

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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SCOTTS COMPANY

CIK: **825542** | IRS No.: **311199481** | State of Incorpor.: **OH** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **001-11593** | Film No.: **96563485**
SIC: **2870** Agricultural chemicals

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MARYSVILLE OH 43041
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FORM 10-Q

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 March 30, 1996

OR

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

For the transition period from _____ to _____

Commission file number 1-11593

THE SCOTTS COMPANY
(Exact name of registrant as specified in its charter)

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

14111 Scottslawn Road
Marysville, Ohio 43041

(Address of principal executive offices)
(Zip Code)

(513) 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 X No _____

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

18,980,553

Outstanding at May 6, 1996

Common Shares, voting, no par value

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THE SCOTTS COMPANY AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands except per share data)

	Three Months Ended		Six Months Ended	
	April 1	March 30	April 1	March 30
	1995	1996	1995	1996
Net sales	\$236,092	\$ 251,224	\$334,111	\$ 369,152
Cost of sales	123,890	134,835	177,410	199,549
	-----	-----	-----	-----
Gross profit	112,202	116,389	156,701	169,603
	-----	-----	-----	-----
Marketing	38,513	44,135	60,910	71,725
Distribution	30,479	28,726	45,019	45,191
General and administrative	6,997	8,969	12,964	17,026
Research and development	2,963	2,905	5,728	5,568
Amortization of goodwill	1,374	2,236	2,227	4,408
and other intangibles				
Other (income) expense, net	184	(837)	326	(595)
Unusual items	--	3,176	--	5,231
	-----	-----	-----	-----
Income from operations	31,692	27,079	29,527	21,049
Interest expense	8,114	8,118	13,808	14,719
	-----	-----	-----	-----
Income before income taxes	23,578	18,961	15,719	6,330
Income taxes	9,785	8,331	6,523	2,874

Net income	13,793	10,630	9,196	3,456
	=====	=====	=====	=====
Net income (loss) per common ... share (note 7)	\$.73	\$.36	\$.49	\$ (.08)
	=====	=====	=====	=====
Common shares used in net income (loss) per common share computation	18,820	29,350	18,762	18,778
	=====	=====	=====	=====

See Notes to Consolidated Financial Statements

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

	Six Months Ended	
	April 1 1995	March 30 1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 9,196	\$ 3,456
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	11,908	14,320
Equity in income of unconsolidated business		(382)
Postretirement benefits	204	90
Unusual charges	--	4,476
Net increase in certain components of working capital	(130,838)	(167,245)
Net change in other assets and liabilities and other adjustments	(504)	2,019
	-----	-----
Net cash used in operating activities	(110,034)	(143,266)
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES

Investment in plant and equipment, net	(10,891)	(8,355)
Investment in software	(483)	--
Investment in Affiliate	(250)	--
	-----	-----
Net cash used in investing activities	(11,624)	(8,355)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on term and other debt	(1,197)	(264)
Revolving lines of credit and bank line	118,378	153,318
of credit, net		
Issuance of Common Shares	--	5,055
Deferred financing costs incurred	(275)	--
Dividends on preferred stock	--	(4,874)
	-----	-----
Net cash provided by financing activities	116,906	153,235
	-----	-----
Effect of exchange rate changes on cash	676	(155)
	-----	-----
Net increase (decrease) in cash	(4,076)	1,459
Cash at beginning of period	10,695	7,028
	-----	-----
Cash at end of period	\$ 6,619	\$ 8,487
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid, net of amount capitalized	\$ 14,007	\$ 12,171
Income taxes paid	\$ 996	\$ 2,589

See Notes to Consolidated Financial Statements

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THE SCOTTS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS

	Unaudited		
	April 1	March 30	September 30
	1995	1996	1995

Current Assets:			
Cash	\$ 6,619	\$ 8,487	\$ 7,028
Accounts receivable, less allowances of \$3,395, \$3,908 and \$3,406, respectively	252,509	315,392	176,525
Inventories	143,574	187,370	143,953
Prepaid and other assets	18,601	21,907	23,354
	-----	-----	-----
Total current assets	421,303	533,156	350,860
	-----	-----	-----
Property, plant and equipment, net	143,791	147,382	148,754
Trademarks, net	--	88,125	89,250
Other intangibles, net	26,529	22,096	24,421
Goodwill, net	103,224	181,600	179,988
Other assets	9,755	15,818	15,772
	-----	-----	-----
Total Assets	\$ 704,602	\$ 988,177	\$ 809,045
	=====	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:			
Revolving credit line	\$ 39,852	\$ 100,915	\$ 97
Current portion of term debt	--	221	421
Accounts payable	79,591	78,639	63,207
Accrued liabilities	24,258	46,682	41,409
Accrued taxes	20,572	21,125	18,728
	-----	-----	-----
Total current liabilities	164,273	247,582	123,862
	-----	-----	-----
Term debt, less current portions	324,630	324,500	272,025
Postretirement benefits other than pensions	27,218	27,249	27,159
Other liabilities	7,622	5,103	5,209
	-----	-----	-----
Total Liabilities	523,743	600,434	428,255
	-----	-----	-----
Shareholders' Equity:			
Class A Convertible Preferred Stock, no par value	--	177,255	177,255
Common Shares, no par value	211	211	211
Capital in excess of par value	193,155	207,695	207,551
Retained earnings	23,071	31,254	32,672
Cumulative translation gain	5,863	3,391	4,082

Treasury stock, 2,415 shares on April 1, 1995, 2,102 shares on March 30, 1996 and 2,388 shares	(41,441)	(36,063)	(40,981)
on September 30, 1995 at cost	-----	-----	-----
Total Shareholders' Equity	180,859	383,743	380,790
	-----	-----	-----
 Total Liabilities and Shareholders' Equity	 \$ 704,602	 \$ 988,177	 \$ 809,045
	=====	=====	=====

See Notes to Consolidated Financial Statements

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THE SCOTTS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Organization and Basis of Presentation

The Scotts Company ("Scotts") and its wholly owned subsidiaries, Hyponex Corporation ("Hyponex"), Republic Tool and Manufacturing Corp. ("Republic"), Scotts-Sierra Horticultural Products Company ("Sierra") and Scotts' Miracle-Gro Products, Inc. ("Miracle-Gro"), (collectively, the "Company"), are engaged in the manufacture and sale of lawn care and garden products. All material intercompany transactions have been eliminated.

The consolidated balance sheets as of April 1, 1995 and March 30, 1996, the related consolidated statements of income for the three and six month periods ended April 1, 1995 and March 30, 1996 and the related consolidated statements of cash flows for the six month periods ended April 1, 1995 and March 30, 1996 are unaudited; however, in the opinion of management, such financial statements contain all adjustments necessary for the fair presentation of the Company's financial position, 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 Exchange Act of 1934, and should be read in conjunction with the financial statements and accompanying notes in the Company's fiscal 1995 Annual Report on Form 10-K/A.

2. Inventories
(in thousands)

Inventories, net of allowances of \$6,118, \$6,916 and \$6,711, consisted of:

	April 1 1995	March 30 1996	September 30 1995
Raw material	\$ 56,326	\$ 64,563	\$ 71,431
Finished products	87,248	122,807	72,522
	-----	-----	-----
Total Inventories	\$143,574	\$187,370	\$143,953
	=====	=====	=====

3. Foreign Exchange Instruments

The Company enters into forward foreign exchange and currency options contracts to hedge its exposure to fluctuations in foreign currency exchange rates. These contracts generally involve the exchange of one currency for a second currency at some future date. Counterparties to these contracts are major financial institutions. Gains and losses on these contracts generally offset gains and losses on the assets, liabilities and transactions being hedged.

Realized and unrealized foreign exchange gains and losses are recognized and offset foreign exchange gains or losses on the underlying exposure. Unrealized gains and losses that are designated and effective as hedges on such transactions are deferred and recognized in income in the same period as the hedged transactions. The net unrealized gain deferred totaled \$49,379 at March 30, 1996.

THE SCOTTS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

At March 30, 1996, the Company's European operations had foreign exchange risk in various currencies tied to the Dutch guilder. These currencies are: the Australian Dollar, Belgian Franc, German Mark, Spanish Peseta, Italian Lira, French Franc, British Pound and the U. S. Dollar. The Company's U. S. operations have foreign exchange rate risk in the Canadian Dollar, the Dutch Guilder and the British Pound which are tied to the U. S. Dollar. As of March 30, 1996, the Company had outstanding forward foreign exchange contracts with a contract value of approximately \$24.1 million and outstanding purchased currency options with a contract value of approximately \$4.7 million. These contracts have maturity dates ranging from April 3, 1996 to October 2, 1996.

4. Acquisitions

Effective May 19, 1995, the Company completed the merger transactions with Stern's Miracle-Gro Products, Inc. and affiliated companies (the "Miracle-Gro Companies"). The ultimate surviving corporation is now known as Scotts' Miracle-Gro Products, Inc. ("Miracle-Gro"). Miracle-Gro is engaged in the marketing and distribution of plant foods and lawn and garden products primarily in the United States, Canada and Europe.

The following pro forma results of operations give effect to the Miracle-Gro Companies acquisition as if it had occurred on October 1, 1994.

(in thousands, except per share amounts)

	Three Months Ended April 1, 1995 -----	Six Months Ended April 1, 1995 -----
Net sales	\$ 283,711 =====	\$ 393,617 =====
Net income	\$ 21,585 =====	\$ 17,817 =====
Net income per common share	\$.74 =====	\$.61 =====

For purposes of computing net income per common share, Scotts' Class A Convertible Preferred Stock is considered a common stock equivalent. Pro forma primary net income per common share for the three months and six months ended April 1, 1995 are calculated using the weighted average common shares outstanding of 29,153,000 and 29,083,000, respectively.

The pro forma information provided does not purport to be indicative of actual results of operations if the merger transactions with the Miracle-Gro Companies had occurred as of October 1, 1994, and is not intended to be indicative of future results or trends.

5. Accounting Issues

In December 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation" which changes the measurement, recognition and disclosure standards for stock-based compensation. Management is currently evaluating the provisions of SFAS No. 123 and at this time, the effect of adoption of SFAS No. 123 and the related disclosures have not been decided.

THE SCOTTS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

6. Unusual Items

For the six months ended March 30, 1996, the Company recorded unusual charges of \$5.2 million related to site closings and the personnel reduction. These non-recurring charges arose as a direct result of management's commitment to reduce costs and achieve more profitable growth. As of March 30, 1996 approximately \$3.3 million has been accrued related to these charges. It is currently anticipated the remaining balance will be expended by the end of fiscal 1996.

7. Earnings Per Share Computation

The earnings per share computation is based on the weighted average number of common shares and common share equivalents (stock options, convertible preferred stock and warrants) outstanding each period. The shares of Class A Convertible Preferred Stock were issued in connection with the Miracle-Gro merger transactions on May 19, 1995. These shares were not considered in the earnings per share computation for the six months ended March 30, 1996 because they were antidilutive for such period.

The following table presents information necessary to calculate net income (loss) per common share.

(in thousands)	Three Months Ended		Six Months Ended	
	April 1, 1995	March 30, 1996	April 1, 1995	March 30, 1996
	-----		-----	
Net income	\$13,793	\$10,630	\$ 9,196	\$ 3,456
Preferred stock dividend	N/A	--	N/A	4,874
	-----		-----	
Income (loss) applicable to common shares	\$13,793	\$10,630	\$ 9,196	\$ (1,418)
	=====		=====	
Common shares used in net income (loss) per common share calculation	18,820	29,350	18,762	18,778
	=====		=====	
Income (loss) per common share	\$.73	\$.36	\$.49	\$ (.08)
	=====		=====	

Fully diluted net income (loss) per common share is considered to be the same as primary net income (loss) per common share as it was not materially different from primary net income (loss) per common share.

8. Contingencies

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

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THE SCOTTS COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements

In September 1991, the Company was identified by the Ohio Environmental Protection Agency (the "Ohio EPA") as a Potentially Responsible Party ("PRP") with respect to a site in Union County, Ohio (the "Hershberger site") that has allegedly been contaminated by hazardous substances whose transportation, treatment or disposal the Company allegedly arranged. Pursuant to a consent order with the Ohio EPA, the Company, together with four other PRP's identified to date, investigated the extent of contamination in the Hershberger site. The results of the investigation were that the site presents a low degree of risk and that the chemical compounds which contribute to the risk are not compounds used by the Company. As a result of the joint and several liability of PRP's, the Company may be subject to financial participation in the costs of the remediation plan, if any. However, management does not believe any such obligations would have a significant adverse effect on the Company's results of operations or financial condition.

In July 1990, the Philadelphia district of the Army Corps of Engineers directed that peat harvesting operations be discontinued at Hyponex's Lafayette, New Jersey facility, and the Company complied. In May 1992, the Department of Justice in the U. S. District Court for the District of New Jersey, filed suit seeking a permanent injunction against such harvesting at that facility and civil penalties. The Philadelphia District of the Corps has taken the position that peat harvesting activities there require

a permit under Section 404 of the Clean Water Act. If the Corps' position is upheld, it is possible that further harvesting of peat from this facility would be prohibited. The Company is defending this suit and is asserting a right to recover its economic losses resulting from the government's actions. Management does not believe that the outcome of this case will have a material adverse effect on the Company's operations or its financial condition. Furthermore, management believes the Company has sufficient raw material supplies available such that service to customers will not be adversely affected by continued closure of this peat harvesting operation.

Sierra is a defendant in a private cost-recovery action relating to the Novak Sanitary Landfill, located near Allentown, Pennsylvania. By agreement with W. R. Grace-Conn., Sierra's liability is limited to a maximum of \$200,000 with respect to this site. The Company's management does not believe that the outcome of this proceeding will have a material adverse effect on its financial condition or results of operations.

On January 30, 1996, the United States Environmental Protection Agency (the "U. S. EPA") served a Complaint and Notice of Opportunity for Hearing upon Sierra's wholly-owned subsidiary, Scotts-Sierra Crop Protection Company ("Crop Protection"). The Complaint alleges labeling violations under the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA") during 1992 and 1993 and proposed penalties totaling \$785,000, the maximum allowable under FIFRA according to management's calculations. On April 18, 1996, an EPA Administrative Law judge dismissed the EPA's complaint without prejudice, due to mistakes in the pleadings. If an amended complaint is filed, based upon Crop Protection's good faith compliance actions and FIFRA's provisions for "gravity-based" penalty reductions, management believes Crop Protection's maximum liability to be \$200,000, which has been accrued in the financial statements. The Company does not believe that the outcome of this proceeding will have a material adverse effect on its financial condition or results of operations.

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THE SCOTTS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

During 1993 and 1994, Stern's Miracle-Gro Products, Inc. ("Miracle-Gro Products") discussed with Pursell Industries, Inc. ("Pursell") the feasibility of forming a joint venture to produce and market a line of

slow-release lawn food, and in October 1993, signed a non-binding "heads of agreement." After the merger transactions between the Company and the Miracle-Gro Companies were announced, Pursell demanded that Miracle-Gro Products reimburse it for monies allegedly spent by Pursell in connection with the proposed project. Because Miracle-Gro Products does not believe that any such monies are due or that any such joint venture ever was formed, on February 10, 1995, it instituted an action in the Supreme Court of the State of New York, Stern's Miracle-Gro Products, Inc. v. Pursell Industries, Inc. Index No. 95-004131 (Nassau Co.) (the "New York Action"), seeking declarations that, among other things, Miracle-Gro Products owed no monies to Pursell relating to the proposed project and that no joint venture was formed. Pursell moved to dismiss the New York Action in favor of the Alabama action described below, which motion was granted August 7, 1995.

On March 2, 1995, Pursell instituted an action in the United States District Court for the Northern District of Alabama, Pursell Industries, Inc. v. Stern's Miracle-Gro Products, Inc., CV-95-C-0524-S (the "Alabama Action"), alleging, among other things, that a joint venture was formed, that Miracle-Gro Products breached an alleged joint venture contract, committed fraud, and breached an alleged fiduciary duty owed Pursell by not informing Pursell of negotiations concerning the merger transactions. On December 18, 1995, Pursell filed an amended complaint in the Alabama Action in which Scotts was named as an additional party defendant. The amended complaint contains a number of allegations and seeks compensatory damages in excess of \$10 million, punitive damages of \$20 million, treble damages as allowed by law and injunctive relief with respect to the advertising and trade dress allegations. The Company does not believe that the amended complaint has any merit and intends to vigorously defend that action.

On April 14, 1996, in response to discussions with Scotts regarding the possible infringement upon certain Scotts' patents by one or several of Pursell's controlled-release fertilizers, Pursell instituted a second action in the United States District Court for the Northern District of Alabama, Pursell Industries, Inc. v. The Scotts Company, CV-96-AR-931-S (the "Patent Action"). Pursell has alleged, among other things, that Scotts' marking of its Poly-S fertilizers with its patents constitutes false marking under 35 U.S.C. Sec. 292 and that Scotts' conduct constitutes unfair competition. The complaint seeks declarations that, among other things, Scotts' patents are invalid and that Pursell has not infringed any of Scotts' patents. It further seeks that Scotts be enjoined from bringing a patent infringement suit against Pursell and requests that Pursell be awarded its costs of this action and such other relief as deemed proper. The Company does not believe that this action has merit and intends to vigorously defend it and to possibly bring counterclaims against Pursell.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company included elsewhere in this report.

NET SALES BY BUSINESS UNIT

(in thousands)	Three Months Ended		
	April 1, 1995	March 30, 1996	% Change
	-----	-----	-----
Consumer Lawn	\$174,560	\$147,336	(15.6) %
Consumer Garden	6,811	47,235	593.5 %
Professional	34,073	34,984	2.7 %
International	20,648	21,669	4.9 %
	-----	-----	
Consolidated	\$236,092	\$251,224	6.4 %
	=====	=====	

	Six Months Ended		
	April 1, 1995	March 30, 1996	% Change
	-----	-----	-----
Consumer Lawn	\$227,813	\$211,164	(7.3) %
Consumer Garden	9,130	59,850	555.5 %
Professional	61,979	61,115	(1.4) %
International	35,189	37,023	5.2 %
	-----	-----	
Consolidated	\$334,111	\$369,152	10.5 %
	=====	=====	

Results of Operations

Three Months Ended March 30, 1996, versus Three Months Ended April 1, 1995

Net sales increased 6.4% to \$251.2 million. The increase is primarily attributed to the inclusion of Miracle-Gro, partially offset by decreases in sales due to the marketing program incentivizing retailers to purchase their spring requirements early, the divestiture of the Peters U.S. consumer water soluble fertilizer business and the late-breaking spring. On a pro forma

basis, assuming the Miracle-Gro merger occurred October 1, 1994, net sales decreased by \$32.5 million or 11.5%

The Consumer Lawn Business Group had net sales of \$147.3 million, a decrease of 15.6%. The decrease is attributable to the impact of the marketing program incentivizing retailers to purchase their spring requirements early and the late-breaking spring in most parts of the country. The marketing program resulted in large trade inventories entering the 1996 selling season. Sales decreases in fertilizers, spreaders and organics were partially offset by increased seed sales. The Consumer Garden Business Group had net sales of \$47.2 million, an increase of 593.5%, due to the inclusion of Miracle-Gro, partially offset by the divestiture of the Peters U.S. consumer water soluble fertilizer business. Professional Business Group net sales increased 2.7% to \$35.0 million principally due to volume. International sales increased 4.9% to \$21.7 million. The increase resulted primarily from increased sales volume.

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Cost of sales represented 53.7% of net sales, up 1.2% compared to 52.5% of net sales last year. The increase was partially attributable to higher raw materials costs and to a lesser extent, sales mix which reflected increased volume in lower margin products.

Operating expenses increased approximately 10.9% due partially to the inclusion of Miracle-Gro. Marketing expenses increased 14.6% due to increased promotional allowances to retailers and increased national advertising. Distribution expenses decreased 5.8% principally as a result of a sales mix which includes Miracle-Gro, which has a proportionately lower distribution cost. General and administrative expenses increased 28.2% due to the inclusion of Miracle-Gro, and increased outside services. Other expenses, net decreased by 554.9% due to lower foreign exchange losses and an increase in income of unconsolidated businesses. Amortization of goodwill and other intangibles increased as a result of the merger with Miracle-Gro. Unusual expenses of \$3.2 million were recorded for restructuring charges related to personnel reductions and facilities closings.

The Company's effective tax rate increased from 41.5% to 43.9%. This increase results primarily from an increase in nondeductible amortization of goodwill and intangible assets.

Net income of \$10.6 million decreased by \$3.2 million from 1995. Among the significant items impacting 1996 results were the inclusion of Miracle-Gro, decreased revenues in the Consumer Lawn Business Group, the \$3.2 million charge for restructuring and the higher effective tax rate.

Six Months Ended March 30, 1996 versus Six Months Ended April 1, 1995

Net sales increased to \$369.2 million, up 10.5%. The increase is primarily attributed to the inclusion of Miracle-Gro, partially offset by decreases due to the marketing program which incentivized retailers to purchase spring requirements early, the divestiture of the Peters U.S. consumer water soluble fertilizer business, the loss of exclusivity of an advanced control chemistry, and the late-breaking spring. On a pro forma basis, net sales decreased by \$24.5 million or 6.2%.

Consumer Lawn Business Group had net sales of \$211.2 million, a decrease of 7.3%. The decrease is attributable to the impact of the marketing program incentivizing retailers to purchase their spring requirements early, the divestiture of the Peters U.S. consumer water soluble fertilizer business and the late-breaking spring in most parts of the country. The marketing program resulted in large trade inventories entering the 1996 selling season. Sales decreases in fertilizers, spreaders and organics were partially offset by sales increases in seed. The Consumer Garden Business Group had net sales of \$59.9 million, an increase of 555.5% due to the inclusion of Miracle-Gro, partially offset by the divestiture of the Peters U.S. consumer water soluble fertilizer business. Professional Business Group net sales decreased 1.4%. International sales increased 5.2% to \$37.0 million. The increase resulted primarily from increased sales volume.

Cost of sales represented 54.1% of net sales, up 1% compared to 53.1% of net sales last year. The increase was partially attributable to higher raw materials costs and to a lesser extent, sales mix which reflected increased volume in lower margin products.

Operating expenses increased 16.8% due partially to the inclusion of Miracle-Gro. Marketing expenses increased 17.8% due to increased promotional allowances to retailers and increased national advertising. Distribution costs increased 0.4% as a result of a sales mix which includes Miracle-Gro, which has a proportionately lower distribution cost. General and administrative expenses increased 31.3% due to the inclusion of Miracle-Gro, increased spending in corporate communications and increased outside services.

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Other expenses, net, decreased by 282.5% due to an increase in income of unconsolidated businesses and lower foreign currency exchange impacts. Amortization of goodwill and other intangibles increased as a result of the merger with Miracle-Gro. Unusual expenses of \$5.2 million were recorded for restructuring charges related to personnel reductions and facilities closings.

Interest expense increased 6.6%. The increase was caused primarily by an increase in borrowing levels in the first quarter.

The Company's effective tax rate increased from 41.5% to 45.4% in 1996. This increase results primarily from an increase in nondeductible amortization of goodwill and intangible assets.

Net income of \$3.5 million decreased by \$5.7 million from 1995. Among the significant items impacting 1996 results were the inclusion of Miracle-Gro, decreased revenues in the Consumer Lawns Business Group and Professional Business Group, a \$5.2 million charge for restructuring and the higher effective tax rate.

Financial Position as of March 30, 1996

Current assets of \$533.2 million increased by \$182.3 million compared with current assets at September 30, 1995 and by \$111.9 million compared with current assets at April 1, 1995. The increase compared with September 30, 1995 is primarily attributable to the seasonal nature of the Company's business, with inventory and accounts receivable levels generally being higher in March relative to September. The increase compared with April 1, 1995 was due in part to the inclusion of Miracle-Gro's current assets which amounted to \$69.4 million. The increase was also caused by higher receivables and higher inventory levels.

Current liabilities of \$247.6 million increased by \$123.7 million compared with current liabilities at September 30, 1995 and by \$83.3 million compared with current liabilities at April 1, 1995. The increase compared with September 30, 1995 is caused in part by increased short-term borrowings, accounts payable and accrued expenses. The increase as compared with April 1, 1995 is caused in part by the inclusion of Miracle-Gro's current liabilities which amount to \$19.9 million. The increase was also caused by higher short-term borrowings and accrued expenses.

Capital expenditures for the year ended September 30, 1996 are expected to be approximately \$20.0 million. The Credit Agreement restricts the amount the Company may spend on capital expenditures to \$50 million per year for fiscal 1996 and each year thereafter. Fiscal 1996 capital expenditures are expected to be financed with cash provided by operations and utilization of available credit facilities.

Long-term debt increased by \$52.5 million compared with long-term debt at September 30, 1995. The increase as compared to September 30, 1995 was to support the seasonal increase in working capital and capital expenditures.

Shareholders' equity increased by \$3.0 million compared with shareholders' equity at September 30, 1995 and by \$202.9 million compared with shareholders' equity at April 1, 1995. The increase compared with September 30, 1995 reflects net income for the six months of \$3.5 million and the issuance of treasury stock for options exercised of \$5.1 million offset by Convertible Preferred Stock dividends of \$4.9 million and the change in the cumulative foreign currency adjustment of \$0.7 million. The increase compared with April 1, 1995 is primarily a result of the merger with Miracle-Gro, including the

issuance of Convertible Preferred Stock with a fair market value of \$177.3 million and Warrants with a fair market value of \$14.4 million. The remaining change in shareholders' equity was a result of net income for the twelve months ended March 30, 1996 of \$16.6 million, and the issuance of treasury stock for options exercised of \$5.5 million offset by the change in the cumulative foreign currency adjustment of \$2.5 million and Convertible Preferred Stock dividends of \$8.4 million.

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The Company has foreign exchange rate risk related to international earnings and cash flows. During fiscal 1995, a management program was designed to minimize the exposure to adverse currency impacts on the cash value of the Company's non-local currency receivables and payables, as well as the associated earnings impact. The Company has entered into forward foreign exchange contracts and purchased currency options tied to the economic value of receivables, payables and expected cash flows denominated in non-local foreign currencies. Management anticipates that these financial instruments will act as an effective hedge against the potential adverse impact of exchange rate fluctuations on the Company's results of operations, financial condition and liquidity. It is recognized, however, that the program is intended to minimize but cannot completely eliminate the Company's exposure to adverse foreign currency movements.

As of March 30, 1996, the Company's European operations had foreign exchange risk in various currencies tied to the Dutch Guilder. These currencies include the Australian Dollar, Belgian Franc, German Mark, Spanish Peseta, Italian Lira, French Franc, British Pound and the U.S. Dollar. The Company's U.S. operations had foreign exchange rate risk in the Canadian Dollar, Dutch Guilder and the British Pound which are tied to the U.S. Dollar. As of March 30, 1996, outstanding foreign exchange forward contracts had a contract value of approximately \$24.1 million and outstanding purchased currency options had a contract value of approximately \$4.7 million. These contracts have maturity dates ranging from April 3, 1996 to October 2, 1996.

The primary sources of liquidity for the Company are funds generated by operations and borrowings under the Company's Credit Agreement. As amended, the Credit Agreement is unsecured and provides up to \$375 million through March 31, 2000 and does not contain a term loan facility.

In the opinion of the Company's management, cash flows from operations and capital resources will be sufficient to meet debt service and working capital needs during the 1996 fiscal year.

Inflation

The Company is subject to the effect of changing prices. The Company has, however, generally been able to pass along inflationary increases in its costs

by increasing the prices of its products.

Selective price increases for products which contain urea became effective at the beginning of 1996. The price increases offset higher urea prices experienced by the Company. In addition, the Company has entered into a supply agreement through the year 2000, under which the Company is required to purchase set tonnage of urea at a set price.

Accounting Issues

In December 1995, the Financial Accounting Standards Board issued SFAS No. 123 "Accounting for Stock-Based Compensation" which changes the measurement, recognition and disclosure standards for stock-based compensation. Management is currently evaluating the provisions of SFAS No. 123 and at this time, the effect of adopting SFAS No. 123 on the results of operations and the method of disclosure has not been determined.

Contingencies

The Company's management continually evaluates the Company's contingencies, including various lawsuits and claims which arise in the normal course of business. In the opinion of management, its assessment of contingencies is reasonable and the 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. Additional information with respect to the more significant of these matters is described in footnote number 8 to the Company's Consolidated Financial Statements.

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PART II - OTHER INFORMATION

Item 1 Legal Proceedings

Please see the information provided in Footnote 8 to the Company's Consolidated Financial Statements on pages 8 and 9 of this Report, which information is incorporated herein by reference.

Item 2-3

Not applicable.

Item 4 - Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of the Company (the "Annual Meeting") was held in Columbus, Ohio on April 9, 1996.

The result of the vote of the shareholders for each of the matters submitted to the shareholders at the Annual Meeting is as follows:

A. The proposal to elect three directors for terms of three years:

Nominee -----	Votes For -----	Withheld -----	Not Voted -----
James Hagedorn	23,141,916		80,507
Karen Gordon Mills	23,177,933		44,490
Tadd C. Seitz	23,168,953		53,470

Each of the nominees was elected. The Directors whose terms of office continue after the Annual Meeting are James B Beard, John Kenlon, John M. Sullivan, L. Jack VanFossen, John S. Chamberlin, Joseph P. Flannery, Horace Hagedorn and Donald A. Sherman.

B. The proposal to approve the adoption of the Company's 1996 Stock Option Plan:

For -----	Against -----	Abstain -----	Broker Non Votes -----
18,945,876	425,050	792,046	3,059,451

This proposal was approved.

Item 6 - Exhibits and Reports on Form 8-K.

- (a) See Exhibit Index at page 16 for a list of the exhibits included herewith.
- (b) No reports on Form 8-K were filed during the fiscal quarter ended March 30, 1996.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SCOTTS COMPANY

Date May 14, 1996

/s/ Paul D. Yeager

Paul D. Yeager
Executive Vice President
Chief Financial Officer
Principal Accounting Officer

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THE SCOTTS COMPANY
QUARTERLY REPORT ON FORM 10-Q FOR
FISCAL QUARTER ENDED MARCH 30, 1996
EXHIBIT INDEX

Exhibit Number	Description	Page Number
10	The Scotts Company 1996 Stock Option Plan	Pages 18-25
11	Computation of Net Income Per Common Share	Page 26
27	Financial Data Schedule	Page 27

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THE SCOTTS COMPANY
1996 STOCK OPTION PLAN

SECTION 1.

PURPOSE

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

SECTION 2.

DEFINITIONS

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

- (a) "Act" means the Securities Exchange Act of 1934, as amended.
- (b) "Award" means any Option.
- (c) "Board" means the Board of Directors of the Company.

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

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

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

office who were members of the Board at the beginning of such twenty-four calendar month period, shall be treated as an Incumbent Director; or

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

(iii) the shareholders of the Company shall approve a definitive agreement (1) for the merger or other business combination of the Company with or into another corporation, a majority of the directors of

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which were not directors of the Company immediately prior to the merger and in which the shareholders of the Company immediately prior to the effective date of such merger own less than 50% of the voting power in such corporation; or (2) for the sale or other disposition of all or substantially all of the assets of the Company; or

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

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

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

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

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

(j) "Director Option" means a Nonstatutory Stock Option granted to each Eligible Director pursuant to Section 6.7 without any action by the Board or the Committee.

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

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

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

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

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

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

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

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

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

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

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

SECTION 3.

ELIGIBILITY AND PARTICIPATION

Except as otherwise provided in Section 6.7, the only persons eligible to participate in the Plan shall be those Employees selected by the Committee as Participants.

SECTION 4.

POWERS OF THE COMMITTEE

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

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

SECTION 5.

STOCK SUBJECT TO PLAN

5.1 Number. Subject to the provisions of Section 5.3, the number of shares of Stock subject to Awards under the Plan may not exceed 1,500,000 shares of Stock. Subject to the provisions of Section 5.3, no Employee shall receive Awards for more than 150,000 shares of Stock over any one-year period. For this purpose, to the extent that any Award is cancelled (as described in

Section 1.162-27(e)(2)(vi)(B) of the final regulations promulgated under Section 162(m) of the Code), such cancelled Award shall continue to be counted against the maximum number of shares of Stock for which Awards may be granted to an Employee under the Plan. The shares of Stock to be delivered under the Plan may consist, in whole or in part, of treasury Stock or authorized but unissued Stock, not reserved for any other purpose.

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

5.3 Adjustment in Capitalization. In the event of any Stock dividend or Stock split, recapitalization (including, without limitation, the payment of an extraordinary dividend), merger, consolidation, combination, spin-off, distribution of assets to shareholders, exchange of shares, or other similar corporate change, the aggregate number of shares of Stock available for Awards under Section 5.1 or subject to outstanding Awards and the respective prices and/or limitations applicable to outstanding Awards may be appropriately adjusted by the Committee, whose determination shall be conclusive. If, pursuant to the preceding sentence, an adjustment is made to the number of shares subject to outstanding Options held by Participants a corresponding adjustment shall be made to the number of shares subject to outstanding Director Options and if an adjustment is made to the number of shares of Stock authorized for issuance under the Plan, a corresponding adjustment shall be made to the number of shares subject to each Director Option thereafter granted pursuant to Section 6.7.

SECTION 6.

OPTIONS

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

6.2 Option Price. Nonstatutory Stock Options and Incentive Stock Options

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

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

6.4 Payment. The Committee shall establish procedures governing the exercise of Options, which shall require that written notice of exercise be given and that the Option price be paid in full in cash or equivalents, including by personal check, at the time of exercise or pursuant to any

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arrangement that the Committee shall approve. The Committee may, in its discretion, permit a Participant to make payment in Stock already owned by him, valued at its Fair Market Value on the date of exercise, as partial or full payment of the exercise price. As soon as practicable after receipt of a written exercise notice and full payment of the exercise price, the Company shall deliver to the Participant a certificate or certificates representing the acquired shares of Stock.

6.5 Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of any Participant affected thereby, to cause any Incentive Stock Option previously granted to fail to qualify for the Federal income tax treatment afforded under Section 421 of the Code. Further, the aggregate Fair Market Value (determined as of the time an Incentive Stock Option is granted) of the Stock with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year

(under all option plans of the Company and all Subsidiaries of the Company) shall not exceed \$100,000.

6.6 Director Options. Notwithstanding anything else contained herein to the contrary, on the first business day following the date of each annual meeting of shareholders during the term of the Plan, each Eligible Director shall receive a Director Option to purchase 4,000 shares of Stock at an exercise price per share equal to the Fair Market Value of the Stock on the date of grant. Each Director Option shall be exercisable six months after the date of grant and shall remain exercisable until the earlier to occur of (i) the tenth anniversary of the date of grant or (ii) the first anniversary of the date the Eligible Director ceases to be a member of the Board, except that if the Eligible Director ceases to be a member of the Board after having been convicted of, or pled guilty or nolo contendere to, a felony, his Director Options shall be cancelled on the date he ceases to be a director. An Eligible Director may exercise a Director Option in the manner described in Section 6.4.

SECTION 7.

TERMINATION OF EMPLOYMENT

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

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

termination of employment, whichever period is shorter.

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

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

SECTION 8.

CHANGE IN CONTROL

8.1 Accelerated Vesting and Payment. Subject to the provisions of Section 8.2 below, in the event of a Change in Control, each Option (excluding any Director Option) shall be cancelled in exchange for a payment in cash of an amount equal to the excess of the Change in Control Price over the exercise price for such Option.

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

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

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

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

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

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

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

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

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SECTION 9.

AMENDMENT, MODIFICATION, AND TERMINATION OF PLAN

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

any Award theretofore granted under the Plan, without the consent of the Participant.

SECTION 10

MISCELLANEOUS PROVISIONS

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

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

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

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

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

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

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

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

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

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

<TABLE>

THE SCOTTS COMPANY

Computation of Net Income Per Common Share
Primary (Unaudited)
(Dollars in thousands except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	April 1 1995	March 30 1996	April 1 1995	March 30 1996
<S>	<C>	<C>	<C>	<C>
Net income for computing net income per common share:				
Net income	\$ 13,793	\$ 10,630	\$ 9,196	\$ 3,456
Preferred stock dividend	--	--	--	(4,876)
Net income (loss) applicable to common shares	\$ 13,793	\$ 10,630	\$ 9,196	\$ (1,420)
Net income (loss) per common share:				
Net income (loss) per common share	\$.73	\$.36	\$.49	\$ (.08)

Computation of Weighted Average Number
of Common Shares Outstanding (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	April 1 1995	March 30 1996	April 1 1995	March 30 1996
Weighted average common shares outstanding during the period	18,667,064	18,861,442	18,667,064	18,777,689
Assuming conversion of preferred stock	--	10,263,158	--	--
Assuming exercise of options using the Treasury Stock Method	95,294	225,415	153,103	--
Weighted average number of common shares outstanding ... as adjusted	18,820,167	29,350,015	18,762,358	18,777,689

</TABLE>

The earnings per share computation is based on the weighted average number of common shares and common share equivalents (stock options, convertible preferred stock and warrants) outstanding each period. The Class A Convertible Preferred Stock were issued in connection with the Miracle-Gro merger transactions on May 19, 1995. These shares were not considered in the earnings

per share computation for the six months ended March 30, 1996 because they were antidilutive for such period.

Fully diluted net income (loss) per common share is considered to be the same as primary net income (loss) per common share as it was not materially different from primary net income (loss) per common share.

<TABLE> <S> <C>

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This schedule contains summary financial information extracted from the consolidated balance sheet and consolidated statement of income of The Scotts Company and is qualified in its entirety by reference to the Form 10-Q for the quarter ended March 30, 1996.

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