, sales for the first quarter of fiscal 1998 would have been $143.1, an increase of $6.4 or 4.7% over pro forma sales for the first quarter of fiscal 1997. Excluding the effects of currency translation, pro forma sales would have been 5.7% higher than the first quarter of the prior year.

Consumer segment sales totaled $59.0, an increase of 0.7% over prior year. The flat results reflect the offsetting of increases in the Consumer Gardens (18.3%) and Consumer Organics (13.2%) operating groups with a decrease in sales for the Consumer Lawns group (10.1%). Growth in sales for the Consumer Gardens group stems from increased demand for both Miracle-Gro(R) and Osmocote(R) products, while the change in the Consumer Organics group reflects increased sales of value-added products carrying the Scotts(R) and Miracle-Gro(R) brand names. The decrease in Consumer Lawns sales was driven by an effort to provide customers with products at times which more closely match their buying needs. This shift in pre-season buying patterns out of the first quarter is expected to benefit sales recorded during the second quarter of fiscal 1998.

Professional segment sales increased 21.8% to $32.4 in the first quarter of fiscal 1998. The increase in Professional sales was largely driven by an objective similar to that sought by the Consumer Lawns Group. By more closely matching product sales with consumer needs, sales which historically would have been reflected in the fourth quarter of fiscal 1997 were shifted into the first quarter of fiscal 1998.

International segment sales increased to $33.7, or 124.7%, in the first quarter of fiscal 1998. On a pro forma basis, assuming Levington and the remaining two-thirds interest in Miracle Holdings were acquired at the beginning of fiscal 1997, sales for the first quarter of fiscal 1998 would have been $51.7, an increase of 0.4% over pro forma sales for the first quarter of fiscal 1997. Excluding the effects of currency translation, pro forma sales would have been 3.1% higher than the first quarter of the prior year.

Gross margin increased to 33.3% of sales in the first quarter of fiscal 1998, a 0.8% improvement compared to 32.5% in the prior year. This increase is primarily due to the International acquisitions. Excluding such acquisitions, gross margin would have decreased 0.6%, primarily due to product mix in European businesses and start-up costs incurred subsequent to the upgrade of certain domestic manufacturing lines.

Advertising and promotion expenses increased by $0.5, or 5.1%, to $10.3 for the first quarter of 1998. The impact of international acquisitions on advertising expense in the first quarter of fiscal 1998 ($3.3) more than offset a decrease in advertising and promotions primarily resulting from the shift in consumer pre-season buying patterns experienced by the Consumer Lawns Group. Overall, the Company is committed to maintain, or somewhat increase, advertising levels for fiscal 1998 in comparison to fiscal 1997, and promotional expense will likely increase due to anticipated higher sales volumes.

Selling, general and administrative expenses increased $6.6, or 26.1%, to $31.9. As a percentage of sales, selling, general and administrative expense increased to 25.5% from 25.2% in the prior year. Excluding the international acquisitions, selling, general and administrative expenses increased approximately $2.6, primarily due to incremental incentives associated with the first quarter of fiscal 1998 sales level, as well as costs associated with Year 2000 issues and other system infrastructure improvements.

Amortization of goodwill and other intangibles increased $0.5, or 22.7%, as a result of the inclusion of Levington and Miracle Holdings in the first quarter of fiscal 1998.

Other expense (income), increased favorably by $0.6 primarily due to royalty agreements in place in the first quarter of fiscal 1998 which did not exist in the prior year.

Primarily as a result of the Levington and Miracle Holdings acquisitions, loss from operations improved to $3.0 in the first quarter of fiscal 1998, compared to $5.0 in the prior year. On a pro forma basis, income from operations would have been a loss of $0.5 in the first quarter of 1998, compared to income of $0.4 in the prior year.

Interest expense increased $1.1, or 19.6% in the first quarter of 1998. Excluding borrowings associated with the Levington and Miracle Holdings acquisitions, interest expense decreased approximately $1.1, primarily due to a $50.3 reduction in average borrowings for the quarter.

The Company's effective tax rate was 43.2% in both the first quarter of 1998 and 1997. The Company's effective tax rate is slightly higher than statutory rates due to non-tax deductible amortization of goodwill and certain intangibles in the U.S.

During the first quarter of fiscal 1998, the Company reported a net loss of $5.5, or $.42 per common share, compared with a net loss of $6.0, or $.45 per common share, for the first quarter of fiscal 1997. Had Levington and Miracle Holdings been fully consolidated in both the first quarter of fiscal 1998 and 1997, the net loss on a pro forma basis would have been $4.7 in fiscal 1998 compared to $4.6 for fiscal 1997, with a loss per common share of $.38 in both periods.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities totaled $88.5 for the three month period ended January 3, 1998 compared to $63.9 in the prior year. The seasonal nature of the Company's operations results in a significant increase in certain components of working capital (primarily inventory and accounts receivable) during the first and second quarters. The third fiscal quarter is a significant period for collecting accounts receivable. The higher level of cash used in operating activities for the first quarter of fiscal 1998 is attributable to the increased build of inventory levels needed to cover expected sales, as well as cash required for operations acquired subsequent to December 1996.

Cash used in investing activities totaled $96.4 compared to $1.2 in the prior year. This increase is primarily attributable to cash used for the acquisition of Levington of approximately $88.8, net of cash acquired. Capital investments were $7.6 in the first quarter of fiscal 1998, a $6.4 increase in comparison to the prior year. This increase is primarily attributable to the completion of the warehouse facility and the installation of new packaging lines, both in Marysville, as well as the acquisition of additional warehousing space in the Netherlands.

Financing activities provided $192.4 for the first quarter of fiscal 1998 compared to $60.3 in the prior year. Financing activities are principally supported by the Company's Credit Agreement. Approximately $106.1 of the increase from the prior year relates to financing the Levington acquisition. On a net basis, approximately $88.8 of the borrowings were used to purchase the shares of Levington and refinance Levington's existing debt instruments. The remainder of the Levington-related borrowings were used to satisfy certain escrow arrangements which management believes will be eliminated in the second quarter, as well as working capital requirements. Other borrowings of $86.3 were primarily a result of working capital requirements.

Total debt was $418.2 as of January 3, 1998, an increase of $196.9 compared with debt at September 30, 1997 and an increase of $129.9 compared with debt levels at December 28, 1996. Borrowings associated with the Levington acquisition were approximately $106.1 at January 3, 1998. The remaining increase compared to September 30, 1997 is primarily due to higher working capital requirements as well as capital expenditures. Borrowings associated with Miracle Holdings (acquisition funding net of subsequent cash flow) were approximately $68.8 at January 3, 1998. The remaining $45.0 decrease compared to December 28, 1996 is attributable to the Company's strong fiscal 1997 operating cash flows.

Shareholders' equity as of January 3, 1998 was $380.5 representing a $8.7 decrease compared to September 30, 1997 and a $25.4 increase compared to December 28, 1996. The decrease compared to September 30, 1997 is attributable to a net loss of $5.5, Convertible Preferred Stock dividends of $2.4, an unfavorable change in cumulative foreign currency translation of $1.2 and favorable treasury stock activity of $0.4. The increase compared to December 28, 1996 is attributable to net income for the twelve month period ended January 3, 1998 of $40.0, Convertible preferred stock dividends of $9.8, unfavorable changes in cumulative foreign currency translation of $6.9 and favorable treasury stock activity of $2.1.

The Company has foreign exchange risk related to international operations and cash flows. The Company has historically entered into forward foreign exchange contracts and purchased currency options to hedge its exposure to fluctuations in foreign currency exchange rates. The Company is currently in the process of reassessing its foreign exchange policy in light of actions taken internally to reduce such exposures.

As of January 3, 1998, the Company's European operations had foreign exchange risk in various European currencies tied to the Dutch Guilder. These currencies include the Belgian Franc, Spanish Peseta, French Franc, British Pound, Italian Lire, Australian Dollar and the U.S. Dollar. The Company's U.S. operations had foreign exchange rate risk in the Canadian Dollar, Dutch Guilder and the British Pound which are tied to the U.S. Dollar.

In the opinion of the Company's management, cash flows from operations and capital resources will be sufficient to meet debt service and working capital needs during fiscal 1998.

ENVIRONMENTAL MATTERS

The Company is subject to local, state, federal and foreign environmental protection laws and regulations with respect to its business operations and believes it is operating in substantial compliance with, or taking action aimed at ensuring compliance with, such laws and regulations. The Company is 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 the Company's financial position; however, there can be no assurance that future quarterly or annual operating results will not be materially affected by the resolution of these matters. Additional information on environmental matters affecting the Company is provided in Note 6 to the Company's Consolidated Financial Statements and in the Annual Report on Form 10-K to the Securities and Exchange Commission for the year ended September 30, 1997 under the "Business - Environmental and Regulatory Considerations" section.

YEAR 2000

The Company has developed a long-term information systems strategy, one aspect of which is to address exposures related to the impact on its computer systems of the Year 2000 issues. Key financial, information and operational systems have been assessed and plans developed in order to mitigate the Year 2000 issues. These plans include conversion of in-house developed software and upgrades to purchased software. The Company is currently in various stages of completing these conversions and upgrades: some upgrades have already been made, while detailed conversion plans are being developed. The Company has also engaged an outside consultant to review the Company's plans for addressing the Year 2000 issues and to assist in implementation. Management believes its plans will adequately address the Year 2000 issues and does not currently anticipate a material impact on the Company as a result of addressing these issues. However, if such conversions and upgrades are not made, or are not timely completed, the Year 2000 issues could have a material impact on the operations of the Company.

RECENT DEVELOPMENTS

On February 13, 1998, the Company completed its acquisition of all of the outstanding shares of Earthgro, Inc. for approximately $47.0 including assumption of debt and estimated deal costs. Earthgro is a regional organics company headquartered in Glastonbury, Connecticut, with production facilities located in Maine, New Jersey, Pennsylvania, Connecticut, Virginia and North Carolina.

On February 2, 1998, the Company acquired an 80% interest in Sanford Scientific, Inc. ("SSI") a leading research company in the rapidly advancing field of genetic engineering of plants. SSI holds the exclusive license to use biolistic ("gene gun") technology in the commercial development of genetically transformed grasses, flowers and plants.

MANAGEMENT'S OUTLOOK FOR THE REMAINDER OF 1998

The strong financial results of fiscal 1997 represent the base year in the Company's long-term strategy for profitable growth. Although still relatively early in fiscal 1998, management believes the Company is on course towards fulfilling the following tenets which it established as part of its strategic plan:

(1) Promote and capitalize on the strengths of the Scotts(R), Miracle-Gro(R) and Hyponex(R) industry-leading brands. This involves a commitment to our 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 of our business, it signifies a commitment to our customers to provide value and an integral element in their long-term success;
(2) A commitment to continuously study and improve our knowledge of the market, the consumer and the competition;

(3) Simplification of our 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.

The acquisitions of Levington, Earthgro and SSI are symbolic of the Company's intention to consider acquisition opportunities in related or new markets. Within the Company's four-year strategic plan, management has established challenging, but realistic, financial goals, including:

(1) Sales growth of 6% to 8% in core businesses;
(2) An aggregate operating margin improvement of at least 2% over the next four years; and
(3) Minimum compounded annual EPS growth of 15%.

FORWARD-LOOKING STATEMENTS

The Company has made and will make certain forward-looking statements in its Annual Report, Form 10-Q and in other contexts relating to future growth and profitability targets, and strategies designed to increase total shareholder value. The Private Securities Litigation Reform Act of 1995 (the "Act") 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. The Company desires to take advantage of the "safe harbor" provisions of the Act.

These forward-looking statements represent challenging goals for the Company, and the achievement thereof is subject to a variety of risks and assumptions. These forward-looking statements include, but are 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. Therefore, it is possible that the Company's future actual financial results may differ materially from those expressed in these forward-looking statements due to a variety of factors, including:

- Weather conditions in North America and Europe which have a significant impact on the timing of sales in the Spring selling season and overall annual sales;

- Continued marketplace acceptance of the Company's Consumer Lawns and Consumer Gardens groups' "pull" advertising marketing strategies, particularly in the Consumer Lawns group which refocused its general marketing strategy beginning in fiscal 1996;

- The Company's ability to maintain profit margins on its products, to produce its products on a timely basis, and to maintain and develop additional production capacity as necessary to meet demand;

- Competition among lawn and garden care product producers supplying the consumer and professional markets, both in North America and Europe;

- Competition between and the recent consolidation within the retail outlets selling lawn and garden care products produced by the Company;

- Public perceptions regarding the safety of the products produced and marketed by the Company;

- Inherent risks of international development, including currency exchange rates, economic conditions and regulatory and cultural difficulties or delays in the Company's development outside the United States;

- Changes in economic conditions in the United States and the impact of changes in interest rates; and

- The ability of the Company to improve its processes and business practices to keep pace with the economic, competitive and technological environment, including successfully addressing the Year 2000 issues.

- The ability to successfully integrate the operations of acquired companies.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

See Footnote 6 to the Consolidated Financial Statements.

Item 6. Exhibits and Reports on Form 8-K

(a) See Exhibit Index at page 20 for a list of the exhibits included herewith.

(b) The Company filed a Current Report on Form 8-K on December 29, 1997 relating to the acquisition of Levington Group Limited on December 12, 1997. No financial statements or pro forma financial information was required to be filed therewith.

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

Date ----------------------- -----------------------------------

Jean H. Mordo
Executive Vice President
Chief Financial Officer
Principal Accounting Officer

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

Date ____________________________	/s/Jean H. Mordo
	________________________________
	Executive Vice President
	Chief Financial Officer
	Principal Accounting Officer

THE SCOTTS COMPANY

QUARTERLY REPORT ON FORM 10-Q FOR
FISCAL QUARTER ENDED JANUARY 3, 1998

EXHIBIT INDEX

Exhibit Number	Description	Page Number
2	Agreement for the Sale and Purchase of Levington Group Limited, dated December 12, 1997, between Scotts Holdings Limited, as Purchaser, and Prudential Nominees Limited PAC Account; Prudential Nominees Limited PSPS Account; Prudential Nominees Limited USV Account; Prudential Nominees Limited BMV Account; Prudential Nominees Limited Holborn Account; Prutec Limited; The Sears Pension Plan by The Chase Manhattan Bank NA; HSBC Equity Limited; Candover Investments plc; Candover Trustees Limited; Candover Partners Limited as General Partner of Candover 1991 Lead Investors Limited Partner; Candover Partners Limited as General Partner of Candover 1991 UK Limited Partnership; Candover Partners Limited as General Partner of Candover 1991 US Limited Partnership; 3i Group plc; NatWest Ventures Investments Limited; Philip Parry; Mrs. L. Parry; Philip Parry and Lynne Parry as trustees of the Parry Trust; N. W. Gibbs; Mrs. A. Gibbs; N. W. Gibbs and A. Gibbs as trustees of the Gibbs Trusts; P. J. Elsdon; Mrs. B. Elsdon; P. J. Elsdon and B. Elsdon as trustees of the Elsdon Trust; and Fairmount Trustee Services Limited as trustee for the time being of the Levington Unapproved Pension Fund, as Sellers	Incorporated herein by reference to the registrant's Current Report on Form 8-K dated December 29, 1997 (File No. 1-11593) [Exhibit 2]
10	The Scotts Company 1996 Stock Option Plan (as amended through December 11, 1997)*	
27	Financial Data Schedule*	

*Filed herewith

THE SCOTTS COMPANY
1996 STOCK OPTION PLAN
(REFLECTS AMENDMENTS THROUGH DECEMBER 11, 1997)

THE SCOTTS COMPANY
1996 STOCK OPTION PLAN
(REFLECTS AMENDMENTS THROUGH DECEMBER 11, 1997)

SECTION l.

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 l4(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 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 "Nonstatutory Stock Option" (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 3,000,000 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) Nonstatutory Stock Options. 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. Nonstatutory Stock Options 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 in three approximately equal installments on each of the first three anniversaries 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 who is not a member of a Board committee 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 a grant of 5,500 shares. An Eligible Director who chairs one or more Board committees shall receive a grant of 6,000 shares. 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 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. 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 shall remain exercisable until the earlier to occur of (i) the expiration of the term of such Options or (ii) the thirtieth day following the Participant's termination of employment, whichever period is shorter.

SECTION 8.

CHANGE IN CONTROL

8.l ACCELERATED VESTING AND PAYMENT. Subject to the provisions of Section 8.2 below, in the event of a Change in Control, each Option (excluding any Director Option) 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 Option.

8.2 ALTERNATIVE AWARDS. Notwithstanding Section 8.l, 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 NONTRANSFERABILITY OF AWARDS. No Awards granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. All rights with respect to Awards granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant and all rights with respect to any Director Options granted to an Eligible Director shall be exercisable during his lifetime only by such Eligible Director.

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 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.

10.8 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.

10.9 GOVERNING LAW. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Ohio.

10.10 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 3, 1998.

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3-MOS
SEP-30-1998
OCT-01-1997
JAN-03-1998
20,400
0
154,000
6,500
210,400
401,500
276,700
(108,000)
988,300
243,500
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177,300
200
203,000
988,300
125,100
125,100
83,500
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(300)
0
6,700
(9,700)
(4,200)
(5,500)
0
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0
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(.42)