

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

SCOTTS COMPANY
Form 10-Q/A
June 05, 2002

=====

FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 29, 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 (I.R.S. Employer Identification No.)
Incorporation or Organization)

14111 SCOTTSLAWN ROAD, MARYSVILLE, OHIO 43041
(Address of principal executive offices) (Zip Code)

(937) 644-0011
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

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

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

29,241,477 Outstanding at February 7, 2002
Common Shares, voting, no par value

=====

THE SCOTTS COMPANY AND SUBSIDIARIES

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

INDEX

PART I. FINANCIAL INFORMATION:

Item 1.	Financial Statements Condensed, Consolidated Statements of Operations - Three month periods ended December 29, 2001 and December 30, 2000.....	
	Condensed, Consolidated Statements of Cash Flows - Three month periods ended December 29, 2001 and December 30, 2000.....	
	Condensed, Consolidated Balance Sheets - December 29, 2001, December 30, 2000 and September 30, 2001.....	
	Notes to Condensed, Consolidated Financial Statements.....	
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings.....	
Item 4.	Submission of Matters to a Vote of Security Holders.....	
Item 6.	Exhibits and Reports on Form 8-K.....	
Signatures	
Exhibit Index	

See Note 1 to Condensed, Consolidated Financial Statements for explanation and impact of the restated item on the Condensed, Consolidated Financial Statements.

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

		THREE MON DECEMBER 29, 2001 ---- (RESTATED)
Net sales.....	\$	163.0

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

Cost of sales.....	130.9
Restructuring and other charges.....	1.0

Gross profit	31.1
Gross commission earned from agency agreement	-.-
Costs associated with agency agreement	5.9

Net commission earned from agency agreement	(5.9)
Operating expenses:	
Advertising and promotion	7.1
Selling, general and administrative	75.3
Restructuring and other charges.....	0.8
Amortization of goodwill and other intangibles.....	1.8
Other income, net	(2.0)

Loss from operations	(57.8)
Interest expense	18.5

Loss before income taxes	(76.3)
Income taxes	(29.4)

Loss before cumulative effect of accounting change.....	(46.9)
Cumulative effect of change in accounting for intangible assets, net of tax.	(18.5)

Net loss.....	\$ (65.4)
	=====
BASIC LOSS PER COMMON SHARE:	
Weighted-average common shares outstanding during the period.....	28.8
Basic loss per common share:.....	
Before cumulative effect of accounting change	\$ (1.63)
Cumulative effect of change in accounting for intangible assets, net of tax	(0.64)

After cumulative effect of accounting change	\$ (2.27)
	=====
DILUTED LOSS PER COMMON SHARE:	
Weighted-average common shares outstanding during the period	28.8
Diluted loss per common share:	
Before cumulative effect of accounting change.....	\$ (1.63)
Cumulative effect of change in accounting for intangible assets, net of tax	(0.64)

After cumulative effect of accounting change.....	\$ (2.27)
	=====

See notes to condensed, consolidated financial statements

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss.....	\$ (65.4)
Adjustments to reconcile net loss to net cash used in operating activities:	
Cumulative effect of change in accounting for intangible assets.....	29.8
Depreciation	7.9
Deferred taxes.....	(11.5)
Amortization.....	2.7
Changes in assets and liabilities, net of acquired businesses:	
Accounts receivable.....	24.8
Inventories.....	(105.3)
Prepaid and other current assets.....	(5.2)
Accounts payable.....	20.3
Accrued taxes and liabilities.....	(37.5)
Other assets.....	1.0
Other liabilities.....	(1.1)
Other, net.....	(1.9)

Net cash used in operating activities.....	(141.4)

CASH FLOWS FROM INVESTING ACTIVITIES	
Investment in property, plant and equipment.....	(13.0)
Investment in acquired businesses, net of cash acquired	(0.1)
Payments on seller notes.....	(15.8)

Net cash used in investing activities.....	(28.9)

CASH FLOWS FROM FINANCING ACTIVITIES	
Net borrowings under revolving and bank lines of credit	162.2
Gross borrowings under term loans.....	-.-
Gross repayments under term loans.....	(7.6)
Cash received from the exercise of stock options.....	5.6

Net cash provided by financing activities.....	160.2
Effect of exchange rate changes on cash.....	1.0

Net decrease in cash.....	(9.1)
Cash and cash equivalents at beginning of period	18.7

Cash and cash equivalents at end of period.....	\$ 9.6
	=====

See notes to condensed, consolidated financial statements

4

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

UNAUDITED

DECEMBER 29,	DECEMBER 30,
2001	2000
----	----
(RESTATED)	

ASSETS

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

Current assets:			
Cash and cash equivalents.....	\$	9.6	\$ 22.0
Accounts receivable, less allowances of \$24.4, \$11.9 and \$23.9, respectively.....		196.0	208.9
Inventories, net		473.7	450.3
Current deferred tax asset		52.3	28.7
Prepaid and other assets		39.4	58.1
		-----	-----
Total current assets		771.0	768.0
Property, plant and equipment, net		314.6	294.1
Intangible assets, net		736.8	746.6
Other assets		77.2	84.8
		-----	-----
Total assets.....	\$	1,899.6	\$ 1,893.5
		=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt.....	\$	172.7	\$ 164.1
Accounts payable		171.3	173.0
Accrued liabilities		194.2	173.2
Accrued taxes.....		(7.9)	(21.6)
		-----	-----
Total current liabilities		530.3	488.7
Long-term debt		848.8	918.7
Other liabilities		74.2	51.8
		-----	-----
Total liabilities		1,453.3	1,459.2
		=====	=====
Commitments and contingencies			
Shareholders' equity:			
Preferred Shares, no par value, none issued		-.-	-.-
Common Shares, no par value per share, \$.01 stated value per share, issued 31.3, 31.3 and 31.3, respectively		0.3	0.3
Capital in excess of par value		399.4	390.2
Retained earnings		146.9	145.6
Treasury stock, 2.3, 3.2, and 2.6 shares, respectively, at cost		(65.5)	(80.8)
Accumulated other comprehensive loss		(34.8)	(21.0)
		-----	-----
Total shareholders' equity		446.3	434.3
		-----	-----
Total liabilities and shareholders' equity.....	\$	1,899.6	\$ 1,893.5
		=====	=====

See notes to condensed, consolidated financial statements

NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Scotts Company and its subsidiaries (collectively "Scotts" or the

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

"Company") are 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. We also are engaged in the Scotts Lawn Service(R) business which provides lawn fertilization, insect control and other related services.

ORGANIZATION AND BASIS OF PRESENTATION

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

The condensed, consolidated balance sheets as of December 29, 2001 and December 30, 2000, and the related condensed, consolidated statements of operations and of cash flows for the three month periods 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, results of operations and cash flows. 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 2001 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. Provisions for estimated returns and allowances are recorded at the time of shipment based on historical rates of return applied as a percentage of sales.

ADVERTISING AND PROMOTION

Scotts 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. All amounts paid or payable to customers or consumers in connection with the purchase of our products are recorded as a reduction of net sales.

DERIVATIVE INSTRUMENTS

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

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

practical. By policy, Scotts does not enter into such contracts for the purpose of speculation or use leveraged financial instruments. The Company's derivative 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

6

activities include establishing a 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. Scotts' 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, Scotts 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 loss will be recognized immediately in earnings.

To manage certain of its cash flow exposures, Scotts has entered into forward exchange contracts 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. Unrealized gains or losses resulting from valuing these swaps at fair value are recorded in other comprehensive income.

Scotts 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. 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

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

Certain reclassifications have been made in prior periods' financial statements to conform to fiscal 2002 classifications.

RESTATEMENT

Effective October 1, 2001, the Company elected to early adopt the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 142 is effective for fiscal years beginning after December 15, 2001. This Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets as more fully described in Note 5 herein.

SFAS 142 requires companies to complete a transitional impairment test in the year of adoption for goodwill and other intangible assets deemed to have indefinite useful lives. Impairment charges for goodwill and indefinite-lived intangible assets resulting from a transitional impairment test are to be reported as resulting from a change in accounting principle.

SFAS 142 requires intangible assets deemed to have indefinite useful lives in applying this Statement to be tested for impairment as of the beginning of the fiscal year in which this Statement is initially applied. This transitional impairment test for indefinite-lived intangible assets must be completed in the first interim period of the fiscal year of initial adoption.

For the transitional impairment test of goodwill, an entity has six months from the date it initially applies this Statement to complete the first step of the impairment test. In that test, if the carrying amount of the net assets of a reporting unit exceeds the fair value of that reporting unit, the second step of the transitional goodwill impairment test must be completed as soon as possible, but no later than the end of the year of the initial application. The second step entails a revaluation of all of the assets, except goodwill, and liabilities of a reporting unit to their current fair value. The residual value derived from this analysis is compared to the carrying value of goodwill. An impairment charge results if the residual value is less than the goodwill net book value. If an impairment charge results from completion of step two of the transitional goodwill impairment test, it is recorded as resulting from a change in accounting principle retroactive to the first interim period of the year of adoption.

The Company completed its transitional impairment testing in the second interim period of fiscal 2002. Upon completion of the impairment tests, the Company identified that indefinite-lived intangible assets, primarily tradenames, in its International businesses in Germany, France and the United Kingdom, were impaired. The value of all tradenames as of October 1, 2001 was determined using a "royalty savings" methodology incorporating current estimates of future sales and profitability. This methodology had been used to allocate the purchase price to these assets when the businesses associated with the tradenames were acquired. In addition, the Company completed its transitional impairment testing for tradenames consistent with the asset grouping guidance in Emerging Issues Task Force Issue (EITF) No. 02-07, Unit of Measure for Evaluating Impairment of Intangible Assets that Have Indefinite Lives. EITF Issue No. 02-07 was issued because questions had arisen on defining the appropriate unit of accounting when testing indefinite-lived intangible assets for impairment. At the March 2002 meeting, the EITF reached a consensus that separately recorded indefinite-lived intangible assets, whether acquired or internally developed, should be combined into a single unit of

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another.

After giving effect to the impairment of tradenames described above, there was no goodwill impairment as of October 1, 2001.

As a result of the Company identifying that indefinite-lived intangible assets (tradenames) and not goodwill, were impaired, and that such charges related to indefinite-lived intangible assets are to be recorded in the first interim period of the year of adoption of SFAS 142, the previously filed interim condensed, consolidated financial statements as of December 29, 2001 and for the three months then ended have been restated to reflect the impairment charge therein. The effect of the restatement on the Company's interim condensed consolidated financial statements as originally reported is summarized below:

7

	THREE MON DECEMBER AS REPORTED
Net loss.....	\$ (46.9)
Basic loss per common share	(1.63)
Diluted loss per common share	(1.63)
Intangible assets, net	766.6
Other assets.....	65.9
Retained earnings, end of period.....	165.4

2. MARKETING AGREEMENT

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

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 was required for the third year so that a total of \$40 million of the contribution payments were deferred. Beginning in the fifth year of the agreement, the annual payments to Monsanto increase to at least \$25 million, which include per annum interest 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

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

annual contribution payments revert to \$20 million. Regardless of whether the deferred contribution amounts are paid, all contribution payments cease entirely in 2018.

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

The express terms of the agreement permit the Company to terminate the agreement only upon Material Breach, Material Fraud or Material Willful Misconduct by Monsanto, as such terms are defined in the agreement, or upon the sale of the Roundup business by Monsanto. In such instances, the agreement permits the Company to avoid payment of any deferred contribution and related per annum charge. The Company's basis for not recording a financial liability to Monsanto for the deferred portions of the annual contribution and

8

per annum charge is based on our assessment and consultations with our legal counsel and the Company's independent accountants. In addition, the Company has obtained a legal opinion from The Bayard Firm, P.A., which concluded, subject to certain qualifications, that if the matter were litigated, a Delaware court would likely conclude that the Company is entitled to terminate the agreement at will, with appropriate prior notice, without incurring significant penalty, and avoid paying the unpaid deferred amounts. We have concluded that, should the Company elect to terminate the agreement at any balance sheet date, it will not incur significant economic consequences as a result of such action.

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

The Company's conclusion is not free from challenge and, in fact, would likely be challenged if the Company were to terminate the agreement. If it were determined that, upon termination, the Company must pay any remaining deferred contribution amounts and related per annum charges, the resulting charge to earnings could have a material impact on the Company's results of operations and financial position. At December 29, 2001, contribution payments and related per annum charges of approximately \$47.3 million had been deferred under the agreement. This amount is considered a contingent obligation and has not been reflected in the financial statements as of and for the year then ended.

Monsanto has disclosed that it is accruing the \$20 million fixed contribution fee per year beginning in the fourth quarter of Monsanto's

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

fiscal year 1998, plus interest on the deferred portion.

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

3. RESTRUCTURING AND OTHER CHARGES

2002 CHARGES

Under accounting principles generally accepted in the United States of America, certain restructuring costs related to relocation of personnel, equipment and inventory are to be expensed in the period the costs are actually incurred. During the first quarter of fiscal 2002, inventory relocation costs of approximately \$1.0 million were incurred and paid and were recorded as restructuring and other charges in cost of sales. Approximately \$0.8 million of employee relocation costs were also incurred and paid in the first quarter of fiscal 2002 and were recorded as operating expenses. These charges related to restructuring activities initiated in the third and fourth quarters of fiscal 2001.

9

2001 CHARGES

During the third and fourth quarters of fiscal 2001, the Company recorded \$75.7 million of restructuring and other charges, primarily associated with the closure or relocation of certain manufacturing and administrative facilities. The \$75.7 million in charges is segregated in the Statements of Operations in two components: (i) \$7.3 million included in cost of sales for the write-off of inventory that was rendered unusable as a result of the restructuring activities and (ii) \$68.4 million included in selling, general and administrative costs. Included in the \$68.4 million charge in selling, general and administrative costs is \$20.4 million to write-down to fair value certain property and equipment and other assets; \$5.8 million of facility exit costs; \$27.0 million of severance costs; and \$15.2

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

million in other restructuring and other costs. The severance costs related to reduction in force initiatives and facility closures and consolidations in North America and Europe covering approximately 340 administrative, production, selling and other employees. Remaining severance costs are expected to be paid in fiscal 2002 with some payments extending into 2003. All other fiscal 2001 restructuring related activities and costs are expected to be completed by the end of fiscal 2002.

The following is a rollforward of the cash portion of the restructuring and other charges accrued in the third and fourth quarters of fiscal 2001:

DESCRIPTION -----	TYPE ----	CLASSIFICATION -----	BALANCE SEPT. 30, 2001 -----	PAYMENT -----
				(\$ MILLIONS)
Severance.....	Cash	SG&A	\$ 25.1	\$ (8.0)
Facility exit costs.....	Cash	SG&A	5.2	(1.3)
Other related costs.....	Cash	SG&A	7.0	(1.2)
			-----	-----
Total cash.....			\$ 37.3	\$ (10.5)
			=====	=====

4. INVENTORIES

Inventories, net of provisions for slow moving and obsolete inventory of \$25.7 million, \$22.7 million, and \$22.3 million, respectively, consisted of:

	DECEMBER 29, 2001 ----	DECEMBER 30, 2000 ----
		(\$ MILLIONS)
Finished goods.....	\$ 389.4	\$ 359.8
Raw materials.....	84.3	90.5
	-----	-----
Total	\$ 473.7	\$ 450.3
	=====	=====

5. INTANGIBLE ASSETS, NET

Effective October 1, 2001, Scotts adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets". In accordance with this standard, goodwill and certain other intangible assets, primarily tradenames, have been determined to have indefinite-lives and accordingly are no longer subject to amortization. Indefinite-lived assets are subject to transition impairment testing upon adoption of the standard, and to annual impairment testing thereafter. The transitional impairment test has been completed, and an impairment of \$29.8 million (\$18.5 million net of tax) has been identified with respect to tradenames in our International Consumer businesses in Germany, France and the United Kingdom.

The value of all of the indefinite-lived tradenames as of October 1,

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

2001 was determined using a "royalty savings" methodology incorporating current estimates of future sales and profitability. This methodology was also used to allocate the purchase price to these assets when the businesses associated with the tradenames were acquired. The impairment testing was performed based on asset grouping guidance consistent with the consensus reached by the EITF with respect to Issue No. 02-07, "Units of Measure for Testing Impairment of Indefinite-Lived Intangible Assets".

10

The useful lives of intangible assets still subject to amortization were not revised as a result of the adoption of Statement 142.

The following table presents goodwill and intangible assets as of the end of each period presented.

	DECEMBER 29, 2001			DECEMBER 30, 2000		
	(RESTATED)					
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Amortized Intangible Assets:						
Technology.....	\$ 60.7	\$ (16.4)	\$ 44.3	\$62.4	\$ (13.2)	\$ 49.2
Customer accounts.....	23.3	(2.6)	20.7	24.9	(1.9)	23.0
Tradenames.....	11.3	(1.8)	9.5	11.3	(1.1)	10.2
Other.....	48.5	(32.5)	16.0	42.1	(31.6)	10.5
			-----			-----
Total amortized intangible assets, net.....			90.5			92.9
Unamortized Intangible Assets:						
Tradenames.....			316.9			335.0
Other.....			3.2			3.3
			-----			-----
Total intangible assets, net..			410.6			431.2
Goodwill.....			326.2			315.4
			-----			-----
Total goodwill and intangible assets, net			\$736.8			\$746.6
			=====			=====

11

The following table presents a reconciliation of recorded net income to adjusted net income and related earnings per share data as if the provision of Statement 142 relating to non-amortization of indefinite-lived intangible assets had been adopted as of the earliest period presented.

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

F
THREE M
DECE

(\$ MILLIONS, EX

Net Income	
Reported net loss.....	\$
Goodwill amortization.....	
Tradename amortization.....	
Taxes.....	
Net loss as adjusted.....	\$

Basic EPS	
Reported net loss.....	
Goodwill amortization.....	
Tradename amortization.....	
Taxes.....	
Net loss as adjusted.....	\$

Diluted EPS	
Reported net.....	
Goodwill amortization.....	
Tradename amortization.....	
Taxes.....	
Net loss as adjusted.....	\$

Estimated amortization expense is as follows:

YEAR ENDED SEPTEMBER 30, -----	\$ M
2002.....	\$
2003.....	
2004.....	
2005.....	
2006.....	

During the three months ended December 29, 2001, goodwill increased by approximately \$1.0 million and other amortizable intangible assets by \$1.5 million, primarily due to acquisitions. These additions were offset by amortization expense for the three months ended December 29, 2001 of \$1.8 million and decreases due to exchange rates, resulting in a net decrease in total intangible assets of \$4.5 million during the period.

6. LONG-TERM DEBT

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

	DECEMBER 29, 2001 ----	DECEMBER 30, 2000 ----
		(\$ MILLIONS)
Revolving loans under credit facility.....	\$ 255.4	\$ 263.4
Term loans under credit facility.....	387.8	454.9
Senior subordinated notes.....	320.9	319.6
Notes due to sellers	40.0	28.7
Foreign bank borrowings and term loans.....	8.4	6.2
Capital lease obligations and other	9.0	10.0
	-----	-----
	1,021.5	1,082.8
Less current portions.....	172.7	164.1
	-----	-----
	\$ 848.8	\$ 918.7
	=====	=====

On December 4, 1998, The Scotts Company and certain of its subsidiaries entered into a credit facility (the "Original Credit Agreement") which provided for borrowings in the aggregate principal amount of \$1.025 billion and consisted of term loan facilities in the aggregate amount of \$525 million and a revolving credit facility in the amount of \$500 million. Proceeds from borrowings under the Original Credit Agreement of approximately \$241.0 million were used to repay amounts outstanding under the then existing credit facility.

On December 5, 2000, The Scotts Company and certain of its subsidiaries entered into an Amended and Restated Credit Agreement (the "Amended Credit Agreement"), amending and restating in its entirety the Original Credit Agreement. Under the terms of the Amended Credit Agreement, the revolving credit facility was increased from \$500 million to \$575 million and the net worth covenant was amended.

In December 2001, the Amended Credit Agreement was amended to redefine earnings under the covenants, to eliminate the net worth covenant and to modify the covenants pertaining to interest coverage and leverage and amends how proceeds from future equity or subordinated debt offerings, if any, will be used towards mandatory prepayments of revolving credit facility borrowings.

The term loan facilities consist of two tranches. The Tranche A Term Loan Facility consists of three sub-tranches of French Francs, German Deutsche Marks and British Pounds Sterling in an aggregate principal amount of \$265 million which are to be repaid quarterly over a 6 1/2 year period. The Tranche B Term Loan Facility replaced the Tranche B and Tranche C facilities from the Original Credit Agreement. Those facilities were prepayable without penalty. The new Tranche B Term Loan Facility has an aggregate principal amount of \$260 million and is repayable in installments as follows: 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 revolving credit facility provides for borrowings of up to \$575 million, which are available on a revolving basis over a term of 6 1/2 years. A portion of the revolving credit facility not to exceed \$100 million is available for the issuance of letters of credit. A portion of the facility not to exceed \$258.8 million is available for

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

borrowings in optional currencies, including German Deutsche Marks, British Pounds Sterling, French Francs, Belgian Francs, Italian Lira and other specified currencies, provided that the outstanding revolving loans in optional currencies other than British Pounds Sterling does not exceed \$138 million. The outstanding principal amount of all revolving credit loans may not exceed \$150 million for at least 30 consecutive days during any calendar year. The December 2001 amendment increased the amount that may be borrowed in optional currencies to \$360 million from \$258.8 million.

Interest rates and commitment fees under the Amended Credit Agreement vary according to the Company's leverage ratios and interest rates also vary within tranches. The weighted-average interest rate on the Company's variable rate borrowings at December 29, 2001 was 7.88% and at September 30, 2001 was 7.85%. In addition, the Amended Credit Agreement requires that Scotts enter into hedge agreements to the extent

13

necessary to provide that at least 50% of the aggregate principal amount of the 8 5/8% Senior Subordinated Notes due 2009 and term loan facilities is subject to a fixed interest rate or interest rate protection for a period of not less than three years. Financial covenants include interest coverage and net leverage ratios. Other covenants include limitations on indebtedness, liens, mergers, consolidations, liquidations and dissolutions, sale of assets, leases, dividends, capital expenditures, and investments. The Scotts Company and all of its domestic subsidiaries pledged substantially all of their personal, real and intellectual property assets as collateral for the borrowings under the Amended Credit Agreement. The Scotts Company and its subsidiaries also pledged the stock in foreign subsidiaries that borrow under the Amended Credit Agreement.

Approximately \$16.9 million of financing costs associated with the revolving credit facility have been deferred as of December 29, 2001 and are being amortized over a period of approximately 7 years, beginning in fiscal year 1999.

In January 1999, The Scotts Company completed an offering of \$330 million of 8 5/8% Senior Subordinated Notes due 2009. The net proceeds from the offering, together with borrowings under the Original Credit Agreement, were used to fund the Ortho acquisition and to repurchase approximately \$97 million of outstanding 9 7/8% Senior Subordinated Notes due August 2004. The Company recorded an extraordinary loss before tax on the extinguishment of the 9 7/8% Notes of approximately \$9.3 million, including a call premium of \$7.2 million and the write-off of unamortized issuance costs and discounts of \$2.1 million. In August 1999, Scotts repurchased the remaining \$2.9 million of the 9 7/8% Notes, resulting in an extraordinary loss, net of tax, of \$0.1 million.

Scotts entered into two interest rate locks in fiscal 1998 to hedge its anticipated interest rate exposure on the 8 5/8% Notes offering. The total amount paid under the interest rate locks of \$12.9 million has been recorded as a reduction of the 8 5/8% Notes' carrying value and is being amortized over the life of the 8 5/8% Notes as interest expense. Approximately \$11.8 million of issuance costs associated with the 8 5/8% Notes were deferred and are being amortized over the term of the

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

Notes.

In conjunction with the acquisitions of Rhone-Poulenc Jardin and Sanford Scientific, notes were issued for certain portions of the total purchase price that are to be paid in annual installments over a four-year period. The present value of the remaining note payments is \$7.8 million and \$4.5 million, respectively. The Company is imputing interest on the non-interest bearing notes using an interest rate prevalent for similar instruments at the time of acquisition (approximately 9% and 8%, respectively). In conjunction with other 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 remaining note payments is \$14.4 million. The Company is imputing interest on the non-interest bearing notes using an interest rate prevalent for similar instruments at the time of the acquisitions (approximately 8%).

In conjunction with the Substral(R) acquisition, notes were issued for certain portions of the total purchase price that are to be paid in semi-annual installments over a two-year period. The present value of remaining note payments total \$13.3 million. The interest rate on these notes is 5.5%.

The foreign term loans of \$2.7 million issued on December 12, 1997, have an 8-year term and bear interest at 1% below LIBOR. The loans are denominated in British Pounds Sterling and can be redeemed, on demand, by the note holder. The foreign bank borrowings of \$5.7 million at December 29, 2001 and \$3.0 million at December 30, 2000 represent lines of credit for foreign operations and are primarily denominated in French Francs.

14

7. EARNINGS PER COMMON SHARE

Basic and diluted EPS are the same because potential common shares (stock options and warrants) outstanding for each period were anti-dilutive and thus not considered in the diluted earnings per common share calculations. The Company did not include 2.2 million and 1.4 million potentially dilutive shares in its diluted earnings per share calculation for the three months ended December 29, 2001 and December 30, 2000, respectively, because to do so would have been anti-dilutive.

	THREE MO DECEMBER 29, 2001 ---- (\$ MILLIONS, EXCEPT (RESTATED)
NET LOSS:	
Loss before cumulative effect of accounting change.....	\$ (46.9)
Cumulative effect of change in accounting for intangible assets, net of tax.	(18.5)

Net loss.....	\$ (65.4)

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

	=====
BASIC LOSS PER COMMON SHARE:	
Weighted-average common shares outstanding during the period.....	28.8
Basic loss per common share:.....	
Before cumulative effect of accounting change	\$ (1.63)
Cumulative effect of change in accounting for intangible assets, net of tax	(0.64)

After cumulative effect of accounting change	\$ (2.27)
	=====
DILUTED LOSS PER COMMON SHARE:	
Weighted-average common shares outstanding during the period	28.8
Diluted loss per common share:	
Before cumulative effect of accounting change.....	\$ (1.63)
Cumulative effect of change in accounting for intangible assets, net of tax	(0.64)

After cumulative effect of accounting change.....	\$ (2.27)
	=====

8. STATEMENT OF COMPREHENSIVE INCOME

The components of other comprehensive loss and total comprehensive loss for the three months ended December 29, 2001 and December 30, 2000 are as follows:

	THREE MONTHS DECEMBER 29, 2001 ---- (RESTATED)
Net loss.....	\$ (65.4)
Other comprehensive income (expense):	
Foreign currency translation adjustments.....	(0.5)
Change in valuation of derivative instruments.....	0.4

Comprehensive loss.....	\$ (65.5)
	=====

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.

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

In June 1997, the Ohio Environmental Protection Agency ("Ohio EPA") initiated an enforcement action against us with respect to alleged surface water violations and inadequate treatment capabilities at our Marysville facility and seeking corrective action under the federal Resource Conservation Recovery Act. The action relates to several discontinued on-site disposal areas which date back to the early operations of the Marysville facility that we had already been assessing under a voluntary action program of the state. Since initiation of the action, we have continued to meet with the Ohio Attorney General and the Ohio EPA in an effort to complete negotiations of an amicable resolution of these issues. On December 3, 2001, an agreed judicial Consent Order was submitted to the Union County Common Pleas Court and was entered by the court on January 25, 2002.

Now that the Consent Order has been entered, we are required to pay a \$275,000 fine and satisfactorily remediate the Marysville site. Although a final remediation plan has not yet been fully developed, we have already initiated remediation activities with the knowledge and oversight of the Ohio EPA. We estimate that the possible total cost that could be incurred in connection with this matter is approximately \$10 million. We have accrued for the amount we consider to be the most probable and believe the outcome will not differ materially from the amount reserved.

In addition to the dispute with the Ohio EPA, we are negotiating with the Philadelphia District of the U.S. Army Corps of Engineers regarding the possible discontinuation of our peat harvesting operations at our Lafayette, New Jersey facility. We are also addressing remediation concerns raised by the Environment Agency of the United Kingdom with respect to emissions to air and groundwater at our Bramford (Suffolk), United Kingdom facility. We have reserved for our estimates of probable losses to be incurred in connection with each of these matters as of December 29, 2001, but we do not believe that either issue is material.

Regulations and environmental concerns also exist surrounding peat extraction in the United Kingdom and the European Union. In August 2000, the nature conservation advisory body to the U.K. government notified us that three of our peat harvesting sites in the United Kingdom were under consideration as possible "Special Areas of Conservation" under European Union law. We are currently challenging this consideration. If we are unsuccessful, local planning authorities in the United Kingdom will be required to review the impact of activities likely to affect these areas and it is possible that these authorities could modify or revoke the applicable consents enabling peat extraction, in which case we believe we should be entitled to compensation and we believe we would have sufficient raw material supplies available to replace the peat produced in such areas.

The Company has determined that quantities of cement containing asbestos material at certain manufacturing facilities in the United Kingdom should be removed.

During fiscal year 2001, we spent approximately \$0.6 million in environmental capital expenditures and \$2.1 million in other environmental expenses, compared with approximately \$0.8 million in environmental capital expenditures and \$1.8 million in other environmental expenses in fiscal year 2000. We anticipate that our environmental capital expenditures and other environmental expenses for fiscal year 2002 will not differ significantly from those incurred in fiscal year 2001.

At December 29, 2001, \$6.2 million is accrued for the environmental

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

matters described herein. The significant components of the accrual are: (i) costs for site remediation of \$3.9 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 December 29, 2001 are expected to be paid in fiscal 2002 and 2003; however, payments could be made for a period thereafter.

16

We believe that the amounts accrued as of December 29, 2001 are adequate to cover known environmental exposures based on current facts and estimates of likely outcome. However, the adequacy of these accruals is based on several significant assumptions:

- (i) that we have 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; and
- (iii) that with respect to the agreed judicial Consent Order in Ohio, that potentially contaminated soil can be remediated in place rather than having to be removed and only specific stream segments will require remediation as opposed to the entire stream.

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

AGREVO ENVIRONMENTAL HEALTH, INC.

On June 3, 1999, AgrEvo Environmental Health, Inc. ("AgrEvo") (which subsequently 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 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. Scotts purchased a consumer herbicide business from AgrEvo in May 1998. AgrEvo claims in the suit that Scotts' subsequent agreement to become Monsanto's exclusive sales and marketing agent for Monsanto's consumer Roundup(R) business violated the federal antitrust laws. AgrEvo contends that Monsanto attempted to or did monopolize the market for non-selective herbicides and conspired with Scotts to eliminate the herbicide Scotts previously purchased from AgrEvo, which competed with Monsanto's Roundup(R), in order to achieve or maintain a monopoly position in that market. AgrEvo also contends that Scotts' execution of various agreements with Monsanto, including the Roundup(R) marketing agreement, as well as Scotts' subsequent actions, violated the purchase agreements between AgrEvo and Scotts.

AgrEvo is requesting unspecified damages as well as affirmative injunctive relief, and seeking to have the courts invalidate the Roundup(R) marketing agreement as violative of the federal antitrust laws. On September 20, 1999, Scotts filed an answer denying liability

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

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, Scotts moved to dismiss the antitrust allegations against it on the ground that the claims fail to state claims for which relief may be granted. On October 12, 1999, AgrEvo moved to dismiss Scotts' counterclaims. On May 5, 2000, AgrEvo amended its complaint to add a claim for fraud and to incorporate the Delaware Action described below. Thereafter, Scotts moved to dismiss the new claims, and the defendants renewed their pending motions to dismiss. On June 2, 2000, the court (i) granted Scotts' motion to dismiss the fraud claim AgrEvo had added to its complaint; (ii) granted AgrEvo's motion to dismiss Scotts' fraudulent-inducement counterclaim; (iii) denied AgrEvo's motion to dismiss Scotts' counterclaims related to breach of representations and warranties; and (iv) denied defendants' motion to dismiss the antitrust claims. On July 14, 2000, Scotts served an answer to AgrEvo's amended complaint and re-pleaded its fraud counterclaim. Under the indemnification provisions of the Roundup(R) marketing agreement, Monsanto and Scotts each have requested that the other indemnify against any losses arising from this lawsuit. On September 5, 2001, the magistrate judge, over the objections of Scotts and Monsanto, allowed AgrEvo to file another amended complaint to add claims transferred to it by its German parent, AgrEvo GmbH, and its 100 percent commonly owned affiliate, AgrEvo USA Company. Scotts and Monsanto have objected to the magistrate judge's order allowing the new claims. The district court will resolve these objections; if sustained, the newly-added claims will be stricken.

17

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. The Company believes that it will prevail in the AgrEvo matter and that any potential exposure that the Company may face cannot be reasonably estimated. Therefore, no accrual has been established related to these matters.

CENTRAL GARDEN & PET COMPANY

SCOTTS V. CENTRAL GARDEN, SOUTHERN DISTRICT OF OHIO.

On June 30, 2000, the Company filed suit against Central Garden & Pet Company in the U.S. District Court for the Southern District of Ohio to recover approximately \$17 million in outstanding accounts receivable

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

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 Monsanto). Based on these allegations, Central Garden has asserted several causes of action, including fraudulent misrepresentation, and seeks damages in excess of \$900 million. The Company believes that the preliminary discussions regarding any acquisition from Pharmacia that occurred are not actionable under any legal theory. 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 based on the allegations that Central Garden was entitled to receive a cash payment rather than a credit for the value of inventory Central Garden alleges was improperly seized by the Company. These allegations are made without regard to the fact that the amounts sought from Central Garden in litigation filed by the Company and Pharmacia are net of any such alleged credit. The Company believes all of Central Garden's counterclaims in Ohio are without merit and it intends to vigorously defend against them. The trial date for the Ohio federal action is set for March 25, 2002.

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 series of agreements, generally referred to as the four-year "Alliance Agreement" between Pharmacia and Central Garden. Scotts was, for a short time, an assignee of the Alliance Agreement, which Scotts has reassigned to Pharmacia. Pursuant to an order granting Central Garden's motion, on January 18, 2001, Pharmacia joined Scotts 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. On June 23, 2001, Scotts filed a cross-claim against Central Garden for an equitable accounting to establish the parties' relative financial positions under the Alliance Agreement at the conclusion of that agreement. On August 10, 2001, the Missouri court granted Central Garden leave to file amended counterclaims and cross-claims relating to the Alliance Agreement and seeking an unspecified amount of damages. The claims then pending in Missouri against Scotts were for declaratory relief and an accounting,

various breaches of contract, breach of an indemnification agreement, promissory estoppel, promissory fraud and unfair business practices under Section 17200 of the California Business and Professions Code. By order of the Missouri court, Central Garden's unfair business practices

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

claims were stayed pending resolution of the action pending between the parties in the United States District Court for the Northern District of California.

On October 1, 2001, Scotts moved for summary judgment on Central Garden's claims of breach of an indemnification agreement, promissory estoppel and promissory fraud. On November 15, 2001, the Missouri court held a hearing on Scotts' summary judgment motion and took the motion under submission.

On January 28, 2002, Central Garden and Pharmacia reported that they reached a settlement in the Missouri action pursuant to which Pharmacia dismissed its claims against Central Garden in the Missouri action, and Central Garden dismissed its counterclaims against Pharmacia in the Missouri action and its claims against Pharmacia in the California federal and state actions described below. In connection with its settlement with Pharmacia, Central Garden also dismissed all of its legal claims against Scotts arising under the Alliance Agreements, reserving only such equitable claims as it might have under the Alliance Agreements. We are still reviewing the effect of this settlement on Scotts, but we do not believe that it will have a material adverse impact on our on-going litigation with Central Garden.

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, the District Court granted the Company's motion to dismiss 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. Fact discovery was set to conclude in December 2001. The trial date for the California federal action is set for July 15, 2002. As described above, Central Garden and Pharmacia have settled some or all of their claims relating to this action.

CENTRAL GARDEN V. SCOTTS & PHARMACIA, CONTRA COSTA SUPERIOR COURT.

On October 31, 2000, Central Garden filed an additional 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 in the California federal action described above, 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 three actions 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. Scotts 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. As described above,

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

Central Garden and Pharmacia have settled some or all of their claims relating to this action.

Scotts believes that all of Central Garden's federal and state claims are entirely without merit and intend to vigorously defend against them. If the above actions are determined adversely to Scotts, the result could have a material adverse effect on Scotts' results of operations, financial position and cash flows. Scotts believes that it will prevail in the Central Garden matters and that any potential exposure that Scotts may face cannot be reasonably estimated. Therefore, no accrual has been established related to claims brought against Scotts by Central Garden.

19

10. SUBSEQUENT EVENTS

In January 2002, The Scotts Company completed an offering of \$70 million of 8 5/8% Senior Subordinated Notes due 2009. The net proceeds from the offering were used to pay down borrowings on our Credit Facility.

11. NEW ACCOUNTING STANDARDS

In June 2001, the FASB issued Statement of Accounting Standard No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 eliminates the requirement to amortize indefinite-lived assets such as goodwill. It also requires an annual review for impairment of indefinite-lived assets. The Company adopted the guidance in the first quarter of fiscal 2002. See Note 5 for disclosures about intangible assets and amortization expense.

12. SEGMENT INFORMATION

For fiscal 2002, the Company is divided into four reportable segments - North American Consumer, Scotts LawnService(R), Global Professional and International Consumer. The North American Consumer segment consists of the Lawns, Gardens, Growing Media, Ortho and Canadian business units. These segments differ from those used in the prior year due to segregating of the Scotts LawnService(R) business from the North American Consumer business because of a change in reporting structure whereby Scotts LawnService(R) no longer reports to senior management of the North American Consumer segment.

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 gardens centers.

The Scotts LawnService(R) segment provides lawn fertilization, insect control and other related services such as core aeration primarily to residential consumers through company-owned branches and franchises. In most company markets, Scotts LawnService(R) also offers tree and shrub fertilization, disease and insect control treatments and, in our larger branches, we also offer an exterior barrier pest control service.

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

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.

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.

20

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). Prior period amounts have been restated to conform to this basis of presentation.

(IN MILLIONS) -----	NORTH AMERICAN CONSUMER -----	SCOTTS LAWNSERVICE (R) -----	GLOBAL PROFESSIONAL -----	INTERNATIONAL CONSUMER -----
Net Sales:				
Q1 2002.....	\$ 77.8	\$ 8.7	\$ 36.3	\$ 40.2
Q1 2001.....	\$ 66.8	\$ 4.9	\$ 35.5	\$ 39.4
Income (loss) from Operations:				
Q1 2002.....	\$ (29.4)	\$ (2.1)	\$ (0.2)	\$ (6.6)
Q1 2001.....	\$ (34.1)	\$ 0.1	\$ (0.8)	\$ (8.7)
Operating Margin:				
Q1 2002.....	(37.8%)	(24.1%)	(0.6%)	(16.4%)
Q1 2001.....	(51.0%)	2.0%	(2.3%)	(22.1%)
Goodwill:				
Q1 2002.....	\$ 163.8	\$ 26.7	\$ 56.1	\$ 79.6
Q1 2001.....	\$ 171.4	\$ 9.5	\$ 57.6	\$ 76.9
Total Assets:				
Q1 2002 (restated).....	\$ 1,208.8	\$ 36.1	\$ 144.1	\$ 398.5
Q1 2001.....	\$ 1,199.2	\$ 14.1	\$ 151.8	\$ 443.7

nm Not meaningful.

Income (loss) from Operations reported for Scotts' four operating segments represents earnings before amortization, interest and taxes, since this is the measure of profitability used by management. Accordingly, Corporate operating loss for the three months ended December 29, 2001 and December 30, 2000 includes amortization of certain assets, corporate general and administrative expenses, and

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

certain "other" income/expense not allocated to the business segments and North America restructuring charges.

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

13. 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. These Notes were subsequently registered in December 2000.

The Notes are general obligations of The Scotts Company and are guaranteed by all of the existing wholly-owned, domestic subsidiaries and all future wholly-owned, significant (as defined in Regulation S-X of the Securities and Exchange Commission) domestic subsidiaries of The Scotts Company. These subsidiary guarantors jointly and severally guarantee The Scotts 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-month periods ended December 29, 2001 and December 30, 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.

21

THE SCOTTS COMPANY
STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED DECEMBER 29, 2001 (IN MILLIONS)
(UNAUDITED AND RESTATED)

	PARENT	SUBSIDIARY GUARANTORS	NON- GUARANTORS	ELIM
	-----	-----	-----	-----
Net sales.....	\$ 51.7	\$ 48.3	\$ 63.0	\$
Cost of sales	36.2	51.0	43.7	
Restructuring and other charges.....	1.0	-.-	-.-	
	-----	-----	-----	
Gross profit	14.5	(2.7)	19.3	
Gross commission earned from agency agreement	-.-	-.-	-.-	
Costs associated with agency agreement	5.9	-.-	-.-	
	-----	-----	-----	
Net commission earned from agency agreement.....	(5.9)	-.-	-.-	
Operating expenses:				
Advertising and promotion	3.4	0.7	3.0	
Selling, general and administrative.....	44.0	3.6	27.7	
Restructuring and other charges.....	0.7	0.1	-.-	

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

Amortization of goodwill and other intangibles ...	0.1	0.7	1.0
Equity income in subsidiaries.....	43.9	-.-	-.-
Intracompany allocations.....	(3.5)	1.9	1.6
Other (income) expenses, net	(0.3)	(1.0)	(0.7)
	-----	-----	-----
Income (loss) from operations	(79.7)	(8.7)	(13.3)
Interest expense	17.5	(3.6)	4.6
	-----	-----	-----
Income (loss) before income taxes.....	(97.2)	(5.1)	(17.9)
Income taxes	(20.5)	(2.0)	(6.9)
	-----	-----	-----
Income (loss) before cumulative effect of accounting change.....	(76.7)	(3.1)	(11.0)
Cumulative effect of change in accounting for intangible assets, net of tax.....	11.3	(3.8)	(26.0)
	-----	-----	-----
Net income (loss).....	\$ (65.4)	\$ (6.9)	\$ (37.0)
	=====	=====	=====

22

THE SCOTTS COMPANY
STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED DECEMBER 29, 2001 (IN MILLIONS)
(UNAUDITED AND RESTATED)

	PARENT	SUBSIDIARY GUARANTORS	NON- GUARANTORS	ELIM
	-----	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss).....	\$ (65.4)	\$ (6.9)	\$ (37.0)	\$
Adjustments to reconcile net loss to net cash used in operating activities:				
Cumulative effect of change in accounting for intangible assets.....		3.8	26.0	
Depreciation	4.2	2.4	1.3	
Amortization	1.0	0.7	1.0	
Deferred Taxes.....	(11.5)			
Equity (income) loss in non-guarantors.....	43.9	-.-	-.-	
Net change in certain components of working capital	(42.5)	(37.6)	(22.8)	
Net changes in other assets and liabilities and other adjustments.....	(3.7)	6.4	(4.7)	
	-----	-----	-----	-----
Net cash used in operating activities.....	(74.0)	(31.2)	(36.2)	
	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in property, plant and equipment.....	(6.6)	(5.2)	(1.2)	
Investment in acquired businesses, net of cash acquired.....	-.-	-.-	(0.1)	
Payments on seller notes.....	-.-	(7.4)	(8.4)	
	-----	-----	-----	-----
Net cash used in investing activities.....	(6.6)	(12.6)	(9.7)	
	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings under revolving				

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

and bank lines of credit	86.5	-.-	75.7	
Gross borrowings under term loans.....	-.-	-.-	-.-	
Gross repayments under term loans.....	(0.2)	-.-	(7.4)	
Cash received from the exercise of stock options.....	5.6	-.-	-.-	
Intracompany financing	(20.4)	44.1	(23.7)	
	-----	-----	-----	-----
Net cash provided by financing activities.....	71.5	44.1	44.6	
	-----	-----	-----	-----
Effect of exchange rate changes on cash.....	-.-	-.-	1.0	
	-----	-----	-----	-----
Net increase (decrease) in cash.....	(9.1)	0.3	(0.3)	
Cash and cash equivalents, beginning of period.....	3.4	0.6	14.7	
	-----	-----	-----	-----
Cash and cash equivalents, end of period.....	\$ (5.7)	\$ 0.9	\$ 14.4	\$
	=====	=====	=====	=====

23

THE SCOTTS COMPANY
BALANCE SHEET
AS OF DECEMBER 29, 2001 (IN MILLIONS)
(UNAUDITED AND RESTATED)

	PARENT	SUBSIDIARY GUARANTORS	NON- GUARANTORS	ELIM
	-----	-----	-----	-----
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ (5.7)	\$ 0.9	\$ 14.4	
Accounts receivable, net	44.6	62.5	88.9	
Inventories, net	304.4	81.4	87.9	
Current deferred tax asset.....	52.3	0.4	(0.4)	
Prepaid and other assets.....	22.0	2.7	14.7	
	-----	-----	-----	-----
Total current assets.....	417.6	147.9	205.5	
Property, plant and equipment, net	199.3	76.8	38.5	
Goodwill and intangible assets, net	30.2	474.1	232.5	
Other assets	63.4	2.6	11.2	
Investment in affiliates.....	890.3	-.-	-.-	
Intracompany assets	-.-	166.8	7.2	
	-----	-----	-----	-----
Total assets.....	\$ 1,600.8	\$ 868.2	\$ 494.9	\$
	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term debt.....	\$ 136.9	\$ 7.3	\$ 28.5	\$
Accounts payable.....	84.1	25.6	61.6	
Accrued liabilities.....	124.0	19.1	51.1	
Accrued taxes.....	(8.4)	2.8	(2.3)	
	-----	-----	-----	-----
Total current liabilities.....	336.6	54.8	138.9	
Long-term debt.....	540.5	5.1	303.2	
Other liabilities.....	47.1	1.8	25.3	
Intracompany liabilities.....	174.0	-.-	-.-	
	-----	-----	-----	-----
Total liabilities.....	1,098.2	61.7	467.4	

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

Commitments and contingencies			
Shareholders' equity:			
Investment from parent.....	-.-	486.6	68.1
Common shares, no par value per share, \$.01 stated value per share.....	0.3	-.-	-.-
Capital in excess of par value.....	399.4	-.-	-.-
Preferred Shares, no par value.....	-.-	-.-	-.-
Retained earnings.....	176.7	322.4	(16.6)
Treasury stock, 2.3 shares at cost.....	(65.5)	-.-	-.-
Accumulated other comprehensive expense.....	(8.3)	(2.5)	(24.0)
Total shareholders' equity.....	502.6	806.5	27.5
Total liabilities and shareholders' equity.....	\$ 1,600.8	\$ 868.2	\$ 494.9

24

THE SCOTTS COMPANY
STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED DECEMBER 30, 2000 (IN MILLIONS)
(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON- GUARANTORS	ELIM
Net sales.....	\$ 39.0	\$ 48.4	\$ 59.2	
Cost of sales.....	25.0	52.4	37.6	
Gross profit.....	14.0	(4.0)	21.6	
Gross commission earned from agency agreement.....	(0.1)	-.-	-.-	
Costs associated with agency agreement.....	4.6	-.-	-.-	
Net commission earned from agency agreement.....	(4.7)	-.-	-.-	
Operating expenses:				
Advertising and promotion.....	3.1	1.7	3.3	
Selling, general and administrative.....	39.0	11.0	27.1	
Amortization of goodwill and other intangibles....	2.9	1.6	2.3	
Equity loss in subsidiaries.....	22.6	-.-	-.-	
Intracompany allocations.....	(6.8)	4.8	2.0	
Other expense (income), net	(1.0)	0.1	(0.2)	
Income (loss) from operations.....	(50.5)	(23.2)	(12.9)	
Interest (income) expense.....	19.7	(3.8)	5.4	
Income (loss) before income taxes.....	(70.2)	(19.4)	(18.3)	
Income taxes.....	(19.0)	(7.8)	(7.3)	
Income (loss) before cumulative effect of accounting change.....	(51.2)	(11.6)	(11.0)	
Cumulative effect of change in accounting for intangible assets, net of tax.....	-.-	-.-	-.-	
Net income (loss)	\$ (51.2)	\$ (11.6)	\$ (11.0)	

THE SCOTTS COMPANY
STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED DECEMBER 30, 2000 (IN MILLIONS)
(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON- GUARANTORS	ELIMI
	-----	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income.....	\$ (51.2)	\$ (11.6)	\$ (11.0)	\$
Adjustments to reconcile net loss to net cash used in operating activities:				
Cumulative effect of change in accounting for intangible assets.....				
Depreciation.....	3.7	3.2	1.4	
Amortization.....	2.8	2.5	2.3	
Deferred taxes.....	(3.8)			
Equity (income) loss in subsidiaries.....	22.6	-.-	-.-	
Net change in certain components of working capital.....	(73.2)	(81.9)	(15.9)	
Net changes in other assets and liabilities and other adjustments.....	0.2	6.8	0.7	
Net cash used in operating activities.....	(98.9)	(81.0)	(22.5)	
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in property, plant and equipment.....	(1.5)	(9.1)	(2.3)	
Investments in acquired businesses, net of cash acquired.....	-.-	(6.9)	(1.2)	
Payments on seller notes.....	-.-	(1.1)	(7.7)	
Net cash used in investing activities.....	(1.5)	(17.1)	(11.2)	
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings under revolving and bank lines of credit.....	166.3		55.4	
Gross borrowings under term loans.....	260.0			
Gross repayments under term loans.....	(257.5)		(7.0)	
Cash received from exercise of stock options.....	3.3			
Intracompany financing.....	(82.2)	98.2	(16.0)	
Net cash provided by financing activities.....	89.9	98.2	32.4	
Effect of exchange rate changes on cash.....			0.7	
Net increase (decrease) in cash	(10.5)	0.1	(0.6)	
Cash and cash equivalents, beginning of period.....	16.0	(0.6)	17.6	
Cash and cash equivalents, end of period.....	\$ 5.5	\$ (0.5)	\$ 17.0	

THE SCOTTS COMPANY
BALANCE SHEET
AS OF DECEMBER 30, 2000 (IN MILLIONS)
(UNAUDITED)

	PARENT	SUBSIDIARY GUARANTORS	NON- GUARANTORS	ELIMIN
	-----	-----	-----	-----
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 5.5	\$ (0.5)	\$ 17.0	\$
Accounts receivable, net.....	75.4	43.7	89.8	
Inventories, net.....	286.0	82.1	82.2	
Current deferred tax asset	28.1	0.5	0.1	
Prepaid and other assets	38.0	0.9	19.2	
	-----	-----	-----	-----
Total current assets	433.0	126.7	208.3	
Property, plant and equipment, net	179.5	74.6	40.0	
Intangible assets, net	270.5	233.7	242.4	
Other assets.....	74.5		10.3	
Investment in affiliates.....	908.5	-.-	-.-	(
Intracompany assets.....	-.-	434.3	15.2	(
	-----	-----	-----	-----
Total assets.....	\$ 1,866.0	\$ 869.3	\$ 516.2	\$ (1,
	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term debt.....	\$ 147.6	\$ 1.0	\$ 15.5	\$
Accounts payable.....	88.9	25.5	58.6	
Accrued liabilities	114.2	16.4	42.6	
Accrued taxes.....	(18.7)	2.9	(5.8)	
	-----	-----	-----	-----
Total current liabilities	332.0	45.8	110.9	
Long-term debt.....	615.6	-.-	303.1	
Other liabilities	34.0	-.-	17.8	
Intracompany liabilities.....	449.5	-.-	-.-	(
	-----	-----	-----	-----
Total liabilities.....	1,431.1	45.8	431.8	(
	-----	-----	-----	-----
Commitments and contingencies				
Shareholders' equity:				
Investment from parent.....	-.-	590.6	52.5	(
Common shares, no par value per share, \$.01 stated value per share.....	0.3			
Capital in excess of par value.....	390.2			
Preferred shares, no par value.....	-.-	-.-	-.-	
Retained earnings.....	145.6	235.7	29.7	(
Treasury stock, 3.2 shares at cost.....	(80.8)	-.-	-.-	
Accumulated other comprehensive expense.....	(20.4)	(2.8)	2.2	
	-----	-----	-----	-----
Total shareholders' equity.....	434.9	823.5	84.4	(
	-----	-----	-----	-----
Total liabilities and shareholders' equity.....	\$ 1,866.0	\$ 869.3	\$ 516.2	\$ (1,
	=====	=====	=====	=====

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

OVERVIEW

Scotts is a leading manufacturer and marketer of consumer branded products for lawn and garden care and professional horticulture in the United States and Europe. Our operations are divided into four business segments: North American Consumer, Scotts LawnService(R), Global Professional and International Consumer. The North American Consumer segment includes the Lawns, Gardens, Growing Media, Ortho 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 products through the retail distribution channels. In the past three years, we have spent approximately 5% of our gross sales annually on media advertising to support and promote our products and brands. 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 marketing expenditures. We expect that we will continue to focus our marketing efforts toward the consumer and to make a significant investment in consumer marketing expenditures in the future to drive market share and sales growth.

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

Our operations are also seasonal in nature. In fiscal 2001, net sales by quarter were 8.7%, 42.1%, 35.2% and 14.0% of total year net sales, respectively. Operating losses were reported in the first and fourth quarters of fiscal 2001 while significant profits were recorded for the second and third quarters. The sales and earnings trend in fiscal 2002 is expected to follow a similar pattern.

Scotts 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. See Note 2 of Notes to Condensed, Consolidated Financial Statements (unaudited) regarding revenue and expense recognition related to the Roundup(R) marketing agreement activities.

In the third and fourth quarter of fiscal 2001, restructuring and other charges of \$75.7 million were recorded for reductions in force, facility closures, asset writedowns, etc. Costs related to the relocation of equipment, personnel and inventory were not recorded as part of the restructuring costs in 2001. These costs are being recorded as they are incurred in fiscal 2002 as required under generally accepted accounting principles.

In fiscal 2001, Scotts adopted accounting policies that required certain amounts payable to customers or consumers related to the purchase of our

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

products to be recorded as a reduction in net sales rather than as advertising and promotions expense (e.g., volume rebates). In fiscal 2002, Scotts adopted EITF-00-25 "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products". This standard requires Scotts to record certain of its cooperative advertising expenditures as reductions of net sales rather than as advertising and promotion expense. Results for fiscal 2001 have been reclassified to conform to this new presentation method for these expenses.

In addition, in fiscal 2002 we adopted Statement of Accounting Standards No. 142, "Goodwill and Other Intangible Assets". This statement eliminates the requirement to amortize indefinite-lived intangible assets and goodwill. It also requires an initial impairment test on all indefinite-lived assets as of the date of adoption of this standard and impairment tests done at least annually thereafter. As a result of adopting the standard as of October 1, 2001, amortization expense for the first quarter of fiscal 2002 was reduced by approximately \$5.4 million. The full year effect in fiscal 2002 is expected to exceed \$21.0 million.

28

We completed our impairment analysis in the second quarter of 2002, taking into account additional guidance provided by EITF 02-07, "Unit of Measure for Testing Impairment of Indefinite-Lived Intangible Assets". As a result, a pre-tax impairment charge related to the value of tradenames in our German, French and United Kingdom consumer businesses of \$29.8 million was recorded as of October 1, 2001. After taxes, the net charge was \$18.5 million. There is no goodwill impairment as of the date of adoption. See Note 5 to the Condensed, Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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, 2001 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.

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to customer programs and incentives, product returns, bad debts, inventories, intangible assets, income taxes, restructuring, environmental matters, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The estimates that we believe are most critical to our reporting of results of operation and financial position are as follows:

- We continually assess the adequacy of our reserves for uncollectible accounts due from customers. However, future

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

changes in our customers' operating performance and cash flows or in general economic conditions could have an impact on their ability to fully pay these amounts which could have a material impact on our operating results.

- Reserves for product returns are based upon historical data and current program terms and conditions with our customers. Changes in economic conditions, regulatory actions or defective products could result in actual returns being materially different than the amounts provided for in our interim or annual results of operations.
- Reserves for excess and obsolete inventory are based on a variety of factors, including product changes and improvements, changes in ingredient availability and regulatory acceptance, new product introductions and estimated future demand. The adequacy of our reserves could be materially affected by changes in the demand for our products or by regulatory or competitive actions.
- As described more fully in the notes to the unaudited, condensed, consolidated financial statements, we are involved in significant legal matters which have a high degree of uncertainty associated with them. We continually assess the likely outcomes of these matters and the adequacy of amounts, if any, provided for these matters. There can be no assurance that the ultimate outcome will not differ materially from our assessment of them. There can also be no assurance that all matters that may be brought against us or that we may bring against other parties are known to us at any point in time.

Also, as described more fully in the notes to the unaudited, condensed financial statements, we have not accrued the deferred contribution under the Roundup(R) marketing agreement with Monsanto or the interest thereon. 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. At December 29, 2001, contribution payments and related per annum charges of approximately \$47.3 million had been deferred under the agreement.

RESULTS OF OPERATIONS

The following table sets forth sales by business segment for the three months ended December 29, 2001 and December 30, 2000:

	FO
	THREE MO
	DECEMBER 29,
	2001

North American Consumer:	
Lawns	\$ 26.9

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

Gardens.....	8.6
Growing Media.....	23.1
Ortho	16.8
Canada.....	0.8
Other	1.6

Total.....	77.8
Scotts LawnService (R).....	8.7
International Consumer.....	40.2
Global Professional.....	36.3

Consolidated.....	\$ 163.0
	=====

The following table sets forth the components of income and expense as a percentage of sales for the three months ended December 29, 2001 and December 30, 2000:

	FO
	THREE MO
	DECEMBER 29,
	2001

	(RESTATED)
Net sales.....	100.0%
Cost of sales.....	80.3
Restructuring and other charges.....	0.6

Gross profit.....	19.1
Commission earned from agency agreement, net	(3.6)
Operating expenses:	
Advertising and promotion.....	4.4
Selling, general and administrative.....	46.2
Restructuring and other charges.....	0.5
Amortization of goodwill and other intangibles.....	1.1
Other expense (income), net.....	(1.2)

Loss from operations.....	(35.5)
Interest expense.....	11.3

Loss before income taxes.....	(46.8)
Income taxes.....	(18.0)

Loss before cumulative effect of accounting change.....	(28.8)
Cumulative effect of change in accounting for intangible assets, net of tax.....	(11.3)

Net loss.....	(40.1)%
	=====

THREE MONTHS ENDED DECEMBER 29, 2001 VERSUS THREE MONTHS ENDED DECEMBER 30, 2000

Net sales for the three months ended December 29, 2001 were \$163.0 million, an increase of 11.2% from net sales for the three months ended December

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

30, 2000 of \$146.6 million. As mentioned previously, net sales in the first quarter of the fiscal year represent less than 10% of the expected net sales for the full year.

North American Consumer segment net sales were \$77.8 million in the first quarter of fiscal 2002, an increase of \$11.0 million, or 16.5%, over net sales for the first quarter of fiscal 2001 of \$66.8 million. The four primary groups in North America Consumer; Lawns, Ortho, Gardens and Growing Media, saw a combined 26% increase in net sales from the first quarter of fiscal 2001 to the first quarter of fiscal 2002. Lawns lead the way with a 61% increase over the prior year reflecting strong sales of its Fall product offerings, primarily Winterizer(TM) lawn fertilizers and Turf Builder(TM) grass seed.

Net sales in the "Other" category under North America Consumer segment are sales under a supply agreement. These sales fluctuate based on the customer's needs but are not material to our results.

Scotts LawnService(R) revenues increased 77.6% from \$4.9 million in the first quarter of fiscal 2001 to \$8.7 million in the first quarter of fiscal 2002. The growth in revenue reflects the growth in the business from the acquisitions completed in late winter and early spring of fiscal 2001, new branch openings in late winter of fiscal 2001 and the growth in customers from our spring and fall 2001 marketing campaigns.

Net sales for the Global Professional segment were \$36.3 million in the first quarter of fiscal 2002, which were \$0.8 million, or 2.3%, higher than sales for the first quarter of fiscal 2001. Revenue growth was moderated as growers in the United States increased their focus on reducing inventory and delayed orders from growers in certain portions of Europe due to adverse weather conditions.

Sales for the International Consumer segment were \$40.2 million in the first quarter of fiscal 2002, which were \$0.8 million, or 2.0%, higher than sales for the first quarter of fiscal 2001. Sales growth for this segment was moderated due to our customers waiting until closer to the season to place orders for delivery in an effort to control inventory levels.

Gross profit was \$31.1 million in the first quarter of fiscal 2002, a decrease of \$0.5 million from gross profit of \$31.6 million in the first quarter of fiscal 2001. As a percentage of net sales, gross profit was 19.1% of sales in the first quarter of fiscal 2002 compared to 21.6% in the first quarter of fiscal 2001. The decline in gross profit as a percentage of sales resulted from a shift in product mix toward lower margin growing media sales and away from higher margin fertilizer sales in our Global Professional segment and certain countries in our International Consumer segment. We also experienced lower margins in Scotts LawnService(R) due to fixed operating expenses for recently acquired and newly opened branches incurred during the low revenue winter months.

The net commission earned from agency agreement in the first quarter of fiscal 2002 represents net costs of \$5.9 million compared to net costs of \$4.7 million in the first quarter of fiscal 2001. The increase in costs from the prior year is primarily due to the increase in the contribution payment due to Monsanto to \$20 million in fiscal 2002 compared to \$15 million in fiscal 2001. We do not recognize commission income under the agency agreement until minimum earnings thresholds in the agreement are achieved, which is usually in our second fiscal quarter.

Advertising and promotion expenses in the first quarter of fiscal 2002 were \$7.1 million, a decrease of \$1.0 million from advertising and promotion expenses in the first quarter of fiscal 2001 of \$8.1 million. The decrease in advertising and promotion expenses from the prior year is primarily due to lower

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

rates and more targeted programs affecting the overall expected spending in fiscal 2002.

Selling, general and administrative expenses in the first quarter of fiscal 2002 were \$75.3 million compared to \$77.1 million for the first quarter of fiscal 2001. The decrease from the first quarter of fiscal 2001 to the first quarter of

31

fiscal 2002 is due to lower costs resulting from the cost cutting and restructuring activities that occurred in fiscal 2002, offset in part by higher spending on information services and legal matters. The first quarter of fiscal 2002 includes \$1.0 million of restructuring costs in costs of goods sold related to the redeployment of inventory from closed plants and warehouses and \$0.8 million in selling, general and administrative expenses related to the relocation of personnel. Under generally accepted accounting principles in the United States, these costs have been expensed in the period incurred. Amortization of goodwill and intangibles in the first quarter of fiscal 2002 was \$1.8 million compared to \$6.8 million in the first quarter of fiscal 2001, primarily due to the adoption of the new accounting standard. See Note 5 of Notes to Condensed, Consolidated Financial Statements (Unaudited).

Other income was \$2.0 million for the first quarter of fiscal 2002, compared to other income of \$1.1 million in the first quarter of fiscal 2001. The increase is due to the gain on sale of an idled growing media plant in Florida in the first quarter of fiscal 2002.

The loss from operations for the first quarter of fiscal 2002 was \$57.8 million, compared with \$64.0 million for the first quarter of fiscal 2001. The reduction in the loss from operations from the prior year is the result of the increase in sales, lower selling expenses, and the effect of the change in accounting for amortization of indefinite-lived assets, partially offset by the decrease in gross profit as a percentage of sales, the \$1.8 million of restructuring charges and higher legal expenses in the current quarter.

Interest expense for the first quarter of fiscal 2002 was \$18.5 million, a decrease of \$2.8 million from interest expense for the first quarter of fiscal 2001 of \$21.3 million. The decrease in interest expense was primarily due to a reduction in average borrowings for the quarter as compared to the prior year, and lower interest rates on our variable rate debt.

Income tax benefit for the first quarter of fiscal 2002 was \$29.4 million, compared with an income tax benefit for the first quarter of fiscal 2001 of \$34.1 million. The decrease in the tax benefit from the prior year is the result of the lower pre-tax loss for the first quarter of fiscal 2002 for the reasons noted above and the lower estimated income tax rate for the first quarter of fiscal 2002 of 38.5% compared to 40.0% for the first quarter of fiscal 2001 due to the elimination of amortization expense for book purposes that was not deductible for tax purposes.

The Company reported a loss before cumulative effect of accounting changes of \$46.9 million for the first three months of fiscal 2002, compared to \$51.2 million for the first three months of fiscal 2001. After the charge of \$29.8 million (\$18.5 million, net of tax), for the impairment of tradenames in our German, French and United Kingdom businesses, net loss for the first three months of fiscal 2002 was \$65.4 million, or \$2.27 per share, compared to a net loss of \$51.2 million or \$1.83 per basic and dilutive shares.

LIQUIDITY AND CAPITAL RESOURCES

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

Cash used in operating activities was \$141.4 million for the three months ended December 29, 2001 compared to a use of cash of \$202.4 million for the three months ended December 30, 2000. The seasonal nature of our operations generally requires cash to fund significant increases in working capital (primarily inventory) during the first quarter. Cash used in operations was lower in the first quarter of fiscal 2002 due to lower inventory production in the period and lower income tax payments due to lower net income in the fiscal year ended September 30, 2001 compared to the fiscal year ended September 30, 2000.

Cash used in investing activities was \$28.9 million for the first three months of fiscal 2002 compared to \$29.8 million in the prior year period. Investments in acquired businesses declined due to the acquisition of Substral at the end of the first quarter of fiscal 2001 while payments on seller notes increased because of payments made on the Substral deferred purchase obligation in the first quarter of fiscal 2002.

Financing activities provided cash of \$160.2 million for the first three months of fiscal 2002 compared to providing \$220.5 million in the prior year. The decrease in cash from financing activities was primarily due to a decrease in borrowings under our revolving credit facility to fund operations due to improved cash flows from operations as noted above.

32

Total debt was \$1,021.5 million as of December 29, 2001, a decrease of \$61.3 million compared with total debt at December 30, 2000 of \$1,082.8. The decrease in debt compared to the prior year was primarily due to scheduled debt repayments on our term loans during fiscal 2001.

On January 25, 2002, we issued an additional \$70 million of 8 5/8% Senior Subordinated Notes. The net proceeds were used to paydown borrowings on our revolving credit facility.

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.

We did not repurchase any treasury shares in fiscal 2001 or in the first quarter of fiscal 2002.

Scotts does not have any off balance sheet financing except for operating leases which are disclosed in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K or any financial arrangements with any related parties. All related party transactions are with and between our subsidiaries or management. All material intercompany transactions are eliminated in our consolidated financial statements. All transactions with management are fully described and disclosed in our proxy statement. Such transactions pertain primarily to office space provided to and administrative services provided by Hagedorn Partnership, L.P. and do not exceed \$150,000 per annum.

In our opinion, cash flows from operations and capital resources will be sufficient to meet debt service and working capital needs during fiscal 2002, and thereafter for the foreseeable future. However, we cannot ensure that our business groups will generate sufficient cash flow from operations, that

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

currently anticipated cost savings and operating improvements will be realized on schedule or at all, or that future borrowings will be available under our credit facilities in amounts sufficient to pay indebtedness or fund other liquidity needs. Actual results of operations will depend on numerous factors, many of which are beyond our control. We cannot ensure that we will be able to refinance any indebtedness, including our credit facility, on commercially reasonable terms, or at all.

ENVIRONMENTAL MATTERS

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking action aimed at ensuring compliance with, such laws and regulations. We are involved in several legal actions with various governmental agencies related to environmental matters. While it is difficult to quantify the potential financial impact of actions involving environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established reserves, should not have a material adverse effect on our financial position; however, there can be no assurance that the resolution of these matters will not materially affect future quarterly or annual operating results. Additional information on environmental matters affecting us is provided in Note 9 of the Notes to Condensed, Consolidated Financial Statements (unaudited) as of and for the three months ended December 29, 2001 and in the fiscal 2001 Annual Report on Form 10-K under the "ITEM 1. BUSINESS -- ENVIRONMENTAL AND REGULATORY CONSIDERATIONS" and "ITEM 3. LEGAL PROCEEDINGS" sections.

RELATIONSHIPS WITH CUSTOMERS

We do not have long-term sales agreements or other contractual assurances as to future sales to any of our major retail customers. In addition, continued consolidation in the retail industry has resulted in an increasingly concentrated retail base in North America. To the extent such concentration continues to occur, our net sales and operating income may be increasingly sensitive to a deterioration in the financial condition of, or other adverse developments involving our relationship with, one or more customers. As a result of consolidation in the retail industry, our customers are able to exert increasing pressure on us with respect to pricing and new product introductions.

33

KMART

Kmart, one of our largest customers, filed for bankruptcy relief under Chapter 11 of the bankruptcy code on January 22, 2002. Following such filing, we recommenced shipping products to Kmart, and we intend to continue shipping products to Kmart for the foreseeable future. If Kmart does not successfully emerge from its bankruptcy reorganization, our business could be adversely affected. We believe the reserves we have recorded related to business conducted with Kmart prior to its bankruptcy filing are adequate.

EURO

Effective January 1, 2002, the "euro" has been introduced in certain Economic and Monetary Union (EMU) countries as their single currency. Uncertainty still exists as to the effects the euro currency may have on the marketplace. However, thus far there has been minimal disruption to our European

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

businesses due to the conversion to the euro. We estimate that the cost related to addressing systems and other issues related to the euro conversion were in the \$1.5-\$2.0 million range, most of which was expensed in fiscal 2001. However, there can be no assurance that the ultimate costs related to this issue will not exceed this range.

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 FINANCIAL RESULTS.

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

- OUR HISTORICAL SEASONALITY COULD IMPAIR OUR ABILITY TO PAY OBLIGATIONS AS THEY COME DUE IN ADDITION TO OUR OPERATING EXPENSES.

Because our products are used primarily in the spring and summer, our business is highly seasonal. For the past two fiscal years, approximately 75% to 77% of our net sales have occurred in the second and third fiscal quarters combined. Our working capital needs and our borrowings peak near the middle of our second fiscal quarter because we are generating fewer revenues while incurring expenditures in preparation for the spring selling season. If cash on hand

is insufficient to pay our obligations as they come due, including interest payments on our indebtedness, or our operating expenses, at a time when we are

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

unable to draw on our credit facility, this seasonality could have a material adverse affect on our ability to conduct our business. 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, growing media, herbicides and pesticides, bearing one of our brands. On occasion, customers and some current or former employees have alleged that some products failed to perform up to expectations or have caused 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.

- 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 70% of our fiscal year 2001 net sales and 37% of our outstanding accounts receivable as of September 30, 2001. Our top four customers, Home Depot, Wal*Mart, Kmart and Lowe's represented approximately 28%, 15%, 9% and 8%, respectively, of our fiscal year 2001 net sales. These customers hold significant positions in the retail lawn and garden market. The loss of, or reduction in orders from, Home Depot, Wal*Mart, Kmart, Lowe's 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.

We do not have long-term sales agreements or other contractual assurances as to future sales to any of our major retail customers. In addition, continued consolidation in the retail industry has resulted in an increasingly concentrated retail base. To the extent such concentration continues to occur, our net sales and operating income may be increasingly sensitive to deterioration in the financial condition of, or other adverse developments involving our relationship with, one or more customers. As a result of consolidation in the retail industry, our customers are able to exert increasing pressure on us with respect to pricing and new product introductions.

Kmart, one of our top customers, filed for bankruptcy relief under Chapter 11 of the bankruptcy code on January 22, 2002. Following such filing, we recommenced shipping products to Kmart, and we intend to continue shipping products to Kmart for the foreseeable future. If Kmart does not successfully emerge from its bankruptcy reorganization, our business could be adversely affected.

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

We have a significant amount of debt. Our substantial indebtedness could have important consequences for you. For example, it could:

- make it more difficult for us to satisfy our obligations;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of cash flows from operations to payments on our indebtedness, which would

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

reduce the cash flows available to fund working capital, capital expenditures, research and development efforts and other general corporate requirements;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;

35

- limit our ability to borrow additional funds; and
- expose us to risks inherent in interest rate fluctuations because some of our borrowings are at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

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 you 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 our 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.

- RESTRICTIVE COVENANTS MAY ADVERSELY AFFECT US.

Our credit facility and the indenture governing our outstanding senior subordinated notes contain restrictive covenants that require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will meet those tests. A breach of any of these covenants could result in a default under our credit facility and/or the senior subordinated notes. Upon the occurrence of an event of default under our credit facility and/or the senior subordinated notes, the lenders and/or noteholders could elect to declare all of our outstanding indebtedness to be immediately due and payable and terminate all commitments to extend further credit. We cannot be sure that our lenders or the noteholders would waive a default or that we could pay the indebtedness in full if it were accelerated.

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

If we were to commit a serious default under the marketing agreement with Monsanto for consumer Roundup(R) products, Monsanto may have the right to terminate the agreement. If Monsanto were to terminate the marketing agreement rightfully, we would not be entitled to any termination fee, and we would lose all, or a significant portion, of the significant source of earnings we believe

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

the marketing agreement provides. Monsanto may also be able to terminate the marketing agreement within a given region, including North America, without paying us a termination fee if sales to consumers in that region decline:

- Over a cumulative three fiscal year period; or
 - By more than 5% for each of two consecutive fiscal years.
- THE EXPIRATION OF PATENTS RELATING TO ROUNDUP(R) AND THE SCOTTS TURF BUILDER(R) LINE OF PRODUCTS COULD SUBSTANTIALLY INCREASE OUR COMPETITION IN THE UNITED STATES.

Glyphosate, the active ingredient in Roundup(R), was subject to a patent in the United States that expireD in September 2000. We cannot predict the success of Roundup(R) now that glyphosate is no longer patented. Substantial new competition in the United States could adversely affect us. 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 our financial results through the reduction of commissions as calculated under the Roundup(R) marketing agreement. We are aware that Spectrum Brands produced glyphosate one-gallon products for Home Depot and Lowe's to be sold under the Real-Kill(R) and No-Pest(R) brand names, respectively, in fiscal year 2001. We anticipate that Lowe's will introduce a one-quart glyphosate product, and that Ace Hardware Corporation will

36

introduce one-gallon and one-quart glyphosate products, in fiscal year 2002. It is too early to determine whether these product introductions will have a material adverse effect on our sales of Roundup(R).

Our methylene-urea product composition patent, which covered Scotts Turf Builder(R), Scotts Turf Builder(R) Plus 2(R) with Weed Control and Scotts Turf Builder(R) with Halts(R) Crabgrass Preventer, expired in July 2001. This 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.

- HAGEDORN PARTNERSHIP, L.P. BENEFICIALLY OWNS APPROXIMATELY 40% OF THE OUTSTANDING COMMON SHARES OF SCOTTS ON A FULLY DILUTED BASIS.

Hagedorn Partnership, L.P. beneficially owns approximately 40% of the outstanding common shares of Scotts on a fully diluted basis and has sufficient voting power to significantly influence the election of directors and the approval of other actions requiring the approval of our shareholders.

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

Local, state, federal and foreign laws and regulations relating to environmental matters affect us in several ways. In the United States, all products containing pesticides must be registered with the United States Environmental Protection Agency ("U.S. EPA") and, in many cases, similar state agencies before they can be sold. The inability to obtain or the cancellation of any registration could have an adverse effect on our business. The severity of the effect would depend on which products were involved, whether another product could be substituted and whether our competitors were similarly affected. We

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

attempt to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals. We may not always be able to avoid or minimize these risks.

The Food Quality Protection Act, enacted by the U.S. Congress in August 1996, establishes a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under this act, the U.S. EPA is evaluating the cumulative risks from dietary and non-dietary exposures to pesticides. The pesticides in our products, certain of which may be used on crops processed into various food products, continue to be evaluated by the U.S. EPA as part of this exposure risk assessment. It is possible that the U.S. EPA or a third party active ingredient registrant may decide that a pesticide we use in our products will be limited or made unavailable to us. For example, in June 2000, DowAgroSciences, an active ingredient registrant, voluntarily agreed to a gradual phase-out of residential uses of chlorpyrifos, an active ingredient used by us in our lawn and garden products. In December 2000, the U.S. EPA reached agreement with various parties, including manufacturers of the active ingredient diazinon, regarding a phased withdrawal of residential uses of products containing diazinon, used also by us in our lawn and garden products. We cannot predict the outcome or the severity of the effect of the U.S. EPA's continuing evaluations of active ingredients used in our products.

The use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. Regulations regarding the use of some pesticide and fertilizer products may include requirements that only certified or professional users apply the product, that the products be used only in specified locations or that certain ingredients not be used. 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 an agreed-upon condition. 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.

37

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 ("Ohio EPA") initiated an enforcement action against us with respect to alleged surface water violations and inadequate treatment capabilities at our Marysville facility and seeking corrective action under the Resource Conservation Recovery Act. We have met with the Ohio EPA and the Ohio Attorney General's office to negotiate an amicable resolution of these issues. On December 3, 2001, an agreed judicial Consent Order was submitted to the Union County Common Pleas Court and was entered by the court on January 25, 2002.

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

During fiscal year 2001, we made approximately \$0.6 million in environmental capital expenditures and \$2.1 million in other environmental expenses, compared with approximately \$0.8 million in environmental capital expenditures and \$1.8 million in other environmental expenses in fiscal year 2000. Management anticipates that environmental capital expenditures and other environmental expenses for fiscal year 2002 will not differ significantly from those incurred in fiscal year 2001. The adequacy of these anticipated future expenditures is based on our operating in substantial compliance with applicable environmental and public health laws and regulations and several significant assumptions:

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

If there is a significant change in the facts and circumstances surrounding these assumptions or if we are found not to be in substantial compliance with applicable environmental and public health laws and regulations, it could have a material impact on future environmental capital expenditures and other environmental expenses and our results of operations, financial position and cash flows.

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

In January 2002, most Economic and Monetary Union countries began operating with the euro as their single currency. Uncertainty exists as to the effects the euro currency will have on the marketplace. We are still assessing the impact the Economic and Monetary Union formation and euro implementation may have on the sales of our products and conduct of our business. We expect to take appropriate actions based on the results of our assessment. However, there can be no assurance that this issue will not have a material adverse effect on us or our future operating results and financial condition.

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

We currently operate manufacturing, sales and service facilities outside of North America, particularly in the United Kingdom, Germany and France. Our international operations have increased with the acquisitions of Levington, Miracle Garden Care Limited, Ortho and Rhone-Poulenc Jardin and with the marketing agreement for consumer Roundup(R) products. In fiscal year 2001, international sales accounted for approximately 20% 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.

In addition, our operations outside the United States are subject to the risk of new and different legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations and potentially adverse tax consequences. The costs related to our international operations could adversely affect our operations and financial results in the future.

- TERRORIST ATTACKS, SUCH AS THE ATTACKS THAT OCCURRED IN NEW YORK AND WASHINGTON, DC, ON SEPTEMBER 11, 2001, AND OTHER ACTS OF VIOLENCE OR WAR MAY AFFECT THE MARKETS ON WHICH OUR COMMON STOCK AND REGISTERED SENIOR SUBORDINATED NOTES TRADE, THE MARKETS IN WHICH WE OPERATE, OUR OPERATIONS AND OUR PROFITABILITY.

Terrorist attacks may negatively affect our operations and your investment. There can be no assurance that there will not be further terrorist attacks against the United States or U.S. businesses. These attacks or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks may make travel and the transportation of our supplies and products more difficult and more expensive and ultimately affect our sales. Also as a result of terrorism, the United States has entered into an armed conflict which could have a further impact on our sales, our supply chain and our ability to deliver product to our customers. Political and economic instability in some regions of the world may also result and could negatively impact our business. The consequences of any of these armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business or your investment. More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. They also could result in economic recession in the United States or abroad. Any of these occurrences could have a significant impact on our operating results, revenues and costs and may result in the volatility of the market price for our securities and on the future price of our securities.

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 December 29, 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.

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

On October 15, 1999, the Company began arbitration proceedings before the International Court of Arbitration of the International Chamber of Commerce ("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 the 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 was held from July 2 to 5, 2001. The Tribunal heard closing arguments regarding the Company's claim to damages and restitution in January 2002.

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. Said stay was granted by the District Court on February 18, 2000.

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 results of operations, financial position or cash flows.

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

The Annual Meeting of Shareholders of the Company (the "Annual Meeting") was held in Marysville, Ohio on January 25, 2002.

The result of the vote of the shareholders for the matter of the election of four directors, for terms of three years each, is as follows:

NOMINEE -----	VOTES VOTES FOR -----
Charles M. Berger.....	25,415,396
James Hagedorn.....	25,506,002
Karen G. Mills.....	25,456,422
John Walker, Ph.D.....	25,456,723

Each of the nominees was elected. The other directors whose terms of office continue after the Annual Meeting are Arnold W. Donald, John Kenlon, John M. Sullivan, L. Jack Van Fossen, Joseph P. Flannery, Albert E. Harris, Katherine Hagedorn Littlefield and Patrick J. Norton.

The shareholder resolution regarding genetic engineering was not adopted. The result of the vote was:

VOTES FOR -----	VOTES AGAINST -----	ABSTENTIONS -----	BROKER NON-VOTES -----
813,311	22,193,434	554,451	2,131,073

41

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) See Index to Exhibits 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.

42

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

Edgar Filing: SCOTTS COMPANY - Form 10-Q/A

/s/ CHRISTOPHER L. NAGEL

Date: February 12, 2002

Christopher L. Nagel
Principal Accounting Officer,
Senior Vice President of Finance,
Corporate North America
(Duly Authorized Officer)

43

THE SCOTTS COMPANY
ANNUAL REPORT ON FORM 10-Q
FOR THE FISCAL QUARTER ENDED DECEMBER 29, 2001

INDEX TO EXHIBITS

EXHIBIT NO. -----	DESCRIPTION -----
10(x)	Letter agreement, dated October 10, 2001, between the Registrant and M. Michel Farkouh
10(y)	Letter agreement, dated as of December 20, 2001, between the Registrant and L. Robert Stohler

* Filed herewith.

44