SCOTTS MIRACLE-GRO CO
Form 10-Q
August 07, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2008

OR

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

FOR THE TRANSITION PERIOD FROM _________ TO _________

COMMISSION FILE NUMBER: 1-13292

THE SCOTTS MIRACLE-GRO COMPANY

(Exact Name of Registrant as Specified in Its Charter)

OHIO (State or other jurisdiction of incorporation or organization)	31-1414921 (I.R.S. Employer Identification No.)
14111 SCOTTSLAWN ROAD, MARYSVILLE, OHIO (Address of principal executive offices)	43041 (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 þ No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Class	Outstanding at July 31, 2008
Common Shares, $0.01 stated value, no par value	64,619,199 common shares

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	**JUNE 30, 2007**	**JUNE 28, 2008**	**JUNE 30, 2007**
Net sales	$ 1,170.9	$ 1,098.4	$ 2,437.6	$ 2,362.9
Cost of sales	746.9	675.7	1,596.9	1,516.5
Cost of sales product registrations/recalls	0.2		22.8	
Gross profit	423.8	422.7	817.9	846.4
Operating expenses:				
Selling, general and administrative	206.9	199.2	559.6	544.4
SG&A product registrations/recalls	5.6		6.8	
Impairment, restructuring & other charges	123.3		123.3	
Other income, net	(5.4)	(3.6)	(9.6)	(7.0)
Income from operations	93.4	227.1	137.8	309.0
Costs related to refinancing				18.3
Interest expense	22.1	26.2	64.6	52.3
Income before income taxes	71.3	200.9	73.2	238.4
Income taxes	48.7	71.2	49.4	84.7
Net income	$ 22.6	$ 129.7	$ 23.8	$ 153.7
BASIC NET INCOME PER COMMON SHARE:				
Weighted-average common shares outstanding during the period	64.6	63.6	64.4	65.6
Basic net income per common share	$ 0.35	$ 2.04	$ 0.37	$ 2.34
DILUTED NET INCOME PER COMMON SHARE:				
Weighted-average common shares outstanding during the period plus dilutive potential common shares	65.3	65.4	65.5	67.5
Diluted net income per common share	$ 0.35	$ 1.98	$ 0.36	$ 2.28

Dividends declared per common share	$ 0.125	$ 0.125	$ 0.375	$ 8.375

See notes to condensed, consolidated financial statements

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

	NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007
OPERATING ACTIVITIES		
Net income	$ 23.8	$ 153.7
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Impairment of assets	123.3	
Costs related to refinancing		18.3
Stock-based compensation expense	9.2	13.6
Depreciation	40.1	39.2
Amortization	12.8	12.1
Gain on of sale of property, plant, and equipment		(0.4)
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(388.2)	(321.4)
Inventories	(64.2)	(16.1)
Prepaid and other current assets	(22.5)	(8.8)
Accounts payable	88.5	69.6
Accrued liabilities	139.0	116.0
Restructuring reserves	(0.9)	(4.6)
Other non-current items	(5.6)	(7.9)
Other, net	5.2	(1.1)
Net cash (used in) provided by operating activities	(39.5)	62.2
INVESTING ACTIVITIES		
Proceeds from the sale of property, plant and equipment	1.0	0.5
Investment in property, plant and equipment	(35.8)	(37.8)
Investment in acquired businesses, net of cash acquired		(6.5)
Net cash used in investing activities	(34.8)	(43.8)
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit	838.0	2,458.3
Repayments under revolving and bank lines of credit	(651.7)	(1,489.3)
Repayments of 6 5/8% senior subordinated notes		(209.6)
Dividends paid	(24.4)	(536.3)
Purchase of common shares and related costs		(246.7)
Financing fees		(13.0)
Payments on seller notes	(1.8)	(1.9)
Excess tax benefits from share-based payment arrangements	2.1	14.5

Cash received from the exercise of stock options	7.2	23.6
Net cash provided by (used in) financing activities	169.4	(0.4)
Effect of exchange rate changes on cash	3.0	0.8
Net increase in cash and cash equivalents	98.1	18.8
Cash and cash equivalents at beginning of period	67.9	48.1
Cash and cash equivalents at end of period	$ 166.0	$ 66.9
Supplemental cash flow information		
Interest paid, net of interest capitalized	60.7	50.9
Income taxes (refunded) paid	(1.7)	9.7

See notes to condensed, consolidated financial statements

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

	UNAUDITED		(SEE NOTE 1)
	JUNE 28, 2008	JUNE 30, 2007	SEPTEMBER 30, 2007
ASSETS			
Current assets:			
Cash and cash equivalents	$ 166.0	$ 66.9	$ 67.9
Accounts receivable, less allowances of $12.9, $12.9 and $11.4, respectively	435.0	403.3	248.3
Accounts receivable pledged	361.2	307.8	149.5
Inventories, net	474.9	432.4	405.9
Prepaid and other assets	153.3	112.7	127.7
Total current assets	1,590.4	1,323.1	999.3
Property, plant and equipment, net of accumulated depreciation of $464.3, $406.4 and $418.8, respectively	355.8	364.8	365.9
Goodwill	386.7	477.7	462.9
Intangible assets, net	377.1	418.7	418.8
Other assets	23.9	34.6	30.3
Total assets	$ 2,733.9	$ 2,618.9	$ 2,277.2
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Current portion of debt	$ 292.1	$ 237.2	$ 86.4
Accounts payable	295.1	274.1	202.5
Other current liabilities	443.8	410.0	297.7
Total current liabilities	1,031.0	921.3	586.6
Long-term debt	1,028.3	1,030.1	1,031.4
Other liabilities	174.8	161.4	179.9
Total liabilities	2,234.1	2,112.8	1,797.9
Commitments and contingencies (notes 2 and 12)			
Shareholders equity:			
Common shares and capital in excess of $.01 stated value per share, 64.6, 63.7 and 64.1 shares issued and outstanding, respectively	476.6	489.6	480.3
Retained earnings	259.9	308.1	260.5
Treasury shares, at cost: 3.6, 4.5, and 4.0 shares, respectively	(194.1)	(244.8)	(219.5)
Accumulated other comprehensive loss	(42.6)	(46.8)	(42.0)

Total shareholders equity	499.8	506.1	479.3
Total liabilities and shareholders equity	$ 2,733.9	$ 2,618.9	$ 2,277.2

See notes to condensed, consolidated financial statements

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NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Scotts Miracle-Gro Company (Scotts Miracle-Gro) and its subsidiaries (collectively, the Company) are engaged in the manufacture, marketing and sale of lawn and garden care products. The Company s major customers include home improvement centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, food and drug stores, commercial nurseries and greenhouses and specialty crop growers. The Company s products are sold primarily in North America and the European Union. The Company also operates the Scotts LawnService® business, which provides lawn, tree and shrub fertilization, insect control and other related services in the United States of America (the United States or U.S.) and Smith & Hawken®, a leading brand in the outdoor living and gardening lifestyle category.

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

ORGANIZATION AND BASIS OF PRESENTATION

The Company s condensed, consolidated financial statements are unaudited; however, in the opinion of management, these financial statements are presented in accordance with accounting principles generally accepted in the United States. The condensed, consolidated financial statements include the accounts of Scotts Miracle-Gro and all wholly-owned and majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company s consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. Interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year. The interim financial statements and notes are presented as specified by Regulation S-X of the Securities and Exchange Commission, and should be read in conjunction with the consolidated financial statements and accompanying notes in Scotts Miracle-Gro s Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

The Condensed, Consolidated Balance Sheet at September 30, 2007 has been derived from the audited Consolidated Balance Sheet at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

USE OF ESTIMATES

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

REVENUE RECOGNITION

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

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

PROMOTIONAL ALLOWANCES

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

ADVERTISING

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

Scotts LawnService® promotes its service offerings primarily through direct mail campaigns. External costs associated with these campaigns, that qualify as direct response advertising costs, are deferred and recognized as advertising expense in proportion to revenues over a period not beyond the end of the subsequent calendar year. The costs deferred at June 28, 2008, June 30, 2007 and September 30, 2007 were $6.6 million, $8.1 million and $5.7 million, respectively.

STOCK-BASED COMPENSATION AWARDS

The fair value of awards is expensed ratably over the vesting period, generally three years. The Company uses a binomial model to determine the fair value of its option grants.

GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

In accordance with SFAS 142, Goodwill and Other Intangible Assets, (SFAS 142) goodwill and intangible assets determined to have indefinite lives are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value and classified as Impairment, restructuring and other charges in the Condensed, Consolidated Statement of Operations.

During the third quarter of fiscal 2007, the Company changed the timing of its annual goodwill impairment testing from the last day of the fiscal first quarter to the first day of the fiscal fourth quarter. In addition, the Company also changed the date of its annual indefinite life intangible impairment testing to the first day of the fiscal fourth quarter. See Note 3 Impairment, restructuring and other charges for a discussion of the impairment analysis performed as of June 28, 2008.

INCOME TAXES

Income tax expense was calculated assuming an effective tax rate of 67.5% for fiscal 2008, versus 35.5% for fiscal 2007. The increase in the effective tax rate for fiscal 2008 was primarily due to the goodwill impairment charge which is not deductible for tax purposes. The effective tax rate used for interim reporting purposes is based on management s best estimate of factors impacting the effective tax rate for the fiscal year. Factors affecting the estimated rate include assumptions as to income by jurisdiction (domestic and foreign), the availability and utilization of tax credits, the existence of elements of income and expense that may not be taxable or deductible, as well as other items. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end. The estimated effective tax rate is subject to revision in later interim periods and at fiscal year end as facts and circumstances change during the course of the fiscal year.

NET INCOME PER COMMON SHARE

The following represents a reconciliation from basic net income per common share to diluted net income per common share. Basic net income per common share is computed based on the weighted-average number of common shares outstanding each period. Diluted net income per common share is computed based on the weighted-average number of common shares and dilutive potential common shares (stock options, restricted stock, performance shares and stock appreciation rights) outstanding each period. Stock options with exercise prices greater than the average market price of the underlying common shares are excluded from the computation of diluted net income per share because they are out-of-the-money. The number of out-of-the-money stock options excluded at June 28, 2008 was 2.6 million. The number of options excluded at June 30, 2007 was immaterial.

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	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007	JUNE 28, 2008	JUNE 30, 2007
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
Determination of common shares:				
Average common shares outstanding	64.6	63.6	64.4	65.6
Assumed conversion of dilutive potential common shares	0.7	1.8	1.1	1.9
Diluted average common shares outstanding	65.3	65.4	65.5	67.5
Basic net income per common share	$ 0.35	$ 2.04	$ 0.37	$ 2.34
Diluted net income per common share	$ 0.35	$ 1.98	$ 0.36	$ 2.28

See Note 4, Recapitalization for a discussion of the Company s recapitalization transactions that were consummated in the second quarter of fiscal 2007.

RECENT ACCOUNTING PRONOUNCEMENTS

FIN 48 Accounting For Uncertainty In Income Taxes An Interpretation of FASB Statement No. 109

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition. The enterprise determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

The Company, as required, adopted FIN 48 as of the beginning of its 2008 fiscal year, resulting in a $0.4 million decrease to retained earnings at October 1, 2007. See Note 11, Income Taxes, for additional information.

Statement of Financial Accounting Standards No. 157 Fair Value Measurements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company will be required to adopt SFAS 157 no later than October 1, 2008, the beginning of its 2009 fiscal year. The provisions of SFAS 157 should be applied prospectively to the beginning of the fiscal year in which SFAS 157 is initially applied, except with respect to certain financial instruments as defined by SFAS 157. The Company is in the process of evaluating the impact that the adoption of SFAS 157 will have on its financial statements.

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

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115, (SFAS 159) which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS 159 further establishes certain additional disclosure requirements. SFAS 159 is effective for the Company s financial statements for the fiscal year beginning October 1, 2008, with earlier adoption permitted. No entity is permitted to apply SFAS 159 retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. The Company is in the process of evaluating the impact that the adoption of SFAS 159 will have on its financial statements.

Statement of Financial Accounting Standards No. 141(R) Business Combinations

In December 2007, the FASB issued SFAS 141(R), Business Combinations, (SFAS 141(R)) which replaces SFAS 141. The objective of SFAS 141(R) is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including those sometimes referred to as true mergers or mergers of equals and combinations achieved without the transfer of consideration. SFAS 141(R) is effective for the Company s financial statements for the fiscal year beginning October 1, 2009. The Company is in the process of evaluating the impact that the adoption of SFAS 141(R) will have on its financial statements.

Statement of Financial Accounting Standards No. 160 Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51 (SFAS 160). The objective of SFAS 160 is to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 also changes the way the consolidated financial statements are presented, establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation, requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and expands disclosures in the consolidated financial statements that clearly identify and distinguish between the parent s ownership interest and the interest of the noncontrolling owners of a subsidiary. The provisions of SFAS 160 should be applied prospectively as of the beginning of the fiscal year in which SFAS 160 is adopted, except for the presentation and disclosure requirements, which are to be applied retrospectively for all periods presented. SFAS 160 is effective for the Company s financial statements for the fiscal year beginning October 1, 2009. The Company is in the process of evaluating the impact, if any, that the adoption of SFAS 160 will have on its financial statements.

Statement of Financial Accounting Standards No. 161 Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). The objective of SFAS 161 is to enhance the current disclosure framework in Statement 133 and improve the transparency of financial reporting for derivative instruments and hedging activities. SFAS 161 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS 161 is effective for the Company s financial statements for the fiscal year beginning October 1, 2010. The Company is in the process of evaluating the impact, if any, that the adoption of SFAS 161 will have on its financial statements.

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2. 2008 REGISTRATION AND PRODUCT RECALL MATTERS

In March 2008, the Company announced a voluntary recall of certain wild bird food products which had been treated with pest control products labeled for use on certain stored grains that can be processed for human and/or animal consumption. However, these pest control products were not labeled for use on wild bird food products. These products were treated with pest control products to avoid insect infestations, especially at retail stores, a practice which pre-dates the Company s acquisition of Gutwein & Co., Inc. in November 2005.

In April 2008, the Company, in cooperation with an investigation by the U.S. Environmental Protection Agency (USEPA), announced a recall of certain consumer lawn and garden products and a Scotts LawnService® (SLS) product. These products contain active ingredients that require USEPA registrations before they can be marketed to consumers or used by SLS. An investigation led by the USEPA, with the U.S. Department of Justice (the USDOJ), revealed that valid registrations for these products either had not been obtained or that the products were not properly labeled. To date, the evidence indicates that an employee of the Company, since terminated, apparently deliberately circumvented Company policies and USEPA regulations by failing to obtain valid registrations for the products and/or causing invalid product registration forms to be submitted to regulators. Since April, the Company has cooperated with the USEPA in conducting an internal investigation of its pesticide product registrations which has resulted in the identification of additional registration issues that have been disclosed to the USEPA. As previously disclosed, one of the issues identified by the Company resulted in the issuance by the USEPA of a stop sale order for the products in question, including Ortho® Home Defense Max® Perimeter & Indoor Insect Killer, a pest control product that is a significant component of the Ortho® portfolio of products. However, as also previously reported, shortly after issuing the stop sale order, the USEPA permitted the Company to continue to sell the Home Defense Max® products pursuant to USEPA instructions. In addition, as previously disclosed, the Company has agreed with the USEPA on a Compliance Review Plan for conducting an independent review of the Company s pesticide product registration records. This independent review is currently under way and, given the extensive nature of the review, appears likely to result in the identification of additional product registration issues.

Currently, the Company expects costs related to the recalls and known registration issues to range from $55 to $60 million, exclusive of potential fines and/or penalties. No reserves have been established with respect to any potential civil or criminal fines or penalties at the state and/or federal level related to the product registration issues as the scope and magnitude of such amounts are not currently estimable. However, it is possible that such fines and/or penalties could be material and have an adverse effect on the Company s financial condition and results of operations.

For the three and nine month periods ended June 28, 2008, the Company reversed sales associated with estimated returns of the recalled products, recorded an impairment estimate for affected inventory, and accrued other registration and recall-related costs. The following tables summarize the impact of the product registration and recall matters on the results of operations and accrued liabilities and inventory reserves:

	THREE MONTHS ENDED JUNE 28, 2008	NINE MONTHS ENDED JUNE 28, 2008
Net sales	$ (5.2)	$ (24.2)
Cost of sales	(0.8)	(12.8)
Cost of sales product registrations/recalls	0.2	22.8
Gross Profit	(4.6)	(34.2)
SG&A product registrations/recalls	5.6	6.8
Income from operations	(10.2)	(41.0)
Income tax benefit	(4.0)	(15.1)

Net income			$ (6.2)	$ (25.9)

	RESERVES AT MARCH 29, 2008	RESERVES USED	ADDITIONAL COSTS AND CHANGES IN ESTIMATES	RESERVES AT JUNE 28, 2008
Sales returns product recalls	$ 19.0	$ (17.7)	$ 5.2	$ 6.5
Cost of sales returns product recalls	(12.0)	9.4	(0.8)	(3.4)
Impairment of inventory	14.1	(7.4)	0.1	6.8
Other incremental costs of sales	8.5	(3.4)	0.1	5.2
Other general and administrative costs	1.2	(0.7)	5.6	6.1
Accrued liabilities and inventory reserves	$ 30.8	$ (19.8)	$ 10.2	$ 21.2

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The comprehensive investigation into the Company s product registrations continues, and this investigation may result in future state or federal action with respect to additional product registration issues. Until such investigation is complete, the Company cannot fully quantify the extent of additional issues or their consequences. Scotts Miracle-Gro is committed to providing its customers and consumers with products of superior quality and value to enhance their lawns, gardens and overall outdoor living environments. The Company believes consumers have come to trust our brands based on the superior quality and value they deliver, and that trust is highly valued. The Company is also committed to conducting business with the highest degree of ethical standards and in adherence to the law. The Company is disappointed in these recent occurrences and is working diligently to address the issues, including, as described above, retaining independent firms to conduct examinations of existing product registrations and to recommend enhancements to the Company s product registration compliance and control processes. However, these events may nevertheless have a negative impact on future demand for the Company s products.

3. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES

In accordance with SFAS 142, goodwill and indefinite-lived intangible assets are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate impairment may have occurred. The Company assesses goodwill for impairment by comparing the carrying value of its reporting units to their respective fair values and reviewing the Company s market value of invested capital. The Company s reporting units are at or are one level below its reportable segments. Management engages an independent valuation firm to assist in its impairment assessment reviews. The Company determines the fair value of its reporting units primarily utilizing discounted cash flows and incorporates assumptions it believes marketplace participants would utilize. The Company also uses comparative market multiples and other factors to corroborate the discounted cash flow results used. The value of all indefinite-lived tradenames was determined using a royalty savings methodology similar to that employed when the associated businesses were acquired but using updated estimates of sales, cash flow and profitability.

As discussed in Note 1, during the third quarter of fiscal 2007, the Company changed the timing of its annual goodwill impairment testing from the last day of the fiscal first quarter to the first day of the fiscal fourth quarter. As such, annual impairment testing for fiscal 2007 was performed as of December 30, 2006 and again as of July 1, 2007.

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), the Company also evaluates the recoverability of its other long-lived assets, including amortizing intangible assets, if circumstances indicate impairment may have occurred. This analysis is performed by comparing the carrying values of these assets to their expected future undiscounted cash flows. If such analysis indicates that the carrying value of the respective asset is not recoverable, the carrying value of asset is reduced to its fair value.

FISCAL 2008

As a result of a significant decline in the market value of the Company s common stock during the latter half of the third fiscal quarter ended June 28, 2008, the Company s market value of invested capital was approximately 60% of the similar impairment metric used in our fourth quarter fiscal 2007 annual impairment testing. Management determined this was an indicator of possible goodwill impairment and, therefore, interim impairment testing was performed as of June 28, 2008.

The Company s third quarter fiscal 2008 interim impairment review resulted in a non-cash charge of $123.3 million, $101.9 million net of taxes, to reflect the decline in the fair value of certain goodwill and other assets as evidenced by the recent decline in the Company s common stock. Of this impairment charge, $80.8 million was for goodwill, $23.2 million related to indefinite-lived tradenames, $18.3 million was for SFAS 144 long-lived assets and $1.0 million related to inventory. On a reportable segment basis, $71.8 million of the impairment was in Global Consumer, $31.4 million of the charge was in Global Professional, with the remaining $20.1 million of impairment in Corporate & Other. The goodwill portion of this impairment charge is an estimate, as management is in the process of performing the required SFAS 142 Step 2 goodwill impairment evaluation for the associated reporting units as of the date of this report. The Company anticipates finalizing this SFAS 142 Step 2 goodwill impairment evaluation in the fourth quarter of fiscal 2008 and, if necessary, will update the goodwill impairment charge during that reporting period.

The Company recorded no restructuring and other charges in the three and nine month periods ended June 28, 2008.

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FISCAL 2007

The Company recorded no goodwill or indefinite-lived intangible asset impairment charges or restructuring and other charges in the three and nine month periods ended June 30, 2007.

The following table summarizes the Company s reserves and reserve activity for accrued restructuring and other charges, which are included in Other current liabilities in the Condensed, Consolidated Balance Sheets:

	NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007
	(IN MILLIONS)	
Amounts reserved for restructuring and other charges at beginning of fiscal year	$ 2.5	$ 6.4
Payments and other	(0.9)	(4.6)
Amounts reserved for restructuring and other charges at end of period	$ 1.6	$ 1.8

4. RECAPITALIZATION

On December 12, 2006, Scotts Miracle-Gro announced a recapitalization plan to return $750 million to its shareholders. This plan expanded and accelerated the previously announced five-year $500 million share repurchase program (which was canceled) under which Scotts Miracle-Gro repurchased 2.0 million of its common shares for $87.9 million during fiscal 2006. Pursuant to the recapitalization plan, on February 14, 2007, Scotts Miracle-Gro completed a modified Dutch auction tender offer, resulting in the repurchase of 4.5 million of its common shares for an aggregate purchase price of $245.5 million ($54.50 per share). On February 16, 2007, the Board of Directors of Scotts Miracle-Gro declared a special one-time cash dividend of $8.00 per share ($508 million in the aggregate), which was paid on March 5, 2007, to shareholders of record on February 26, 2007.

In order to fund these transactions, Scotts Miracle-Gro and certain of its subsidiaries entered into credit facilities aggregating $2.15 billion and terminated its prior credit facility. As part of this debt restructuring, Scotts Miracle-Gro also conducted a cash tender offer to retire its outstanding 6 5/8% senior subordinated notes in an aggregate principal amount of $200 million. Reference should be made to Note 7, Debt for further information as to the credit facilities and the repayment and termination of the prior credit facility and the 6 5/8% senior subordinated notes.

The payment of the special one-time cash dividend required the Company to adjust the number of common shares subject to stock options and stock appreciation rights outstanding under the Company s share-based award programs, as well as the price at which the awards may be exercised. Reference should be made to Note 10, Stock-Based Compensation Awards for further information.

The Company s interest expense will be significantly higher subsequent to the recapitalization as a result of the borrowings incurred to fund the cash returned to shareholders. The following pro forma financial information has been compiled as if the Company had completed the recapitalization transactions as of October 1, 2006 for fiscal 2007. Borrowing rates in effect as of March 30, 2007 were used to compute pro forma interest expense. As the recapitalization involved a share repurchase, pro forma diluted common shares are also provided. No pro forma adjustments are necessary for the three and nine month periods ended June 28, 2008 and the three month period ended June 30, 2007 as the recapitalization transactions were consummated prior to the start of those periods.

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	PRO FORMA FINANCIAL INFORMATION NINE MONTHS ENDED JUNE 30, 2007 (IN MILLIONS EXCEPT PER SHARE DATA)	
Income before income taxes, as reported	$	238.4
Add back reported interest expense		52.3
Add back costs related to refinancing		18.3
Deduct pro forma interest expense		(75.9)
Pro forma income before income taxes		233.1
Pro forma income taxes		82.8
Pro forma net income	$	150.3
Pro forma basic net income per common share	$	2.38
Pro forma diluted net income per common share	$	2.31
Reported interest expense	$	52.3
Incremental interest on recapitalization borrowings		21.8
Credit facilities interest rate differential		1.5
Incremental amortization of credit facilities fees		0.3
Pro forma interest expense	$	75.9
Pro forma effective tax rate		35.5%

	PRO FORMA SHARES NINE MONTHS ENDED JUNE 30, 2007 (IN MILLIONS)
Weighted-average common shares outstanding during the period	65.6
Incremental full period impact of repurchased common shares	(2.4)
Pro forma basic common shares	63.2
	67.5

Weighted-average common shares outstanding during the period plus dilutive potential common shares	
Incremental full period impact of repurchased common shares	(2.4)
Impact on dilutive potential common shares	0.1
Pro forma diluted common shares	65.2

5. DETAIL OF INVENTORIES, NET

Inventories, net of provisions for slow moving and obsolete inventory of $28.3 million, $15.8 million, and $15.6 million, as of June 28, 2008, June 30, 2007 and September 30, 2007, respectively, consisted of:

	JUNE 28, 2008	**JUNE 30, 2007**	**SEPTEMBER 30, 2007**
		(IN MILLIONS)	
Finished goods	$ 316.1	$ 303.6	$ 289.9
Work-in-process	29.5	24.8	28.3
Raw materials	129.3	104.0	87.7
	$ 474.9	$ 432.4	$ 405.9

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6. MARKETING AGREEMENT

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

In consideration for the rights granted to the Company under the Marketing Agreement for North America, the Company was required to pay a marketing fee of $32 million to Monsanto. The Company has deferred this amount on the basis that the payment will provide a future benefit through commissions that will be earned under the Marketing Agreement. Based on management s current assessment of the likely term of the Marketing Agreement, the useful life over which the marketing fee is being amortized is 20 years.

Under the terms of the Marketing Agreement, the Company performs certain functions, primarily manufacturing conversion, selling and marketing support, on behalf of Monsanto in the conduct of the consumer Roundup® business. The actual costs incurred for these activities are charged to and reimbursed by Monsanto, for which the Company recognizes no gross profit or net income. The Company records costs incurred under the Marketing Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in Cost of sales and the reimbursement of these costs in Net sales, with no effect on gross profit or net income. The related net sales and cost of sales were $15.7 million and $12.0 million for the three-month periods and $45.8 million and $32.1 million for the nine-month periods ended June 28, 2008 and June 30, 2007, respectively.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007	JUNE 28, 2008	JUNE 30, 2007
	(IN MILLIONS)		(IN MILLIONS)	
Gross commission	$ 33.6	$ 29.0	$ 50.7	$ 50.4
Contribution expenses	(5.0)	(5.0)	(15.0)	(15.0)
Amortization of marketing fee	(0.2)	(0.2)	(0.6)	(0.6)
Net commission income	28.4	23.8	35.1	34.8
Reimbursements associated with Marketing Agreement	15.7	12.0	45.8	32.1
Total net sales associated with Marketing Agreement	$ 44.1	$ 35.8	$ 80.9	$ 66.9

The Marketing Agreement has no definite term except as it relates to the European Union (EU) countries. With respect to the EU countries, the term of the Marketing Agreement had previously been extended through September 30, 2008, with the option of both parties to renew for two additional successive terms ending on September 30, 2015 and 2018, with a separate determination being made by the parties at least six months prior to the expiration of each such term as to whether to commence a subsequent renewal term. On March 28, 2008, the parties agreed to extend the EU term of the Marketing Agreement through September 30, 2011 plus up to two additional automatic renewal periods of two years each.

The Marketing Agreement provides Monsanto with the right to terminate the Marketing Agreement for an event of default (as defined in the Marketing Agreement) by the Company or a change in control of Monsanto or the sale of the consumer Roundup® business. The Marketing Agreement provides the Company with the right to terminate the Marketing Agreement in certain circumstances including an event of default by Monsanto or the sale of the consumer Roundup® business. Unless Monsanto terminates the Marketing Agreement for an event of default by the Company, Monsanto is required to pay a termination fee to the Company that varies by program year. If Monsanto terminates the Marketing Agreement upon a change of control of Monsanto or the sale of the consumer Roundup® business prior to September 30, 2008, the Company will be entitled to a termination fee of $100 million. If the Company terminates the Marketing Agreement upon an uncured material breach, material fraud or material willful misconduct by Monsanto, it is entitled to receive a termination fee of $100 million if the termination occurs prior to September 30, 2008. For periods subsequent to September 30, 2008, the termination fee is calculated as a percentage of the value of the RoundUp® business exceeding a certain threshold, but in no event less than $16 million. If Monsanto were to terminate the Marketing Agreement for cause, the Company would not be entitled to any termination fee, and it would lose all, or a significant portion, of the significant source of earnings and overhead expense absorption the Marketing Agreement provides. Monsanto may also be able to terminate the Marketing Agreement within a given region, including North America, without paying a termination fee if unit volume sales to consumers in that region decline: (1) over a cumulative three-fiscal-year period; or (2) by more than 5% for each of two consecutive years.

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7. DEBT

The components of long-term debt as of June 28, 2008, June 30, 2007, and September 30, 2007 are as follows:

	JUNE 28, 2008	JUNE 30, 2007	SEPTEMBER 30, 2007
		(IN MILLIONS)	
Credit Facilities:			
Revolving loans	$ 483.4	$ 455.2	$ 469.2
Term loans	554.4	560.0	558.6
Master Accounts Receivable Purchase Agreement	260.2	222.6	64.4
Notes due to sellers	13.5	15.2	15.1
Foreign bank borrowings and term loans	0.2	5.9	
Other	8.7	8.4	10.5
	1,320.4	1,267.3	1,117.8
Less current portions	292.1	237.2	86.4
	$ 1,028.3	$ 1,030.1	$ 1,031.4

In connection with the recapitalization transactions discussed in Note 4, Recapitalization, Scotts Miracle-Gro and certain of its subsidiaries entered into the following loan facilities totaling up to $2.15 billion in the aggregate: (a) a senior secured five-year term loan in the principal amount of $560 million and (b) a senior secured five-year revolving loan facility in the aggregate principal amount of up to $1.59 billion. Under the terms of the loan facilities, the Company may request an additional $200 million in revolving credit and/or term credit commitments, subject to approval from the lenders. Borrowings may be made in various currencies including U.S. dollars, Euros, British pounds sterling, Australian dollars and Canadian dollars. The $2.15 billion senior secured credit facilities replaced the Company s former $1.05 billion senior credit facility. The Company also retired all of the 6 5/8% senior subordinated notes under the terms of a tender offer, at an aggregate cost of $209.6 million including an early redemption premium. Amortization payments on the term loan portion of the credit facilities began on September 30, 2007 and will continue quarterly through 2012. As of June 28, 2008, the cumulative total amortization payments on the term loan were $5.6 million, reducing the balance of the Company s term loans and effectively reducing the size of the credit facilities. As of June 28, 2008, there was $1,081.6 million of availability under the revolving loan facility. Under the revolving loan facility, the Company has the ability to issue letter of credit commitments up to $65.0 million. At June 28, 2008, the Company had letters of credit in the amount of $25.0 million outstanding.

At June 28, 2008, the Company had outstanding interest rate swaps with major financial institutions that effectively converted a portion of variable-rate debt denominated in the Euro, British pound and U.S. dollar to a fixed rate. The swap agreements have a total U.S. dollar equivalent notional amount of $724.9 million at June 28, 2008. The term, expiration date and rates of these swaps are as follows:

CURRENCY	NOTIONAL AMOUNT IN USD (IN MILLIONS)	TERM	EXPIRATION DATE	FIXED RATE
British pound	$ 57.4	3 years	11/17/2008	4.76%
Euro	67.5	3 years	11/17/2008	2.98%
U.S. dollar	200.0	2 years	3/31/2009	4.90%
U.S. dollar	200.0	3 years	3/31/2010	4.87%

U.S. dollar	200.0	5 years	2/14/2012	5.20%

Master Accounts Receivable Purchase Agreement

On April 11, 2007, the Company entered into a one-year Master Accounts Receivable Purchase Agreement (the Original MARP Agreement). On April 9, 2008, the Company terminated the Original MARP Agreement and entered into a new Master Accounts Receivable Purchase Agreement (the New MARP Agreement) with a termination date of April 8, 2009, or such later date as may be extended by mutual agreement of the Company and its lenders. The terms of the New MARP Agreement are substantially the same as the Original MARP Agreement. The New MARP Agreement provides for the discounted sale, on a revolving basis, of accounts receivable generated by specified account debtors, with seasonally adjusted monthly aggregate limits ranging from $10 million to $300 million. The New MARP Agreement also provides for specified account debtor sublimit amounts, which provide limits on the amount of receivables owed by individual account debtors that can be sold to the banks.

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The caption Accounts receivable pledged on the accompanying Condensed, Consolidated Balance Sheets in the amounts of $361.2 million, 307.8 million and $149.5 million as of June 28, 2008, June 30, 2007 and September 30, 2007, respectively, represents the pool of receivables that have been designated as sold and serve as collateral for short-term debt in the amount of $260.2 million, $222.6 million and $64.4 million, as of those dates, respectively. The Company was in compliance with the terms of all borrowing agreements at June 28, 2008.

8. COMPREHENSIVE INCOME

The components of other comprehensive income and total comprehensive income for the three and nine month periods ended June 28, 2008 and June 30, 2007, are as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007	JUNE 28, 2008	JUNE 30, 2007
	(IN MILLIONS)		(IN MILLIONS)	
Net income	$ 22.6	$ 129.7	$ 23.8	$ 153.7
Other comprehensive income:				
Change in valuation of derivative instruments	11.3	3.9	(6.1)	3.9
Foreign currency translation adjustments	1.3	0.1	5.5	0.9
Comprehensive income	$ 35.2	$ 133.7	$ 23.2	$ 158.5

9. RETIREMENT AND RETIREE MEDICAL PLANS COST INFORMATION

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007	JUNE 28, 2008	JUNE 30, 2007
	(IN MILLIONS)		(IN MILLIONS)	
Frozen defined benefit plans	$ 0.1	$ 0.4	$ 0.4	$ 1.3
International benefit plans	1.3	1.7	3.8	5.5
Retiree medical plan	0.6	0.5	1.8	1.8

10. STOCK-BASED COMPENSATION AWARDS

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

	NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007
Key employees		
Options	889,700	821,200
Options and SARs due to recapitalization		872,147
Performance shares	40,000	
Restricted stock	154,900	193,550
Board of Directors		
Deferred stock units, Options	30,134	127,000
Options due to recapitalization		202,649

Total share-based awards	1,114,734	2,216,546
Aggregate fair value at grant dates (in millions)	$ 18.7	$ 22.3

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

	THREE MONTHS ENDED		**NINE MONTHS ENDED**	
	JUNE 28, 2008	**JUNE 30, 2007**	**JUNE 28, 2008**	**JUNE 30, 2007**
Share-based compensation	$ 2.0	$ 3.6	$ 9.2	$ 13.6
Tax benefit recognized	0.8	1.3	3.5	4.8

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11. INCOME TAXES

The Company adopted FIN 48 as of October 1, 2007, the beginning of its 2008 fiscal year. After adoption, the Company continues to classify interest and penalties on tax uncertainties as a component of the provision for income taxes. As of the date of adoption, the total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only timing benefits, was $10.0 million (compared to $9.6 million as of September 30, 2007, prior to adoption). Of the $10.0 million accrued at the date of adoption, the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was $9.5 million, which included accrued interest and penalties of $1.4 million and $0.8 million, respectively. As a result of adoption, the Company recognized a $0.4 million decrease to retained earnings at October 1, 2007.

As of June 28, 2008, the total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only timing benefits, was $9.1 million. The amount of these unrecognized tax benefits that, if recognized, would impact the effective tax rate was $8.3 million, including accrued interest and penalties of $1.5 million and $0.7 million, respectively. The reduction in unrecognized tax benefits from the date of adoption was mainly due to closing of certain statutes of limitations and a tax settlement with the State of New Jersey that was finalized in the fiscal quarter ended June 28, 2008.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state, local, and foreign jurisdictions. With few exceptions, the Company is no longer subject to examinations by these tax authorities for fiscal year 2004 and prior. The Company is under examination by certain foreign and U.S. state and local tax authorities. In addition, certain other tax deficiency issues and refund claims for previous years remain unresolved. The foreign audits cover income tax returns from fiscal years 2005 through 2007. There are U.S. state and local audits covering tax years 2002 through 2006 in process. The Canada Revenue Agency completed an examination of income tax returns for fiscal years 2002 and 2003 during the quarter resulting in no material modifications or adjustments to unrecognized tax benefits.

The Company anticipates that few of the open audits will be resolved during fiscal 2008. However, the Company does believe that some individual audits or issues may be agreed to within the next 12 months. The Company is unable to make a reasonably reliable estimate of when the cash settlements with taxing authorities may occur. Although audit outcomes and the timing of audit payments are subject to significant uncertainty, the Company does not anticipate that the resolution of these matters will result in a material change to its consolidated financial condition or results of operations.

12. CONTINGENCIES

Management continually evaluates the Company s contingencies, including various lawsuits and claims which arise in the normal course of business, product and general liabilities, worker s compensation, property losses and other fiduciary liabilities for which the Company is self-insured or retains a high exposure limit. Self-insurance reserves are established based on actuarial loss estimates for specific individual claims plus actuarial estimated amounts for incurred but not reported claims and adverse development factors for existing claims. Legal costs incurred in connection with the resolution of claims, lawsuits and other contingencies generally are expensed as incurred. In the opinion of management, its assessment of contingencies is reasonable and related reserves, in the aggregate, are adequate; however, there can be no assurance that future quarterly or annual operating results will not be materially affected by final resolution of these matters. The following are the more significant of the Company s identified contingencies.

Product Registrations

On April 10, 2008, the Company learned of a criminal investigation into certain of its product registrations which is being led by the U.S. Environmental Protection Agency (USEPA) and the U.S. Department of Justice (USDOJ), with assistance from the Ohio Department of Agriculture. To date, the evidence indicates that one of the Company s employees, since terminated, apparently deliberately circumvented Company policies and USEPA regulations by failing to obtain valid registrations for products and/or causing invalid product registration forms to be submitted to regulators. The sale of products which lack valid registrations is a violation of federal and state law. The Company has engaged outside firms to conduct a forensic investigation into its existing product registrations and to review its product registration compliance processes and procedures. The Company s investigation has resulted in the identification of additional registration issues that have been disclosed to the USEPA (see Note 2, 2008 Registration And Product Recall Matters). In addition, as previously disclosed, the Company has agreed with the USEPA on a Compliance Review Plan for conducting an independent review of the Company s pesticide product registration records. This independent review is currently under way and, given the extensive nature of the review, appears likely to result in the identification of additional product registration issues. Currently, the Company expects costs related to the recalls and known registration issues to range from $55 to $60 million, exclusive of potential fines and/or penalties.

While disappointed that the actions of one employee could cause unregistered or not properly labeled products to be marketed and sold, the Company takes full responsibility for ensuring that each of its products meets all federal and state regulations, and is safe for consumer use. The ongoing comprehensive investigation into all of the Company s product registrations may result in future state or federal action with respect to additional product registration issues. Until such investigation is complete, the Company cannot fully quantify the extent of additional issues. Furthermore, the Company may be subject to civil or criminal fines or penalties at the state and/or federal level as a result of these product registration issues. At this time, management cannot reasonably determine the scope or magnitude of possible liabilities that could result from known or potential additional product registration issues, and no reserves for these claims have been established as of June 28, 2008. However, it is possible that such fines and/or penalties could be material and have an adverse effect on the Company s financial condition and results of operations.

Environmental Matters

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

At June 28, 2008, $3.5 million was accrued for environmental matters. The amounts accrued are believed to be adequate to cover known environmental exposures based on current facts and estimates of likely outcomes. However, if facts and circumstances change significantly they could result in a material adverse effect on the Company s results of operations, financial position or cash flows.

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

On November 5, 2004, U.S. Horticultural Supply, Inc. (Geiger) filed suit against the Company in the U.S. District Court for the Eastern District of Pennsylvania. This complaint alleges that the Company conspired with another distributor, Griffin Greenhouse Supplies, Inc., to restrain trade in the horticultural products market, in violation of Section 1 of the Sherman Antitrust Act. On June 2, 2006, the Court denied the Company s motion to dismiss the complaint. Fact discovery and expert discovery are closed. Geiger s damages expert quantifies Geiger s alleged damages at approximately $3.3 million, which could be trebled under antitrust laws. Geiger also seeks recovery of attorneys fees and costs. The Company has moved for summary judgment requesting dismissal of Geiger s claims. The Company continues to vigorously defend against Geiger s claims. The Company believes that Geiger s claims are without merit and that the likelihood of an unfavorable outcome is remote. Therefore, no accrual has been established related to this matter. However, the Company cannot predict the ultimate outcome with certainty. If the above action is determined adversely to the Company, the result could have a material adverse effect on the Company s results of operations, financial position and cash flows. The Company had previously sued and obtained a judgment against Geiger on April 25, 2005, based on Geiger s default on obligations to the Company, and the Company is proceeding to collect that judgment.

Other

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

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

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

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

13. ACQUISITIONS

There were no acquisitions in the first nine months of fiscal 2008. In the first nine months of fiscal 2007, the Company continued to invest in the growth of the Scotts LawnService® business, investing $8.3 million in acquisitions, comprised of $6.5 million paid in cash and $1.8 million of notes issued and liabilities assumed.

14. SEGMENT INFORMATION

For fiscal 2008, the Company is divided into the following segments Global Consumer, Global Professional, Scotts LawnService®, and Corporate & Other. These segments differ from those used in the prior year due to the realignment of the North America and International segments into the Global Consumer and Global Professional segments. The prior year amounts have been reclassified to conform with the fiscal 2008 segments. This division of reportable segments is consistent with how the segments report to and are managed by senior management of the Company.

The Global Consumer segment consists of the North American Consumer and International Consumer business groups. The business groups comprising this segment manufacture, market and sell dry, granular slow-release lawn fertilizers, combination lawn fertilizer and control products, grass seed, spreaders, water-soluble, liquid and continuous release garden and indoor plant foods, plant care products, potting, garden and lawn soils, mulches and other growing media products, and pesticide products. Products are marketed to mass merchandisers, home improvement centers, large hardware chains, warehouse clubs, distributors, garden centers, and grocers in the United States, Canada, and Europe.

The Global Professional segment is focused on a full line of horticultural products including controlled-release and water-soluble fertilizers and plant protection products, grass seeds, spreaders, and customer application services. Products are sold to commercial nurseries and greenhouses, and specialty crop growers primarily in North America and Europe. Our consumer businesses in Australia and Latin America are also part of the Global Professional segment.

The Scotts LawnService® segment provides lawn fertilization, disease and insect control and other related services such as core aeration and tree and shrub fertilization primarily to residential consumers through company-owned branches and franchises in the United States. In our larger branches, an exterior barrier pest control service is also offered.

The Corporate & Other segment consists of the Smith & Hawken® business and corporate general and administrative expenses.

The following table presents segment financial information in accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information. Pursuant to SFAS 131, the presentation of the segment financial information is consistent with the basis used by management (i.e., certain costs not allocated to business segments for internal management reporting purposes are not allocated for purposes of this presentation).

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007	JUNE 28, 2008	JUNE 30, 2007
	(IN MILLIONS)		(IN MILLIONS)	
Net sales:				
Global Consumer	$ 935.3	$ 875.4	$ 1,922.7	$ 1,872.3
Global Professional	98.7	75.0	260.6	208.5
Scotts LawnService®	87.4	84.6	158.1	144.1
Corporate & Other	54.9	63.6	121.0	138.6
Segment total	1,176.3	1,098.6	2,462.4	2,363.5
Roundup® amortization	(0.2)	(0.2)	(0.6)	(0.6)
Product registrations/recalls	(5.2)		(24.2)	
Consolidated	$ 1,170.9	$ 1,098.4	$ 2,437.6	$ 2,362.9
Operating income (loss):				
Global Consumer	$ 207.9	$ 211.0	$ 349.1	$ 375.6
Global Professional	11.9	10.6	34.6	29.6
Scotts LawnService®	20.6	21.5	(9.4)	(11.6)
Corporate & Other	(9.0)	(11.6)	(59.5)	(72.5)
Segment total	231.4	231.5	314.8	321.1
Roundup® amortization	(0.2)	(0.2)	(0.6)	(0.6)
Other amortization	(4.3)	(4.2)	(12.1)	(11.5)
Product registrations/recalls	(10.2)		(41.0)	
Impairment of assets	(123.3)		(123.3)	
Consolidated	$ 93.4	$ 227.1	$ 137.8	$ 309.0

	JUNE 28, 2008	JUNE 30, 2007	SEPTEMBER 30, 2007
		(IN MILLIONS)	
Total assets:			
Global Consumer	$ 2,038.8	$ 1,902.2	$ 1,551.9
Global Professional	302.7	285.6	308.0
Scotts LawnService®	188.4	175.4	189.2
Corporate & Other	204.0	255.7	228.1
Consolidated	$ 2,733.9	$ 2,618.9	$ 2,277.2

Segment operating income or loss represents earnings before amortization of intangible assets, interest and taxes, since this is the measure of profitability used by management. Accordingly, the Corporate & Other operating loss for the three and nine month periods ended June 28, 2008 and June 30, 2007 includes unallocated corporate general and administrative expenses, and certain other income/expense items not allocated to the business segments.

Total assets reported for the Company s operating segments include the intangible assets for the acquired businesses within those segments. Corporate & Other assets primarily include deferred financing and debt issuance costs, corporate intangible assets, deferred tax assets and Smith & Hawken® assets.

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

OVERVIEW

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

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

Executive Summary

We are dedicated to delivering strong, consistent financial results and outstanding shareholder returns by providing consumers with products of superior quality and value to enhance their outdoor living environments. We are a leading manufacturer and marketer of consumer branded products for lawn and garden care and professional horticulture in North America and Europe. We are Monsanto s exclusive agent for the marketing and distribution of consumer Roundup® non-selective herbicide products within the United States and other contractually specified countries. We have a presence in similar consumer branded and professional horticulture products in Australia, the Far East, Latin America and South America. In the United States, we operate Scotts LawnService®, the second largest residential lawn care service business, and Smith & Hawken®, a leading brand in the outdoor living and garden lifestyle category. In fiscal 2008, our operations are divided into the following reportable segments: Global Consumer, Global Professional, Scotts LawnService® and Corporate & Other. The Corporate & Other segment consists of the Smith & Hawken® business and corporate general and administrative expenses.

As a leading consumer branded lawn and garden company, our marketing efforts are largely focused on building brand and product level awareness, to inspire consumers and create retail demand. We have successfully applied this consumer marketing focus for a number of years, consistently investing approximately 5% of our annual net sales in advertising to support and promote our products and brands. We continually explore new and innovative ways to communicate with consumers. We believe that we receive a significant return on these marketing expenditures and anticipate a similar level of future advertising and marketing investments, with the continuing objective of driving category growth and increasing market share.

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

	Percent Net Sales by Quarter		
	2007	**2006**	**2005**
First Quarter	9.5%	9.3%	10.4%
Second Quarter	34.6%	33.6%	34.3%
Third Quarter	38.2%	38.9%	38.0%
Fourth Quarter	17.7%	18.2%	17.3%

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

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

of working capital and capital expenditures.
Given the Company s historical performance and consistent cash flows, our Board of Directors has undertaken a number of actions over the past several years to return cash to our shareholders. We began paying a quarterly cash dividend of 12.5 cents per share in the fourth quarter of fiscal 2005. In fiscal 2006, our Board launched a five-year $500 million share repurchase program pursuant to