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 MARCH 31, 2001

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____________ TO ____________

COMMISSION FILE NUMBER 1-13292

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

OHIO	31-1414921
(State or Other Jurisdiction of Incorporation or 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 the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

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

28,597,387	Outstanding at May 7, 2001
Common Shares, voting, no par value	

THE SCOTTS COMPANY AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
THE SCOTTS COMPANY
CONDENSED, CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN MILLIONS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	MARCH 31, 2001	APRIL 1, 2000	MARCH 31, 2001	APRIL 1 2000
Net sales	$ 740.0	$ 693.9	$ 889.1	$ 880.0
Cost of sales	420.9	407.3	535.4	524.5
Gross profit	319.1	286.6	353.7	355.5
Gross commission earned from agency agreement	16.6	9.0	16.5	9.2
Costs associated with agency agreement	4.6	2.1	9.1	5.7
Net commission earned from agency agreement	12.0	6.9	7.4	3.5
Operating expenses:				
Advertising and promotion	68.2	71.4	80.8	89.6
Selling, general and administrative	89.0	84.4	164.7	153.1
Amortization of goodwill and other intangibles	7.4	7.7	14.2	13.8
Other expense (income), net	(1.4)	(2.5)	(2.5)	(1.9)
Income from operations	167.9	132.5	103.9	104.4
Interest expense	26.1	25.9	47.4	49.6
Income before income taxes	141.8	106.6	56.5	54.8
Income taxes	57.0	43.2	22.9	22.2
Net income	84.8	63.4	33.6	32.6
Payments to preferred shareholders	-.-	-.-	-.-	6.4
Income applicable to common shareholders	$ 84.8	$ 63.4	$ 33.6	$ 26.2
Basic earnings per share	$ 3.01	$ 2.27	$ 1.19	$ 0.94
Diluted earnings per share	$ 2.80	$ 2.15	$ 1.12	$ 0.88
Common shares used in basic earnings per share calculation	28.2	27.9	28.2	28.0
Common shares and potential common shares used in diluted earnings per share calculation	30.3	29.5	30.0	29.8

See notes to condensed, consolidated financial statements

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

	SIX MONTHS ENDED	
	MARCH 31, 2001	APRIL 1, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 33.6	$ 32.6
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	31.9	32.6
Net change in certain components of working capital	(364.4)	(271.4)
Net change in other assets and liabilities and other adjustments	(7.9)	(8.1)
Net cash used in operating activities	(306.8)	(214.3)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property, plant and equipment	(26.7)	(20.1)
Investment in acquired businesses, net of cash acquired	(12.2)	(0.8)
Other, net	-.-	1.8
Net cash used in investing activities	(38.9)	(19.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under revolving and bank lines of credit	376.3	286.5
Gross borrowings under term loans	260.0	-.-
Gross repayments under term loans	(304.3)	(12.4)
Financing and issuance fees	(1.4)	-.-
Payments to preferred shareholders	-.-	(6.4)
Repurchase of treasury shares	-.-	(23.9)
Cash received from the exercise of stock options	10.4	1.0
Other, net	(10.4)	(10.4)
Net cash provided by financing activities	330.6	234.4
Effect of exchange rate changes on cash	(0.1)	(1.6)
Net decrease in cash	(15.2)	(0.6)
Cash and cash equivalents at beginning of period	33.0	30.3
Cash and cash equivalents at end of period	$ 17.8	$ 29.7

See notes to condensed, consolidated financial statements

THE SCOTTS COMPANY
CONDENSED, CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	UNAUDITED MARCH 31, 2001	UNAUDITED APRIL 1, 2000	SEPTEMBER 30, 2000
ASSETS			
Current assets:			
Cash and cash equivalents	$ 17.8	$ 29.7	$ 33.0
Accounts receivable, less allowances of $18.9, $14.7 and $11.7, respectively	693.0	649.3	216.0
Inventories, net	402.0	366.3	307.5
Current deferred tax asset	27.6	26.5	25.1
Prepaid and other assets	67.1	63.6	62.3
Total current assets	1,207.5	1,135.4	643.9
Property, plant and equipment, net	297.0	258.1	290.5
Intangible assets, net	770.0	796.2	743.1
Other assets	72.4	80.2	83.9
Total assets	$ 2,346.9	$ 2,269.9	$ 1,761.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt	$ 132.5	$ 183.2	$ 49.4
Accounts payable	303.7	281.7	153.0
Accrued liabilities	266.0	287.6	207.4
Total current liabilities	702.2	752.5	409.8
Long-term debt	1,075.7	1,014.7	813.4
Other liabilities	49.8	61.6	60.3
Total liabilities	1,827.7	1,828.8	1,283.5
Commitments and contingencies			
Shareholders' equity:			
Class A Convertible Preferred Stock, no par value	-	-	-
Common shares, no par value per share, $.01 stated value per share, issued 31.3, 31.4 and 31.3, respectively	0.3	0.3	0.3
Capital in excess of par value	390.6	388.1	389.3
Retained earnings	230.4	156.3	196.8
Treasury stock, 2.9, 3.5, and 3.4 shares, respectively, at cost	(74.6)	(85.1)	(83.5)
Accumulated other comprehensive expense	(27.5)	(18.5)	(25.0)
Total shareholders' equity	519.2	441.1	477.9
Total liabilities and shareholders' equity	$ 2,346.9	$ 2,269.9	$ 1,761.4

See notes to condensed, consolidated financial statements

NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(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, 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 March 31, 2001 and April 1, 2000, and the related condensed, consolidated statements of operations for the three and six month periods then ended and of cash flows for the six month period then ended, 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 2000 Annual Report on Form 10-K.

REVENUE RECOGNITION

Revenue is recognized when products are shipped and when title and risk of loss transfer to the customer. For certain large multi-location customers, products may be shipped to third-party warehousing locations. Revenue is not recognized until the customer places orders against that inventory and acknowledges in writing ownership of the goods. Provisions for estimated returns and allowances are recorded at the time of shipment based on historical rates of return as a percentage of sales.

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.

DERIVATIVE INSTRUMENTS

In the normal course of business, the Company is exposed to fluctuations in interest rates and the value of foreign currencies. The Company has established policies and procedures that govern the management of these exposures through the use of a variety of financial instruments. The Company employs various financial instruments, including forward exchange contracts, and swap agreements, to manage certain of the exposures when practical. By policy, the

Company does not enter into such contracts for the purpose of speculation or use leveraged financial instruments. The Company's derivatives activities are managed by the chief financial officer and other senior management of the Company in consultation with the Finance Committee of the Board of Directors. These activities include establishing the Company's risk-management philosophy and objectives, providing guidelines for derivative-instrument usage and establishing procedures for control and valuation, counterparty credit approval and the monitoring and reporting of derivative activity. The Company's objective in managing its exposure to fluctuations in interest rates and foreign currency exchange rates is to decrease the volatility of earnings and cash flows associated with changes in the applicable rates and prices. To achieve this objective, the Company primarily enters into forward exchange contracts and swap agreements whose values change in the opposite direction of the anticipated cash flows. Derivative instruments related to forecasted transactions are considered to hedge future cash flows, and the effective portion of any gains or losses are included in other comprehensive income until earnings are affected by the variability of cash flows. Any remaining gain or loss is recognized currently in earnings. The cash flows of the derivative instruments are expected to be highly effective in achieving offsetting cash flows attributable to fluctuations in the cash flows of the hedged risk. If it becomes probable that a forecasted transaction will no longer occur, the derivative will continue to be carried on the balance sheet at fair value, and gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings.

To manage certain of its cash flow exposures, the Company has entered into forward exchange contacts and interest rate swap agreements. The forward exchange contracts are designated as hedges of the Company's foreign currency exposure associated with future cash flows. Amounts payable or receivable under forward exchange contracts are recorded as adjustments to selling, general and administrative expense. The interest rate swap agreements are designated as hedges of the Company's interest rate risk associated with certain variable rate debt. Amounts payable or receivable under the swap agreements are recorded as adjustments to interest expense. Gains or losses resulting from valuing these swaps at fair value are recorded in other comprehensive income.

The Company adopted FAS 133 as of October 2000. Since adoption, there were no gains or losses recognized in earnings for hedge ineffectiveness or due to excluding a portion of the value from measuring effectiveness.

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.

RECLASSIFICATIONS

Certain reclassifications have been made in prior periods' financial statements to conform to fiscal 2001 classifications.

2. AGENCY AGREEMENT

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

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

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

The express terms of the agreement permit the Company to terminate the agreement only upon Material Breach, Material Fraud or Material Willful Misconduct by Monsanto, as such terms are defined in the agreement, or upon the sale of the Roundup(R) business by Monsanto. In such instances, the agreement permits the Company to avoid payment of any deferred contribution and related per annum charge. The Company's basis for not recording a financial liability to Monsanto for the deferred portions of the annual contribution and per annum charge is based on management's assessment and consultations with the Company's legal counsel and the Company's independent accountants. In addition, the Company has obtained a legal opinion from The Bayard Firm, P.A., which concluded, subject to certain qualifications, that if the matter were litigated, a Delaware court would likely conclude that the Company is entitled to terminate the agreement at will, with appropriate prior notice, without incurring significant economic penalty, and avoid paying the unpaid deferred amounts. The Company has concluded that, should the Company elect to terminate the agreement at any balance sheet date, it will not incur significant economic consequences as a result of such action.

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

The Company's conclusion is not free from challenge and, in fact, would likely be challenged if the Company were to terminate the agreement. If it were determined that, upon termination, the Company must pay any remaining deferred contribution amounts and related per annum charges, the resulting charge to earnings could have a material impact on the Company's results of operations and financial position. At March 31, 2001, contribution payments and related per annum charges of approximately $42.1 million had been deferred under the agreement. This amount is considered a contingent obligation and has not been reflected in the financial statements as of and for the three and six months then ended.

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

The agreement has a term of seven years for all countries within the European Union (at the option of both parties, the agreement can be renewed for up to 20 years for the European Union countries). For countries outside of the European Union, the agreement continues indefinitely unless terminated by either party. The agreement provides Monsanto with the right to terminate the agreement for an event of default (as defined in the agreement) by the Company or a change in control of Monsanto or sale of the Roundup(R) business. The agreement provides the Company with the right to terminate the agreement in certain circumstances including an event of default by Monsanto or the sale of the Roundup(R) business. Unless Monsanto terminates the

agreement for an event of default by the Company, Monsanto is required to pay a termination fee to the Company that varies by program year. The termination fee is $150 million for each of the first five program years, gradually declines to $100 million by year ten of the program and then declines to a minimum of $16 million if the program continues for years 11 through 20.

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

In accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", the Company will not recognize commission income until actual Roundup EBIT reaches the first commission threshold for that year. The annual contribution payment, if any, is recognized ratably throughout the year.

3. ACQUISITIONS

On January 1, 2001, the Company acquired the Substral(R) brand and consumer plant care business from Henkel KgaA. Substral is a leading consumer fertilizer brand in many European countries including Germany, Austria, Belgium, France and the Nordics. Under the terms of the Asset Purchase Agreement, the Company acquired specified working capital and intangible assets associated with the Substral business. The purchase price will be determined based on the value of the working capital assets acquired and the performance of the business for the period from June 15, 2000 to December 31, 2000. Management estimates that the final purchase price will be approximately $40-$45 million. On December 29, 2000 the Company advanced $6.9 million to Henkel KgaA toward the Substral purchase price.

4. INVENTORIES

Inventories, net of provisions for slow moving and obsolete inventory of $21.6 million, $27.8 million, and $20.1 million, respectively, consisted of:

	MARCH 31, 2001	APRIL 1, 2000	SEPTEMBER 30, 2000
Finished goods	$ 312.2	$ 281.7	$ 232.9
Raw materials	89.1	83.6	73.7
FIFO cost	401.3	365.3	306.6
LIFO reserve	0.7	1.0	0.9
Total	$ 402.0	$ 366.3	$ 307.5

5. INTANGIBLE ASSETS, NET

	MARCH 31, 2001	APRIL 1, 2000	SEPTEMBER 30, 2000
Goodwill	$ 282.0	$ 526.2	$ 280.4
Trademarks	323.8	192.8	331.1
Other	164.2	77.2	131.6
Total	$ 770.0	$ 796.2	$ 743.1

6. LONG-TERM DEBT

	MARCH 31, 2001	APRIL 1, 2000	SEPTEMBER 30, 2000
Revolving loans under credit facility	$ 402.8	$ 349.5	$ 37.3
Term loans under credit facility	404.7	481.4	452.2
Senior Subordinated Notes	319.9	318.6	319.2
Notes due to sellers	59.5	36.6	36.4
Amounts due to the State of Ohio	7.8	-	7.9
Foreign bank borrowings and term loans	12.0	9.6	7.1
Capital lease obligations and other	1.5	2.2	2.7
	1,208.2	1,197.9	862.8
Less current portions	132.5	183.2	49.4
	$ 1,075.7	$ 1,014.7	$ 813.4

The Company's credit facility provides for borrowings in the aggregate principal amount of $1.1 billion and consists of term loan facilities in the aggregate amount of $525 million and a revolving credit facility in the amount of $575 million. Financial covenants included as part of the facility include, amongst others, minimum net worth, interest coverage and net leverage ratios.

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

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 the Substral business, Rhone-Poulenc Jardin and Sanford Scientific, Inc., notes were issued for certain portions of the total purchase price or other consideration that are to be paid in annual installments over a two to four-year period. The present value of the remaining note payments at March 31, 2001 is $30.4 million, $16.6 million and $4.3 million, respectively. The Company is imputing interest on the non-interest bearing notes using an interest rate prevalent for similar instruments at the time of acquisition (approximately 5.5%, 9% and 8%, respectively).

In conjunction with other recent acquisitions, notes were issued for certain portions of the total purchase price that are to be paid in annual installments over periods ranging from four to five years. The present value of the remaining note

payments is $8.2 million at March 31, 2001. The Company is imputing interest on the non-interest bearing notes using an interest rate prevalent for similar instruments at the time of the acquisitions (approximating 8%).

In May 2000, the Company sold its North American headquarters and research facilities to the State of Ohio for approximately $8.0 million and leased these facilities back from the State of Ohio through lease agreements extending through June 2020. The proceeds of the sale were used to fund the expansion of the North American headquarters facility.

The foreign term loans of $3.0 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 $9.0 million at March 31, 2001 represent lines of credit for foreign operations and are primarily denominated in French Francs.

7. EARNINGS PER COMMON SHARE

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

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	MARCH 31, 2001	APRIL 1, 2000	MARCH 31, 2001	APRIL 1, 2000
Net income	$ 84.8	$ 63.4	$ 33.6	$ 32.6
Payments to preferred shareholders	-.-	-.-	-.-	(6.4)
Income applicable to common shareholders	$ 84.8	$ 63.4	$ 33.6	$ 26.2
Weighted-average common shares outstanding during the period	28.2	27.9	28.2	28.0
Basic earnings per common share	$ 3.01	$ 2.27	$ 1.19	$ 0.94
Weighted-average common shares outstanding and potential common shares	30.3	29.5	30.0	29.8
Diluted earnings per common share	$ 2.80	$ 2.15	$ 1.12	$ 0.88

8. STATEMENT OF COMPREHENSIVE INCOME

The components of other comprehensive income and total comprehensive income for the three and six months ended March 31, 2001 and April 1, 2000 are as follows:

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	MARCH 31, 2001	APRIL 1, 2000	MARCH 31, 2001	APRIL 1, 2000
Net income	$ 84.8	$ 63.4	$ 33.6	$ 32.6
Other comprehensive income (expense):				
Foreign currency translation adjustments	(0.2)	(2.2)	3.2	(5.6)
Change in valuation of derivative instruments	(1.2)	-.-	(0.7)	-.-
Comprehensive income	$ 83.4	$ 61.2	$ 36.1	$ 27.0

9. CONTINGENCIES

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

OHIO ENVIRONMENTAL PROTECTION AGENCY

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

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

In June 1997, the Company received formal notice of an enforcement action and draft Findings and Orders from the Ohio Environmental Protection Agency. The draft Findings and Orders elaborated on the subject of the referral to the Ohio Attorney General alleging: potential surface water violations relating to possible historical sediment contamination possibly impacting water quality; inadequate treatment capabilities of the Company's existing and currently permitted wastewater treatment plants; and that the Marysville site is subject to corrective action under the Resource Conservation Recovery Act ("RCRA"). In late July 1997, the Company received a draft judicial consent order from the Ohio Attorney General which covered many of the same issues contained in the draft Findings and Orders including RCRA corrective action. As a result of on-going discussions, the Company received a revised draft of a judicial consent order from the Ohio Attorney General in late April 1999. Subsequently, the Company replied to the Ohio Attorney General with another revised draft. Comments on that draft were received from the Ohio Attorney General in February 2000, and the Company replied with another revised draft in March 2000. Since July 2000, the parties have been engaged in settlement discussions resulting in various revisions to the March 2000 draft, as they seek to resolve this matter.

The Company is continuing to meet with the Ohio Attorney General and the Ohio Environmental Protection Agency in an effort to complete negotiations of an amicable resolution of these issues. Negotiations have narrowed the unresolved issues between the Company and the Ohio Attorney General/Ohio Environmental Protection Agency, and the parties anticipate concluding negotiations on an agreed Consent Order, shortly. The parties have agreed to a civil penalty cash payment subject to the successful completion of negotiations on the remaining provisions of a judicial consent order. The Company believes that it has viable defenses to the State's enforcement action, including that it had been proceeding under VAP to address specified environmental issues, and will assert those defenses should an amicable resolution of the State's enforcement action not be reached.

In accordance with the Company's past efforts to enter into Ohio's VAP, the Company submitted to the Ohio Environmental Protection Agency a "Demonstration of Sufficient Evidence of VAP Eligibility Compliance" on July 8, 1997. Among other issues contained in the VAP submission was a description of the Company's ongoing efforts to assess potential environmental impacts of the discontinued on-site waste disposal areas as well as potential remediation efforts. Under the statutes covering VAP, an eligible participant in the program is not subject to State enforcement actions for those environmental matters being addressed. On October 21, 1997, the Company received a letter from the

Director of the Ohio Environmental Protection Agency denying VAP eligibility based upon the timeliness of and completeness of the submittal. The Company has appealed the Director's action to the Environmental Review Appeals Commission. No hearing date has been set and the appeal remains pending. While negotiations continue, the Company has been voluntarily addressing a number of the historical on-site waste disposal areas with the knowledge of the Ohio Environmental Protection Agency. Interim measures have been implemented, which consist of capping two on-site waste disposal areas, closing of several ponds, and partial removal of sediment from a small, adjacent watercourse.

Since receiving the notice of enforcement action in June 1997, management has continually assessed the potential costs that may be incurred to satisfactorily remediate the Marysville site and to pay any penalties sought by the State. Because the Company and the Ohio Environmental Protection Agency have not agreed as to the extent of any possible contamination and an appropriate remediation plan, the Company has developed and initiated an action plan to remediate the site based on its own assessments and consideration of specific actions which the Ohio Environmental Protection Agency will likely require. Because the extent of the ultimate remediation plan is uncertain, management is unable to predict with certainty the costs that will be incurred to remediate the site and to pay any penalties. As of March 31, 2001, management estimates that the range of possible loss that could be incurred in connection with this matter is $6 million to $10 million. The Company has accrued for the amount it considers to be the most probable within that range and believes the outcome will not differ materially from the amount reserved. Many of the issues raised by the State of Ohio are already being investigated and addressed by the Company during the normal course of conducting business.

LAFAYETTE

In July 1990, the Philadelphia District of the U.S. Army Corps of Engineers ("Corps") directed that peat harvesting operations be discontinued at Hyponex's Lafayette, New Jersey facility, based on its contention that peat harvesting and related activities result in the "discharge of dredged or fill material into waters of the United States" and, therefore, require a permit under Section 404 of the Clean Water Act. In May 1992, the United States filed suit in the U.S. District Court for the District of New Jersey seeking a permanent injunction against such harvesting, and civil penalties in an unspecified amount. The Company is defending this suit and is asserting a right to recover its economic losses resulting from the government's actions. The suit was placed in administrative suspension during fiscal 1996 in order to allow the Company and the government an opportunity to negotiate a settlement, and it remains suspended while the parties develop, exchange and evaluate technical data. In July 1997, the Company's wetlands consultant submitted to the government a draft remediation plan. Comments were received and a revised plan was submitted in early 1998. Further comments from the government were received during 1998 and 1999. The Company believes agreement on the remediation plan has essentially been reached. Before this suit can be fully resolved, however, the Company and the government must reach agreement on the government's civil penalty demand and other terms of the consent order proposed by the government in April 2001. The Company has reserved for its estimate of the probable loss to be incurred under this proceeding as of March 31, 2001. Furthermore, management believes the Company has sufficient raw material supplies available such that service to customers will not be materially adversely affected by the planned permanent closure of this facility.

BRAMFORD

In the United Kingdom, major discharges of waste to air, water and land are regulated by the Environment Agency. The Scotts (UK) Ltd. fertilizer facility in Bramford (Suffolk), United Kingdom, is subject to environmental regulation by this Agency. Two manufacturing processes at this facility require process authorizations and previously required a waste management license (discharge to a licensed waste disposal lagoon having ceased in July 1999). The Company expects to surrender the waste management license in consultation with the Environment Agency. In connection with the renewal of an authorization, the Environment Agency has identified the need for remediation of the lagoon, and the potential for remediation of a former landfill at the site. The Company intends to comply with the reasonable remediation concerns of the Environment Agency. The Company previously installed an environmental enhancement to the facility to reduce emissions to both air and ground water. Additional work is being undertaken to further reduce emissions to groundwater and surface water. The Company believes that it has adequately addressed the environmental

concerns of the Environment Agency regarding emissions to air and groundwater. The Scotts Company (UK) Ltd. has retained an environmental consulting firm to research remediation designs. The Company and the Environment Agency are in discussions over the final plan for remediating the lagoon and the landfill. The Company has reserved for its estimate of the probable loss to be incurred in connection with this matter as of March 31, 2001.

OTHER ENVIRONMENTAL MATTERS

The Company has determined that quantities of cement containing asbestos material at certain manufacturing facilities in the United Kingdom should be removed. The Company has reserved for the estimate of costs to be incurred for this matter as of March 31, 2001.

The Company has accrued $6.3 million at March 31, 2001 for the environmental matters described in Note 9. The significant components of the accrual are: (i) costs for site remediation of $4.0 million; (ii) costs for asbestos abatement of $1.8 million; and (iii) fines and penalties of $0.5 million. The significant portion of the costs accrued as of March 31, 2001 are expected to be paid in fiscal 2001 and 2002; however, payments are expected to be made through fiscal 2003 and possibly for a period thereafter.

The Company believes that the amounts accrued as of March 31, 2001 are adequate to cover its known environmental expenses based on current facts and estimates of likely outcome. However, the adequacy of these accruals is based on several significant assumptions:

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

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

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

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

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

AGREVO ENVIRONMENTAL HEALTH, INC.

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

AgrEvo is requesting unspecified damages as well as affirmative injunctive relief, and seeking to have the court invalidate the Roundup(R) marketing agreement as violative of the federal antitrust laws. On September 20, 1999, the Company filed an answer denying liability and asserting counterclaims that it was fraudulently induced to enter into the agreement for the purchase of the consumer herbicide business and the related agreements, and that AgrEvo breached the representations and warranties contained in these agreements. On October 1, 1999, the Company moved to dismiss the antitrust allegations against it on the ground that the claims fail to state claims for which relief may be granted. On October 12, 1999, AgrEvo moved to dismiss the Company's counterclaims. On May 5, 2000, AgrEvo amended its complaint to add a claim for fraud and to incorporate the Delaware Action described below. Thereafter, the Company moved to dismiss the new claims, and the defendants renewed their pending motions to dismiss. On June 2, 2000, the court (i) granted the Company's motion to dismiss the fraud claim AgrEvo had added to its complaint; (ii) granted AgrEvo's motion to dismiss the Company's fraudulent-inducement counterclaim; (iii) denied AgrEvo's motion to dismiss the Company's counterclaims related to breach of representations and warranties; and (iv) denied defendants' motion to dismiss the antitrust claims. On July 14, 2000, the Company served an answer to AgrEvo's amended complaint and re-pleaded its fraud counterclaim. Under the indemnification provisions of the Roundup(R) marketing agreement, Monsanto and the Company each have requested that the other indemnify against any losses arising from this lawsuit.

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

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

CENTRAL GARDEN & PET COMPANY

The Company is currently engaged in several litigation matters with Central Garden & Pet Company ("Central Garden"). These cases are summarized below.

Scotts v. Central Garden, Southern District of Ohio

On June 30, 2000, the Company filed suit against Central Garden in the U.S. District Court for the Southern District of Ohio to recover approximately $17 million in its outstanding accounts receivable from Central Garden with respect to the Company's 2000 fiscal year. The Company's complaint was later amended to seek approximately $24 million in accounts receivable and additional damages for other breaches of duty.

On April 13, 2001 Central Garden filed an answer and counterclaim in the Ohio action. On April 24, 2001, Central Garden filed an amended counterclaim. Central Garden's counterclaims include allegations that the Company and Central Garden had entered into an oral agreement in April 1998 whereby the Company would allegedly share with Central Garden the benefits and liabilities of any future business integration between the Company and Pharmacia Corporation (formerly the Monsanto Company). Based on these allegations, Central Garden has asserted several causes of action, including breach of oral contract and fraudulent misrepresentation, and seeks damages in excess of $900 million. In addition, Central Garden asserts various other causes of action, including breach of written contract and quantum valebant, and seeks damages in excess of $76 million for those claims.

Pharmacia Corporation v. Central Garden, Circuit Court of St. Louis, Missouri

On June 30, 2000, Pharmacia Corporation filed suit against Central Garden in Missouri state court, seeking unspecified damages allegedly due Pharmacia under a four-year Alliance Agreement between Pharmacia and Central. The Company was, for a short time, an assignee of this Alliance Agreement, which it has reassigned to Pharmacia. Accordingly, on January 18, 2001, Pharmacia joined the Company as a nominal defendant in the Missouri state court action.

On January 29, 2001, Central Garden filed its answer and cross-claims and counterclaims in the Missouri action. In its cross-claims, Central Garden seeks an unspecified amount of damages for alleged contractual breaches by the Company with respect to the agreements which are the subject of the Missouri and Ohio actions described above. In addition, Central Garden has included cross-claims under Section 17200 of the California Business and Professions Code on behalf of the general public and/or third party purchasers of the Company's products. Central Garden seeks injunctive and restitutionary relief pursuant to this newly added purported consumer representative action. On February 8, 2001, the Company filed a motion to stay Central Garden's cross-claims based on the pendency of the prior filed actions in the Ohio and California federal courts that involve the same subject matter. At a hearing on March 20, 2001, the Missouri state court stayed all cross-claims pending before it against the Company. The trial date for the Missouri state action has been set for December 2001.

Central Garden v. Scotts & Pharmacia, Northern District of California

On July 7, 2000, Central Garden filed suit against the Company and Pharmacia in the U.S. District Court for the Northern District of California (San Francisco Division) alleging various claims, including breach of contract and violations of federal antitrust laws, and seeking an unspecified amount of damages and injunctive relief. On October 26, 2000, after a noticed hearing, the District Court dismissed all of Central Garden's breach of contract claims for lack of subject matter jurisdiction. On November 17, 2000, Central Garden filed an amended complaint in the District Court, re-alleging various claims for violations of federal antitrust laws and also alleging state antitrust claims under the Cartwright Act, Section 16726 of the California Business and Professions Code. The trial date for the California federal action has been set for July 2002.

Central Garden v. Scotts & Pharmacia, Contra Costa Superior Court

On October 31, 2000, Central Garden filed a complaint against the Company and Pharmacia in the California Superior Court for Contra Costa County. That complaint seeks to assert the breach of contract claims previously dismissed by the District Court and additional claims under Section 17200 of the California Business and Professions Code. On December 4, 2000, the Company and Pharmacia jointly filed a motion to stay this action based on the pendency of prior lawsuits (including the two described above) that involve the same subject matter. By order dated February 23, 2001, the Superior Court stayed the action pending before it.

On April 6, 2001, Central Garden filed a motion to lift the stay of the Contra Costa County action. The Company and Pharmacia filed a joint opposition to Central Garden's motion. On May 4, 2001, the Court issued a tentative ruling denying Central Garden's motion to lift the stay of the action. Central Garden did not challenge the tentative ruling, which accordingly became the ruling of the court. Consequently, all claims in the Contra Costa action remain stayed.

The Company believes that all of Central Garden's federal and state claims are entirely without merit and it intends to vigorously defend against them.

10. NEW ACCOUNTING STANDARDS

In May 2000, the Emerging Issues Task Force (EITF) reached consensus on Issue 00-14 "Accounting for Certain Sales Incentives". This issue requires certain sales incentives (e.g., discounts, rebates, coupons) offered by the Company to distributors, retail customers and consumers to be classified as a reduction of sales revenue. Like many other consumer products companies, the Company has historically classified these costs as advertising, promotion, or selling expenses. The Company has adopted the guidance for the first quarter of fiscal 2001 and does not anticipate that the new accounting policy will impact fiscal 2001 results of operations.

In January 2001, the EITF reached consensus on Issue 00-22 "Accounting for Points and Certain Other Time or Volume-Based Sales Incentive Offers". This issue requires certain allowances and discounts (e.g., volume discounts) paid to distributors and retail customers to be classified as a reduction of sales revenue. Like many other consumer products companies, the Company has historically classified these costs as advertising, promotion, or selling expenses. The Company adopted this guidance for the second quarter of fiscal 2001. The Company does not anticipate that the new accounting policy will impact fiscal 2001 results of operations.

In April 2001, the EITF reached consensus on Issue 00-25 "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products". This issue requires that certain consideration from a vendor to a retailer be classified as a reduction of sales revenue. Like many other consumer products companies, the Company has historically classified these costs as advertising, promotion, or selling expenses. The guidance is effective for the Company's first quarter of fiscal 2002. The Company does not anticipate that the new accounting policy will impact fiscal 2001 results of operations.

11. SEGMENT INFORMATION

The Company is divided into three reportable segments - North American Consumer, Global Professional and International Consumer. The North American Consumer segment consists of the Lawns, Gardens, Growing Media, Ortho, Lawn Service and Canadian business units. These segments differ from those used in the prior year due to the sale of the Company's professional turfgrass business in May 2000 and the resulting change in management reporting structure.

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 pesticide products. Products are marketed to mass merchandisers, home improvement centers, large hardware chains, nurseries and garden centers.

The Global Professional segment is focused on a full line of 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 lawn and landscape service companies, commercial nurseries and greenhouses and specialty crop growers. Prior to June 2000, this segment also included the Company's North American professional turf business, which was sold in May 2000.

The International Consumer segment provides products similar to those described above for the North American Consumer segment to consumers in countries other than the United States and Canada.

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). Certain prior year amounts have been restated to conform with the Company's current segment presentation.

(In Millions)	North American Consumer	Global Professional	International Consumer	Other/ Corporate	Total
SALES:					
2001 YTD	$ 648.0	$ 92.7	$ 148.4	$ --	$ 889.1
2000 YTD	$ 640.5	$ 89.8	$ 149.7	$ --	$ 880.0
2001 Q2	$ 574.1	$ 57.5	$ 108.4	$ --	$ 740.0
2000 Q2	$ 537.6	$ 54.4	$ 101.9	$ --	$ 693.9
OPERATING INCOME (LOSS):					
2001 YTD	$ 123.4	$ 12.5	$ 11.8	$ (43.8)	$ 103.9
2000 YTD	$ 126.8	$ 12.9	$ 13.9	$ (49.2)	$ 104.4
2001 Q2	$ 158.8	$ 11.9	$ 20.5	$ (23.3)	$ 167.9
2000 Q2	$ 130.4	$ 9.9	$ 17.6	$ (25.4)	$ 132.5
OPERATING MARGIN:					
2001 YTD	19.0%	13.5%	8.0%	nm	11.7%
2000 YTD	19.8%	14.4%	9.3%	nm	11.9%
2001 Q2	27.7%	20.7%	18.9%	nm	22.7%
2000 Q2	24.3%	18.2%	17.3%	nm	19.1%
TOTAL ASSETS:					
2001 TYD	$ 1,526.4	$ 166.6	$ 539.6	$ 114.3	$ 2,346.9
2000 YTD	$ 1,519.3	$ 132.5	$ 514.8	$ 103.3	$ 2,269.9

nm Not meaningful.

Operating income 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 income for the three and six months ended March 31, 2001 and April 1, 2000 includes amortization of certain intangible assets, corporate general and administrative expenses, and certain "other" income/expense not allocated to the business segments.

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

12. 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 1933. During the first quarter of fiscal 2001, the Company completed the registration of an exchange offer for these Notes under the Securities Act.

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

The following unaudited information presents consolidating statements of operations, statements of cash flows and balance sheets for the three and six-month periods ended March 31, 2001 and April 1, 2000.

Separate unaudited financial statements of the individual guarantor subsidiaries have not been provided because management does not believe they would be meaningful to investors.

THE SCOTTS COMPANY
STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2001 (IN MILLIONS)

(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Net sales	$ 467.7	$ 122.3	$ 150.0		$ 740.0
Cost of sales	289.4	44.6	86.9		420.9
Gross profit	178.3	77.7	63.1		319.1
Gross commission earned from agency agreement	14.9	-.-	1.7		16.6
Costs associated with agency agreement	4.6	-.-	-.-		4.6
Net commission	10.3	-.-	1.7		12.0
Operating expenses:					
Advertising and promotion	50.7	2.4	15.1		68.2
Selling, general and administrative	54.2	7.4	27.4		89.0
Amortization of goodwill and other intangibles	-.-	4.8	2.6		7.4
Equity income in subsidiaries	(49.4)	-.-	-.-	49.4	-.-
Intracompany allocations	2.6	(4.9)	2.3		-.-
Other (income) expense, net	(1.0)	(0.4)	-.-		(1.4)
Income (loss) from operations	131.5	68.4	17.4	(49.4)	167.9
Interest (income) expense	22.8	(3.7)	7.0		26.1
Income (loss) before income taxes	108.7	72.1	10.4	(49.4)	141.8
Income taxes	23.9	28.9	4.2		57.0
Net income (loss)	$ 84.8	$ 43.2	$ 6.2	$ (49.4)	$ 84.8

FOR THE SIX MONTHS ENDED MARCH 31, 2001 (IN MILLIONS)
(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Net sales	$ 517.9	$ 162.8	$ 208.4		$ 889.1
Cost of sales	316.6	95.6	123.2		535.4
Gross profit	201.3	67.2	85.2		353.7
Gross commission earned from agency agreement	14.5	-.-	2.0		16.5
Costs associated with agency agreement	9.1	-.-	-.-		9.1
Net commission	5.4	-.-	2.0		7.4
Operating expenses:					
Advertising and promotion	56.7	3.4	20.7		80.8
Selling, general and administrative	98.2	12.9	53.6		164.7
Amortization of goodwill and other intangibles	2.2	7.1	4.9		14.2
Equity income in subsidiaries	(27.7)	-.-	-.-	27.7	-.-
Intracompany allocations	(1.1)	(3.2)	4.3		-.-
Other (income) expense, net	(1.7)	(0.8)	-.-		(2.5)
Income (loss) from operations	80.1	47.8	3.7	(27.7)	103.9
Interest (income) expense	42.6	(7.4)	12.2		47.4
Income (loss) before income taxes	37.5	55.2	(8.5)	(27.7)	56.5
Income taxes	3.9	22.4	(3.4)		22.9
Net income (loss)	$ 33.6	$ 32.8	$ (5.1)	$ (27.7)	$ 33.6

THE SCOTTS COMPANY
STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2001 (IN MILLIONS)
(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$ 33.6	$ 32.8	$ (5.1)	$ (27.7)	$ 33.6
Adjustments to reconcile net income (loss) to net cash used in operating activities:					
Depreciation and amortization	10.6	13.0	8.3		31.9
Equity income in subsidiaries	(27.7)			27.7	
Net change in certain components of working capital	(177.5)	(102.2)	(84.7)		(364.4)
Net changes in other assets and liabilities and other adjustments	3.0	(11.7)	0.8	-.-	(7.9)
Net cash used in operating activities	(158.0)	(68.1)	(80.7)	-.-	(306.8)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in property, plant and equipment	(20.4)	(3.3)	(3.0)		(26.7)
Investments in acquired businesses, net of cash acquired	(0.4)	(0.1)	(11.7)		(12.2)
Net cash used in investing activities	(20.8)	(3.4)	(14.7)	-.-	(38.9)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net borrowings and repayments under revolving and bank lines of credit	228.5		147.8		376.3
Gross borrowings under term loans	260.0				260.0
Gross repayments under term loans	(257.5)		(46.8)		(304.3)
Financing and issuance fees	(1.4)				(1.4)
Cash received from exercise of stock options	10.4				10.4
Intracompany financing	(66.6)	68.7	(2.1)		-.-
Other, net	-.-	(1.8)	(8.6)		(10.4)
Net cash provided by financing activities	173.4	66.9	90.3	-.-	330.6
Effect of exchange rate changes on cash	-.-	-.-	(0.1)	-.-	(0.1)
Net decrease in cash	(5.4)	(4.6)	(5.2)		(15.2)
Cash and cash equivalents, beginning of period	16.0	4.7	12.3	-.-	33.0
Cash and cash equivalents, end of period	$ 10.6	$ 0.1	$ 7.1	$ -.-	$ 17.8

THE SCOTTS COMPANY
BALANCE SHEET
AS OF MARCH 31, 2001 (IN MILLIONS)
(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
ASSETS					
Current assets:					
Cash and cash equivalents	$ 10.6	$ 0.1	$ 7.1		$ 17.8
Accounts receivable, net	367.8	112.8	212.4		693.0
Inventories, net	241.0	78.6	82.4		402.0
Current deferred tax asset	28.1	0.4	(0.9)		27.6
Prepaid and other assets	46.1	2.3	18.7		67.1
Total current assets	693.6	194.2	319.7		1,207.5
Property, plant and equipment, net	185.4	73.7	37.9		297.0
Intangible assets, net	30.2	462.7	277.1		770.0
Other assets	56.2	6.3	9.9		72.4
Investment in affiliates	868.1	-.-	-.-	(868.1)	-.-
Intracompany assets	-.-	121.9	-.-	(121.9)	-.-
Total assets	$ 1,833.5	$ 858.8	$ 644.6	$ (990.0)	$ 2,346.9
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt	$ 104.9	$ 2.4	$ 25.2	$	$ 132.5
Accounts payable	147.3	57.5	98.9		303.7
Accrued liabilities	187.7	24.6	53.7		266.0
Total current liabilities	439.9	84.5	177.8		702.2
Long-term debt	711.2	4.1	360.4		1,075.7
Other liabilities	34.5	-.-	15.3		49.8
Intracompany liabilities	107.9	-.-	14.0	(121.9)	-.-
Total liabilities	1,293.5	88.6	567.5	(121.9)	1,827.7
Commitments and contingencies					
Shareholders' equity:					
Investment from parent		488.4	60.1	(548.5)	-.-
Common shares, no par value per share, $.01 stated value per share	0.3				0.3
Capital in excess of par value	390.6				390.6
Retained earnings	230.4	284.8	34.8	(319.6)	230.4
Treasury stock, 3.4 shares at cost	(74.6)				(74.6)
Accumulated other comprehensive expense	(6.8)	(3.0)	(17.8)		(27.5)
Total shareholders' equity	540.0	770.2	77.1	(868.1)	519.2
Total liabilities and shareholders' equity	$ 1,833.5	$ 858.8	$ 644.6	$ (990.0)	$ 2,346.9

THE SCOTTS COMPANY
STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED APRIL 1, 2000 (IN MILLIONS)
(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Net sales	$ 421.5	$ 133.2	$ 139.2	$	$ 693.9
Cost of sales	252.8	73.6	80.9		407.3
Gross profit	168.7	59.6	58.3		286.6
Gross commission earned from agency agreement	8.7	-.-	0.3		9.0
Costs associated with agency agreement	2.1	-.-	-.-		2.1
Net commission	6.6	-.-	0.3	-.-	6.9
Operating expenses:					
Advertising and promotion	44.6	11.6	15.2		71.4
Selling, general and administrative	53.9	6.5	24.0		84.4
Amortization of goodwill and other intangibles	3.8	1.6	2.3		7.7
Equity income in subsidiaries	(28.2)			28.2	-.-
Intracompany allocations	(10.2)	5.4	4.8		-.-
Other (income) expense, net	0.3	(2.8)	-.-		(2.5)
Income (loss) from operations	111.1	37.3	12.3	(28.2)	132.5
Interest (income) expense	23.7	(3.6)	5.8		25.9
Income (loss) before income taxes	87.4	40.9	6.5	(28.2)	106.6
Income taxes	24.0	16.6	2.6		43.2
Net income (loss)	$ 63.4	$ 24.3	$ 3.9	$ (28.2)	$ 63.4

FOR THE SIX MONTHS ENDED APRIL 1, 2000 (IN MILLIONS)
(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Net sales	$ 499.5	$ 174.2	$ 206.3	$	$ 880.0
Cost of sales	303.8	101.6	119.1		524.5
Gross profit	195.7	72.6	87.2		355.5
Gross commission earned from agency agreement	8.9	-.-	0.3		9.2
Costs associated with agency agreement	5.7	-.-	-.-		5.7
Net commission	3.2	-.-	0.3	-.-	3.5
Operating expenses:					
Advertising and promotion	52.3	13.9	23.4		89.6
Selling, general and administrative	93.4	12.5	47.2		153.1
Amortization of goodwill and other intangibles	5.5	3.7	4.6		13.8
Equity income in subsidiaries	(22.7)			22.7	-.-
Intracompany allocations	(12.1)	6.1	6.0		-.-
Other (income) expense, net	1.9	(3.6)	(0.2)		(1.9)
Income (loss) from operations	80.6	40.0	6.5	(22.7)	104.4
Interest (income) expense	41.3	(3.7)	12.0		49.6
Income (loss) before income taxes	39.3	43.7	(5.5)	(22.7)	54.8
Income taxes	6.7	17.7	(2.2)		22.2
Net income (loss)	$ 32.6	$ 26.0	$ (3.3)	$ (22.7)	$ 32.6

THE SCOTTS COMPANY
STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED APRIL 1, 2000 (IN MILLIONS)
(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Net income	$ 32.6	$ 26.0	$ (3.3)	$ (22.7)	$ 32.6
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	17.3	7.7	7.6		32.6
Loss on sale of property					
Equity income	(22.7)			22.7	-.-
Net change in certain components of working capital	(155.3)	(79.9)	(36.2)		(271.4)
Net changes in other assets and liabilities and other adjustments	(4.5)	(4.6)	(1.0)	-.-	(8.1)
Net cash used in operating activities	(132.6)	(50.8)	(30.9)	-.-	(214.3)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in property, plant and equipment	(12.2)	(2.4)	(5.5)	-.-	(20.1)
Investment in acquired businesses, net of cash acquired			(0.8)		(0.8)
Other, net	0.1		1.7		1.8
Net cash used in investing activities	(12.1)	(2.4)	(4.6)	-.-	(19.1)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net borrowings under revolving and bank lines of credit	248.4	1.2	36.9		286.5
Gross repayments under term loans	(1.0)		(11.4)		(12.4)
Payments to preferred shareholders	(6.4)				(6.4)
Repurchase of treasury shares	(23.9)				(23.9)
Intracompany financing	(58.4)	49.3	9.1		-.-
Cash received from the exercise of stock options	1.0				1.0
Other, net	(4.4)	-.-	(6.0)	-.-	(10.4)
Net cash provided by financing activities	155.3	50.5	28.6	-.-	234.4
Effect of exchange rate changes on cash	-.-	-.-	(1.6)	-.-	(1.6)
Net increase (decrease) in cash	10.6	(2.7)	(8.5)		(0.6)
Cash and cash equivalents, beginning of period	8.5	3.1	18.7	-.-	30.3
Cash and cash equivalents, end of period	$ 19.1	$ 0.4	$ 10.2	$ -.-	$ 29.7

THE SCOTTS COMPANY
BALANCE SHEET
AS OF APRIL 1, 2000 (IN MILLIONS)
(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
ASSETS					
Current assets:					
Cash and cash equivalents	$ 19.1	$ 0.4	$ 10.2		$ 29.7
Accounts receivable, net	362.0	107.1	180.2		649.3
Inventories, net	207.2	82.9	76.2		366.3
Current deferred tax asset	28.1	0.5	(2.1)		26.5
Prepaid and other assets	33.2	0.5	29.9	-.-	63.6
Total current assets	649.6	191.4	294.4	-.-	1,135.4
Property, plant and equipment, net	159.9	58.0	40.2		258.1
Intangible assets, net	262.3	269.3	264.6		796.2
Other assets	65.0	2.4	12.8		80.2
Investment in affiliates	739.1			(739.1)	0.0
Intracompany assets	-.-	290.9	-.-	(290.9)	
Total assets	$ 1,875.9	$ 812.0	$ 612.0	$ (1,030.0)	$ 2,269.9
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt	$ 161.8	$ 2.1	$ 19.3	$	$ 183.2
Accounts payable	144.4	41.6	95.7		281.7
Accrued liabilities	126.8	99.4	61.4	-.-	287.6
Total current liabilities	433.0	143.1	176.4	-.-	752.5
Long-term debt	698.8	5.1	310.8		1,014.7
Other liabilities	42.1	0.1	19.4		61.6
Intracompany liabilities	246.7	-.-	44.2	(290.9)	-.-
Total liabilities	1,420.6	148.3	550.8	(290.9)	1,828.8
Commitments and contingencies					
Shareholders' equity:					
Investment from parent		488.6	60.0	(548.6)	-.-
Common shares, no par value per share, $.01 stated value per share	0.3				0.3
Capital in excess of par value	388.1				388.1
Class A Convertible Preferred Stock, no par value Retained earnings	156.3	177.1	13.4	(190.5)	156.3
Treasury stock, 2.8 shares at cost	(85.1)	-.-	-.-		(85.1)
Accumulated other comprehensive expense	(4.3)	(2.0)	(12.2)		(18.5)
Total shareholders' equity	455.3	663.7	61.2	(739.1)	441.1
Total liabilities and shareholders' equity	$ 1,875.9	$ 812.0	$ 612.0	$ (1,030.0)	$ 2,269.9

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 and professional horticulture in the United States and Europe. Our operations are divided into three business segments: North American Consumer, Global Professional and International Consumer. The North American Consumer segment includes the Lawns, Gardens, Growing Media, Ortho, Lawn Service and Canadian business groups.

As a leading consumer branded lawn and garden company, we focus on our consumer marketing efforts, including advertising and consumer research, to create demand to pull product through the retail distribution channels. During fiscal 2000, we spent $209.1 million on advertising and promotional activities, which was a significant increase over fiscal 1999 spending levels of $189.0 million. We have applied this consumer marketing focus over the past several years, and we believe that Scotts continues to receive a significant return on these increased marketing expenditures. For example, sales in our North American Consumer Lawns business group increased 13.2% from fiscal 1999 to fiscal 2000, after having experienced double-digit percentage increases in sales during the prior two years. We believe that this dramatic sales growth resulted primarily from our increased consumer-oriented marketing efforts. We expect that we will continue to focus our marketing efforts toward the consumer and 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 the acquisitions we have made over the past several years diversify both our product line risk and geographic risk to weather conditions.

Scotts has entered into a long-term marketing agreement with Monsanto for its consumer Roundup(R) herbicide products. Under the marketing agreement, Scotts and Monsanto are jointly developing global consumer and trade marketing programs for Roundup(R), while Scotts is responsible 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. These transactions with Monsanto further our strategic objective of significantly enhancing our position in the pesticides segment of the consumer lawn and garden category. These businesses make up the Ortho business group within the North American Consumer segment.

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

Over the past several years, we have made other acquisitions to strengthen our global market position in the lawn and garden category, including Rhone-Poulenc Jardin, Asef Holding B.V. and, most recently, Substral. These acquisitions provided a significant addition to our then existing European platform and strengthened our foothold in the continental European consumer lawn and garden market. Through these acquisitions, we have established a strong presence in France, Germany, Austria, and the Benelux countries. These acquisitions may also mitigate, to a certain extent, our susceptibility to weather conditions by expanding the regions in which we operate.

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, 2000 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 and six months ended March 31, 2001 and April 1, 2000. Sales figures for all periods presented reflect the reclassification of certain rebates and allowances in accordance with accounting guidance adopted by the Company in the second quarter of fiscal 2001.

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	MARCH 31, 2001	APRIL 1, 2000	MARCH 31, 2001	APRIL 1, 2000
North American Consumer:				
Lawns	$ 301.9	$ 263.8	$ 319.2	$ 306.1
Gardens	63.0	67.3	70.7	81.0
Growing Media	97.7	96.1	118.0	115.3
Ortho	82.3	82.5	98.6	100.5
Lawn Service	4.4	2.6	9.2	5.4
Canada	13.2	13.8	14.2	15.2
Other	11.6	11.5	18.1	17.0
Total	574.1	537.6	648.0	640.5
International Consumer	108.4	101.9	148.4	149.7
Global Professional	57.5	54.4	92.7	89.8
Consolidated	$ 740.0	$ 693.9	$ 889.1	$ 880.0

The following table sets forth the components of income and expense as a percentage of sales for the three and six months ended March 31, 2001 and April 1, 2000:

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	MARCH 31, 2001	APRIL 1, 2000	MARCH 31, 2001	APRIL 1, 2000
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	56.9	58.7	60.2	59.6
Gross profit	43.1	41.3	39.8	40.4
Net commission earned from agency agreement	1.6	1.0	0.8	0.4
Operating expenses:				
Advertising and promotion	9.2	10.3	9.1	10.2
Selling, general and administrative	12.0	12.2	18.5	17.4
Amortization of goodwill and other intangibles	1.0	1.1	1.6	1.6
Other expense (income), net	(0.2)	(0.4)	(0.3)	(0.2)
Income from operations	22.7	19.1	11.7	11.8
Interest expense	3.5	3.7	5.3	5.6
Income before income taxes	19.2	15.4	6.4	6.2
Income taxes	7.7	6.2	2.6	2.5
Net income	11.5	9.2	3.8	3.7
Payments to preferred shareholders	0.0	0.0	0.0	0.7
Income available to common shareholders	11.5%	9.2%	3.8%	3.0%

THREE MONTHS ENDED MARCH 31, 2001 VERSUS THREE MONTHS ENDED APRIL 1, 2000

Sales for the second quarter ended March 31, 2001 were $740.0 million, an increase of 6.6% over the second quarter ended April 1, 2000 of $693.9 million. The increase in sales was driven primarily by an increase in sales in the North American Consumer segment as discussed below.

North American Consumer segment sales were $574.1 million in the second quarter of fiscal 2001, an increase of $36.5 million, or 6.8%, over sales for the second quarter of fiscal 2000 of $537.6 million. Sales in the Consumer Lawns business group within this segment increased $38.1 million, or 14.4%, from fiscal 2000 to fiscal 2001. Beginning in fiscal 2001, the Company has significantly changed the selling and distribution model for the Lawns, Gardens and Ortho business groups in North America. The products in these groups are now being sold by an integrated sales force, as opposed to separate sales forces in prior years, and the majority of these products are now being sold directly to retail customers rather than through distribution. The impact of these changes is that sales are recognized generally later in the season than they were in prior years, which contributed to the increase in second quarter sales for the Lawns group compared to the prior year. Sales in the Consumer Gardens business group decreased $4.3 million, or 6.4%, from the second quarter of fiscal 2000 to fiscal 2001. As a result of the change in distribution described above, it is anticipated that shipments for products in the Gardens business group have been delayed in the season closer to the time of sale to the consumer or into our third and fourth quarters. Sales for the other business groups in the North America Consumer segment did not vary significantly in the second quarter of fiscal 2001 compared to the second quarter of fiscal 2000.

Sales for the International Consumer segment of $108.4 million in the second quarter of fiscal 2001 were $6.5 million, or 6.4% higher than sales for the second quarter of fiscal 2000 of $101.9 million. Excluding the adverse impact of changes in exchange rates, sales for the International Consumer segment increased approximately 15% compared to the prior year period. The increase in sales is primarily due to the successful sell-in of a new line of fertilizer products under the Substral(R) brand name.

Sales for the Global Professional segment of $57.5 million in the second quarter of fiscal 2001 were $3.1 million, or 5.7% higher than the second quarter of fiscal 2000 sales of $54.4 million. Excluding the unfavorable impact of changes in foreign exchange rates, Global Professional segment sales increased approximately 10% quarter over quarter. The increase in sales is due to new product introductions and increased growing media sales.

Gross profit increased to $319.1 million in the second quarter of fiscal 2001, an increase of 11.3% over fiscal 2000 gross profit of $286.6 million. As a percentage of sales, gross profit was 43.1% of sales for fiscal 2001 compared to 41.3% of sales for the second quarter of fiscal 2000. This increase in profitability on sales was driven by a successful shift to direct distribution, higher production levels and improved efficiencies in the Company's production plants, and a continued shift in sales mix toward higher margin products, particularly within the Consumer Lawns and Consumer Growing Media business groups, which offset increases in raw material and energy costs.

The net commission earned from agency agreement in the second quarter of fiscal 2001 was $12.0 million compared to $6.9 million in the second quarter of fiscal 2000. The increase in net commission reflects a significant increase in gross commission for the quarter, reflecting the successful introduction of new and improved formulations, partially offset by an increase in contribution expenses as specified in the agreement with Monsanto. Scotts does not recognize commission income under the agency agreement until minimum earnings thresholds in the agreement are achieved, which is generally in our second quarter.

Advertising and promotion expenses for the second quarter of fiscal 2001 were $68.2 million, a decrease of $3.2 million, or 4.5% over fiscal 2000 advertising and promotion expenses of $71.4 million. This decrease reflects the impact of improved media buying efficiencies and lower advertising rates compared to the prior year.

Selling, general and administrative expenses in the second quarter of fiscal 2001 were $89.0 million, an increase of $4.6 million, or 5.5% over similar expenses in the second quarter of fiscal 2000 of $84.4 million. As a percentage of sales, selling, general and administrative expenses were 12.0% for the second quarter of fiscal 2001, unchanged from the same quarter in the prior year. The increase in selling, general and administrative expenses from the prior year is partially due to an increase in selling expenses as a result of the change in the selling and distribution model for the North American business described above. The increase in selling, general and administrative expenses is also due to an increase in information technology expenses from the prior year as a result of the cost of many information technology resources being capitalized toward the cost of our enterprise resource planning system a year ago. Most of these information technology resources have assumed a system support function that is now being expensed as incurred.

Other income for the second quarter of fiscal 2001 was $1.4 million compared to other income of $2.5 million in the prior year. The decrease in other income was primarily due to a significant royalty payment recorded in the second quarter of fiscal 2000 that did not recur in fiscal 2001.

Income from operations for the second quarter of fiscal 2001 was $167.9 million compared to $132.5 million for the second quarter of fiscal 2000. The increase was primarily due to the increase in sales and gross margin, and an increase in the net Roundup(R) commission described above.

Interest expense for the second quarter of fiscal 2001 was $26.1 million, a slight increase over fiscal 2000 interest expense of $25.9 million. Average borrowings for the second quarter of fiscal 2001 were slightly lower than the second quarter of fiscal 2000; however, this was offset by slightly increased interest rates quarter over quarter.

Income tax expense was $57.0 million for the second quarter of fiscal 2001 compared to $43.2 million for the same quarter in the prior year due to an increase in pre-tax income recognized in the second quarter of fiscal 2001. The Company's effective tax rate did not change significantly from fiscal 2000 to fiscal 2001.

Scotts reported net income of $84.8 million for the second quarter of fiscal 2001, or $2.80 per common share on a diluted basis, compared to net income of $63.4 million for fiscal 2000, or $2.15 per common share on a diluted basis.

SIX MONTHS ENDED MARCH 31, 2001 VERSUS SIX MONTHS ENDED APRIL 1, 2000

Net sales for the six months ended March 31, 2001 were $889.1 million, an increase of 1.0% over the six months ended April 1, 2000 of $880.0 million. The slight increase in sales was driven primarily by increases in sales in the North American Consumer segment as discussed below.

North American Consumer segment sales were $648.0 million for the six months of fiscal 2001, an increase of $7.5 million, or 1.2%, over sales for the six months of fiscal 2000 of $640.5 million. Sales in the Consumer Lawns business group within this segment increased $13.1 million, or 4.3%, from fiscal 2000 to fiscal 2001, primarily due to the introduction of a new line of grass seed products. Sales for the Consumer Garden business group decreased $10.3 million, or 12.7%, for the first six months of fiscal 2001 compared to the same period in the prior year due to the changes in the North American selling and distribution model described above. Sales for the other business groups in the North American Consumer segment did not vary significantly for the six months ended March 31, 2001 compared to the same period in the prior year. Certain of the business groups have realized price increases from the prior year of up to 2%.

Sales for the International Consumer segment of $148.4 million for the first six months of fiscal 2001 were slightly lower than sales for the first six months of fiscal 2000 of $149.7 million. Excluding the adverse impact of changes in exchange rates, sales for the International Consumer segment increased approximately 9% compared to the prior year period. The increase in sales is primarily due to the successful sell-in of a new line of fertilizer products under the Substral(R) brand name.

Sales for the Global Professional segment of $92.7 million for the first six months of fiscal 2001 were $2.9 million, or 3.2%, higher than the first six months of fiscal 2000 sales of $89.8 million. Excluding the unfavorable impact of changes in foreign exchange rates, Global Professional segment sales increased approximately 8% year over year. The increase in sales is due to new product introductions and increased growing media sales.

Gross profit for the first six months of fiscal 2001 was $353.7 million, down slightly from fiscal 2000 gross profit of $355.5 million. As a percentage of sales, gross profit was 39.8% of sales for the first six months of fiscal 2001 compared to 40.4% of sales for the first six months of fiscal 2000.

The net commission earned from agency agreement in the first six months of fiscal 2001 was $7.4 million, compared to $3.5 million in the first six months of fiscal 2000. The increase in net commission reflects a significant increase in gross commission for the six-month period, reflecting the successful introduction of new and improved formulations, partially offset by an increase in contribution expenses as specified in the agreement with Monsanto. Scotts does not recognize commission income under the agency agreement until minimum earnings thresholds in the agreement are achieved, which is generally in our second quarter.

Advertising and promotion expenses for the first six months of fiscal 2001 were $80.8 million compared to fiscal 2000 advertising and promotion expenses of $89.6 million. This decrease reflects the impact of improved media buying efficiencies and lower advertising rates compared to the prior year.

Selling, general and administrative expenses in the first six months of fiscal 2001 were $164.7 million, an increase of $11.5 million, or 7.5%, over similar expenses in the first six months of fiscal 2000 of $153.1 million. As a percentage of sales, selling, general and administrative expenses were 18.5% for the first six months of fiscal 2001 compared to 17.4% for fiscal 2000. The increase in selling, general and administrative expenses from the prior year is partially due to an increase in selling expenses as a result of the change in the selling and distribution model for the North American business described above. The increase in selling, general and administrative expenses is also due to an increase in information technology expenses from the prior year as a result of the cost of many information technology resources being capitalized toward the cost of our enterprise resource planning system a year ago. Most of these information technology resources have assumed a system support function that is now being expensed as incurred.

Amortization of goodwill and other intangibles was $14.2 million for the first six months of fiscal 2001, compared to $13.8 million in the prior year, due to adjustments made to the estimated purchase price for the Ortho acquisition made during the prior year.

Other income for the first six months of fiscal 2001 was $2.5 million compared to other income of $1.9 million in the prior year. The increase in income was primarily due to losses on the sale of miscellaneous assets that were incurred in the prior year.

Income from operations for the first six months of fiscal 2001 was $103.9 million compared to $104.4 million for the first six months of fiscal 2000. The slight decrease was the result of the slight decline in gross margin and increased selling, general and administrative costs, partially offset by increased net commission under the agency agreement and lower advertising and promotion expense.

Interest expense for the first six months of fiscal 2001 was $47.4 million, a decrease of $2.2 million from fiscal 2000 interest expense of $49.6 million. The decrease in interest expense was due to decreased average borrowings year over year, which more than offset an increase in interest rates for the period.

Income tax expense was $22.9 million for the first six months of fiscal 2001 compared to $22.2 million in the prior year due to a slight increase in pre-tax income for fiscal 2001 over the prior year. The provisions for income taxes reflect an estimated rate of 40.5% for the first six months of both fiscal 2001 and 2000.

Scotts reported net income of $33.6 million for the first six months of fiscal 2001, or $1.12 per common share on a diluted basis, compared to net income of $32.6 million for fiscal 2000, or $0.88 per common share on a diluted basis. The diluted earnings per share for the first six months of fiscal 2000 is net of a one-time reduction of $0.21 per share resulting from the early conversion of preferred stock in October 1999.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities was $306.8 million for the six months ended March 31, 2001 compared to a use of cash of $214.3 million for the six months ended April 1, 2000. 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 increase in cash required to fund operating activities for the first six months of fiscal 2001 compared to the prior year was due to higher levels of accounts receivable and inventory at March 31, 2001 compared to April 1, 2000, due, in part, to the change in the selling and distribution model for North America in fiscal 2001 described above and the trend by major retailers to delay inventory purchases later in season in fiscal 2001 compared to fiscal 2000.

Cash used in investing activities was $38.9 million for the first six months of fiscal 2001 compared to $19.1 million in the prior year. The additional cash used for investing activities in fiscal 2001 was primarily due to an increase in capital expenditures for the period, the $6.9 million payment toward the purchase of the Substral business discussed in Note 3 to the quarterly financial statements and payments made toward several lawn service acquisitions during the first six months of fiscal 2001.

Financing activities provided cash of $330.6 million for the first six months of fiscal 2001 compared to providing $234.4 million in the prior year. The increase in cash from financing activities was primarily due to an increase in borrowings under the Company's revolving credit facility to fund operations and investing activities during the first six months of fiscal 2001.

Total debt was $1,208.2 million as of March 31, 2001, an increase of $10.3 million compared with debt at April 1, 2000 of $1,197.9. The increase in debt compared to the prior year was primarily due to additional borrowings to fund operations and investing activities as discussed 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 $1.1 billion and consists of term loan facilities in the aggregate amount of $525 million and a revolving credit facility in the amount of $575 million.

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 March 31, 2001, 1,106,295 common shares (or $40.6 million) have been repurchased under this repurchase program limit.

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

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

In our opinion, cash flows from operations and capital resources will be sufficient to meet debt service and working capital needs during fiscal 2001, and thereafter for the foreseeable future. However, we cannot ensure that our business groups will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or at all, or that future borrowings will be available under our credit facilities in amounts sufficient to pay indebtedness or fund other liquidity needs. Actual results of operations will depend on numerous factors, many of which are beyond our control. We cannot ensure that we will be able to refinance any indebtedness, including our credit facility, on commercially reasonable terms, or at all.

ENVIRONMENTAL MATTERS

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking actions aimed at ensuring compliance with, such laws and regulations. We are involved in several legal actions with various governmental agencies related to environmental matters. While it is difficult to quantify the potential financial impact of actions involving environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established reserves, should not have a material adverse effect on our financial position; however, there can be no assurance that the resolution of these matters will not materially affect future quarterly or annual operating results. Additional information on environmental matters affecting us is provided in Note 9 to the Company's unaudited Condensed, Consolidated Financial Statements as of and for the six months ended March 31, 2001 and in the fiscal 2000 Annual Report on Form 10-K under the "ITEM 1. BUSINESS -- ENVIRONMENTAL AND REGULATORY CONSIDERATIONS" and "ITEM 3. LEGAL PROCEEDINGS" sections.

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. SAP was selected as the primary software provider for this project. As of October 1, 2000, all of the North American businesses with the exception of Canada were operating under the new system. Through March 31, 2001, we spent approximately $55.1 million on the project, approximately 75% of which has been capitalized and will be amortized over a period of four to eight years. We are currently evaluating when, and to what extent, the new information systems and applications will be implemented at our international locations.

EURO

A new currency called the "euro" has been introduced in certain Economic and Monetary Union (EMU) countries. During 2002, all EMU countries are expected to be operating with the euro as their single currency. Uncertainty exists as to the effects the euro currency will have on the marketplace. We are assessing the impact the EMU formation and euro implementation will have on our internal systems and the sale of our products. We are in the process of developing our plans and contracts for work to be performed to implement utilization of the euro as required at our operations in continental Europe. We expect that a significant portion of the costs associated with this work will be incurred during fiscal 2001; however, some costs will likely be incurred in

the first quarter of fiscal 2002 as well. We estimate that the cost related to addressing this issue will be $1.5-$2.0 million; however, there can be no assurance that the ultimate costs related to this issue will not exceed this estimate.

MANAGEMENT'S OUTLOOK

Results for the first six months of fiscal 2001 are in line with management's expectations and we believe we are well positioned to continue our trend of significant sales and earnings growth. We are coming off a very strong fiscal 2000 as we reported record sales of $1.76 billion, grew diluted earnings per share by at least 20% for the fourth consecutive year (on a pro forma basis, excluding extraordinary items and the impact of the early conversion of the Class A Convertible Preferred Stock) and established or maintained what we believe to be the number one market share position in most of the significant lawn and garden categories across the world. The performance in fiscal 2000 reflected the successful continuation of our emphasis on consumer-oriented marketing efforts to pull demand through distribution channels.

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

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

We have made and will make "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in our Annual Report, 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 that 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 OUR 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 first fiscal quarter because we are generating fewer revenues while incurring expenditures in preparation for the spring selling season. If cash on hand is insufficient to cover interest payments due on our indebtedness at a time when we are unable to draw on our credit facility, 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 on our ability to effectively integrate the acquired business. We believe that our recent acquisitions provide us with significant cost saving opportunities. However, if we are not able to successfully integrate Ortho, Rhone-Poulenc Jardin or our other acquired businesses, we will not be able to maximize such cost saving opportunities. Rather, the failure to integrate these acquired businesses, because of difficulties in the assimilation of operations and products, the diversion of management's attention from other business concerns, the loss of key employees or other factors, could materially adversely affect our financial results.

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

  Our top 10 North American retail customers together accounted for approximately 56.5% of our fiscal 2000 sales and 41% of our outstanding accounts receivable as of September 30, 2000. Our top three customers, Home Depot, Wal*Mart and Kmart represented approximately 22.9%, 8.9% and 8.2% of our fiscal 2000 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 OR WE 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, or if we were to terminate the agreement without appropriate cause, 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 period of three fiscal years; 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 expired in September 2000. Scotts cannot predict the success of Roundup(R) now that glyphosate is no longer patented. Substantial new competition in the United States could adversely affect Scotts. Glyphosate is no longer subject to patent in Europe and is not subject to patent in Canada. While sales of Roundup(R) in such countries have continued to increase despite the lack of patent protection, sales in the United States may decline as a result of increased competition. Any such decline in sales would adversely affect Scott's financial results through the reduction of commissions as calculated under the Roundup(R) marketing agreement.

  Our methylene-urea product composition patent, which covers Scotts Turf Builder(R), Scotts Turf Builder(R) with Plus 2(TM) Weed Control and Scotts Turf Builder(R) with Halts(R) Crabgrass Preventer, is due to expire in July 2001, which 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 U.S. Environmental Protection Agency ("USEPA") and, in many cases, with 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 our 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 USEPA is evaluating the cumulative risks from dietary and non-dietary exposures to pesticides. The pesticides in Scotts' products, which are also used on foods, will be evaluated by the USEPA as part of this non-dietary exposure risk assessment. It is possible that the USEPA or the active

ingredient registrant may decide that a pesticide Scotts uses in its products would be limited or made unavailable to Scotts. We cannot predict the outcome or the severity of the effect of the USEPA's continuing evaluations. 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. 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, and in the European Union, are the subject of conservation proposals. 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.

The European Commission's Habitat Directive ("the Directive") provides that each European Member State must compile a list of areas containing habitats and species of European interest, and sets out scientific criteria for identifying such areas. Lists of proposed areas are submitted by Member States to the European Commission as candidate Special Areas of Conservation (SAC). If ultimately accepted by the Commission, an area will be designated by its Member State. In August 2000, the nature conservation advisory body to the U.K. Government notified Scotts' U.K. subsidiary that three of its peat harvesting sites in the U.K. were under consideration as candidate SAC's because of their European interest as "degraded raised peat bogs capable of natural regeneration". Management is challenging consideration of our peat harvesting sites as potential candidate SAC's, since we believe they do not meet the scientific criteria laid out in the Directive. The Company has recently submitted a scientific report to the nature conservation advisory body of the U.K. Government detailing objections to such proposals. If our objections are not resolved through a process of consultation, the U.K. Government may decide to submit the sites to the European Commission. Upon submission, the sites become candidate SAC's under U.K. law. The peat harvesting sites in the U.K. are operated under mineral planning consents issued by local planning authorities. Following possible submission by the U.K. Government of the harvesting sites as candidate SAC's, these local planning authorities will be required to review the impact of activities likely to affect these areas. If these authorities determine that harvesting activity will damage the features of European interest on the sites, then they may modify or revoke the mineral planning consents. Where a planning consent is altered or revoked by a local planning authority, legislation requires compensation to be paid to those affected.

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 ("EPA") gave us formal notice of an enforcement action concerning our old, decommissioned wastewater treatment plants that had once operated at our Marysville facility. The Ohio EPA action alleges surface water violations relating to possible historical sediment contamination, inadequate treatment capabilities at our existing and currently permitted wastewater treatment plants and the need for

corrective action under the Resource Conservation Recovery Act. We are continuing to meet with the Ohio EPA and the Ohio Attorney General's office to negotiate an amicable resolution of these issues. We are currently unable to predict the ultimate outcome of this matter.

During fiscal 2000, we made approximately $1.2 million in environmental capital expenditures and $1.8 million in other environmental expenses, compared with approximately $1.1 million in environmental capital expenditures and $5.9 million in other environmental expenses in fiscal 1999. Management anticipates that environmental capital expenditures and other environmental expenses for fiscal 2001 will not differ significantly from those incurred in fiscal 2000. If we are required to significantly increase our actual environmental capital expenditures and other environmental expenses, it could adversely affect our financial results.

- THE IMPLEMENTATION OF THE EURO CURRENCY IN SOME EUROPEAN COUNTRIES COULD ADVERSELY AFFECT US.

In January 1999, the "euro" was introduced in some Economic and Monetary Union (EMU) countries and by 2002, all EMU countries are expected to be operating with the euro as their single currency. Uncertainty exists as to the effects the euro currency will have on the market place. 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. We estimate that the cost related to addressing this issue will be $1.5-$2.0 million; however, there can be no assurance that the ultimate costs related to this issue will not exceed this estimate.

- 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, Rhone-Poulenc Jardin and Substral and with the marketing agreement for consumer Roundup(R) products. In fiscal 2000, international sales accounted for approximately 21% of our total sales. Accordingly, we are subject to risks associated with operations in foreign countries, including:

- fluctuations in currency exchange rates;
- limitations on the conversion of foreign currencies into U.S. dollars;
- limitations on the remittance of dividends and other payments by foreign subsidiaries;
- additional costs of compliance with local regulations; and
- historically, higher rates of inflation than in the United States.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As noted in Note 9 to the Company's unaudited Condensed, Consolidated Financial Statements as of and for the period ended March 31, 2001, the Company is involved in several pending legal and 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, the Company began arbitration proceedings before the International Court of Arbitration of the International Chamber of Commerce (the "ICA") 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 the Company of Rhone-Poulenc's European lawn and garden business, Rhone-Poulenc Jardin, in 1998. The Company alleged that the combination of Rhone-Poulenc and Hoechst Schering AgrEvo GmbH ("AgrEvo") into a new entity, Aventis S.A., would result in the violation of non-compete and other provisions in the contracts mentioned above.

On October 9, 2000, the ICA issued a First Partial Award by the Tribunal which, inter alia, (i) found that Rhone-Poulenc breached its duty of good faith under French law by not disclosing to the Company the contemplated combination of Rhone-Poulenc and AgrEvo, (ii) directed that the parties re-negotiate a non-compete provision, and (iii) ruled that a research and development agreement entered into ancillary to the purchase of Rhone-Poulenc Jardin is binding upon both Rhone-Poulenc and its post-merger successor. On February 12, 2001, because of the parties' failure to agree on revisions to the non-compete provision, the ICA issued a Second Partial Award by the Tribunal revising that provision. A damages hearing has been scheduled to begin July 2, 2001.

Also on October 15, 1999, the Company 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 the Company's 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, the Company requested that this action be stayed pending the outcome of the arbitration proceedings.

Scotts v. AgrEvo USA Company

The Company filed suit against AgrEvo USA Company on August 8, 2000 in the Court of Common Pleas for Union County, Ohio, alleging breach of contract relating to an Agreement dated June 22, 1998 entitled "Exclusive Distributor Agreement - Horticulture". The action seeks an unspecified amount of damages resulting from AgrEvo's breaches of the Agreement, an order of specific performance directing AgrEvo to comply with its obligations under the Agreement, a declaratory judgment that the Company's future performance under the Agreement is waived as a result of AgrEvo's failure to perform, and such other relief to which the Company might be entitled. This action was dismissed without prejudice on February 6, 2001, pending the outcome of settlement discussions.

The Company 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 the Company's financial position or operations.

ITEM 5. OTHER INFORMATION

On May 10, 2001, the Company's Board of Directors elected James Hagedorn as the Company's President and Chief Executive Officer. Mr. Hagedorn succeeds Charles M. Berger as CEO, who will continue to serve as Chairman of the Board. Mr. Hagedorn had served as the Company's President and Chief Operating Officer since April 2001, and is also a member of the Company's Board of Directors.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) See Exhibit Index at page 43 for a list of the exhibits included herewith.

(b) The Registrant filed no Current Reports on Form 8-K during the quarter covered by this Report.

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

/S/ CHRISTOPHER L. NAGEL

Date: May 15th, 2001

Principal Accounting Officer, Vice President and Corporate Controller

THE SCOTTS COMPANY
QUARTERLY REPORT ON FORM 10-Q FOR
FISCAL QUARTER ENDED MARCH 31, 2001

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	PAGE NUMBER
10(w)	Letter Agreement dated March 21, 2001, pertaining to: amendment to Employment Agreement, dated as of August 7, 1998, between the Registrant and Charles M. Berger; and employment of Mr. Berger through January 16, 2003	*

* Filed herewith

Exhibit 10(w)

JOSEPH P. FLANNERY
[private address and phone]

March 21, 2001

Mr. Charles M. Berger
Chairman and Chief Executive Officer
The Scotts Company
41 S. High Street, Suite 3500
Columbus, OH 43215

Dear Chuck:

The purpose of this letter is to memorialize the understandings we have reached regarding your employment by The Scotts Company ("Scotts" or the "Company") following the May 10, 2001 Board meeting and your affiliation with the Company thereafter.

FROM MAY 10, 2001 THROUGH SEPTEMBER 30, 2001
- ---

Your employment at Scotts is currently subject to an Employment Agreement entered into between you and Scotts dated August 7, 1998 (the "1998 Employment Agreement"). You agree that the 1998 Employment Agreement is hereby amended in two respects:

1. At the Scotts' Board meeting to be held on May 10, 2001, you shall resign your position as Chief Executive Officer of Scotts.

2. The term of the 1998 Employment Agreement shall be extended until September 30, 2001. After May 10, 2001, you shall continue to be employed as a full-time Scotts' associate and you will continue to serve as an executive officer of Scotts with the title of Chairman of the Board. Your base salary, incentive compensation, expense reimbursement and benefits shall be paid as provided in the 1998 Employment Agreement through September 30, 2001.

Except as modified by the preceding paragraph, the 1998 Employment Agreement shall remain in full force and effect.

FROM OCTOBER 1, 2001 THROUGH JANUARY 16, 2003
- ---

From October 1, 2001 through January 16, 2003 (the proposed date for Scotts' 2003 Annual Meeting of Shareholders), you shall continue as a Scotts' associate and executive officer (maintaining the title of Chairman of the Board) at an annual salary of $500,000. You shall be entitled to receive all benefits available to an executive officer of Scotts, but shall not be entitled

to any incentive compensation or to a stock option grant. You shall be entitled to the use of the Company airplane for business purposes, to an annual physical at the Company's expense and to participate in the Ayco program so long as you remain Chairman of the Board.

You shall be entitled to a guest office and administrative assistance at Scotts' World Headquarters through January 16, 2003, but your principal office after October 1, 2001 shall be at your home in Naples, Florida. Scotts agrees to reimburse you for the commission you pay in connection with the sale of your home in Columbus, Ohio and for the expense of moving your personal effects to Naples, Florida, up to a maximum reimbursement of $150,000.

It is presently the Committee's intention to have you stand for re-election as a Director of the Company when your current term expires at the Company's Annual Meeting of Shareholders in 2002. On January 16, 2003, it is expected that you will resign your position as Chairman of the Board and that you will retire as a full-time Scotts' associate. Upon your retirement as a full-time Scotts' associate, you shall be entitled to such benefits as are then available to a retiree at your then age and with your then years of service, and all other benefits that you were entitled to receive as Chairman of the Board shall cease.

FROM JANUARY 17, 2003 THROUGH MAY 9, 2003

After your retirement from Scotts on January 16, 2003, you will continue to be paid monthly at the rate of $500,000 per year through May 9, 2003, but you will not be entitled to receive any benefits in addition to these payments.

DEATH, DISABILITY OR CHANGE IN CONTROL

Should you die or become totally disabled or should Scotts undergo a Change in Control (as defined in the 1998 Employment Agreement) prior to May 9, 2003, your beneficiaries or your estate shall be entitled to receive the balance of any payments due you through May 9, 2003. Any such payments due you shall be paid in a lump sum within 90 days of the effective date of the Change in Control or your death or total disability. Any options to purchase Scotts' common shares owned by you at your death shall be dealt with as provided in the Scotts' stock option plan pursuant to which they were granted.

Very truly yours,

/s/ Joseph P. Flannery

Joseph P. Flannery, Chairman
Compensation and Organization
Committee of the Board of Directors