FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

HINES HORTICULTURE INC

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Business Address
12621 JEFFREY RD
IRVINE CA 92620
9495594444

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X]ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

[_]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: 0-24439

HINES HORTICULTURE, INC.
(Exact name of registrant as specified in its charter)

<TABLE>
<S> <C>

Delaware	33-0803204
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

</TABLE>

12621 Jeffrey Road, Irvine, California 92620
(Address of principal executive offices) (Zip Code)

(949) 559-4444
http://www.HinesHorticulture.com

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.01 per share

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 15, 1999, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $94.5 million.

As of March 15, 1999 there were 22,072,549 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of Hines Horticulture, Inc.'s Proxy Statement to be mailed to stockholders on or about April 28, 1999 for the Annual Meeting of Stockholders to be held on May 27, 1999 are incorporated in Part III hereof by reference.

HINES HORTICULTURE, INC.
(FORMERLY HINES HOLDINGS, INC.)

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HINES HORTICULTURE, INC.
(FORMERLY HINES HOLDINGS, INC.)

Item 1. BUSINESS

Introduction

Hines Horticulture, Inc., a Delaware corporation ("Hines"), produces and distributes horticultural products through its two operating divisions: (1) its nursery division, Hines Nurseries and (2) its plant-growing media division, Sun Gro Horticulture ("Sun Gro"). On June 12, 1998, Hines Horticulture became the successor to the business of Hines Holdings, Inc., a

Nevada corporation ("Holdings"), as a result of the merger of Hines Holdings, Inc. into Hines, the purpose of which was to change Hines Horticulture's name and jurisdiction of incorporation. The business of Hines Nurseries is currently conducted through Hines Nurseries, Inc. ("Hines Nurseries") a wholly owned subsidiary of Hines, and through Sun Gro Horticulture Inc. ("Sun Gro-U.S.") a wholly owned subsidiary of Hines Nurseries, Sun Gro-U.S.'s wholly owned subsidiary, Sun Gro Horticulture Canada Ltd. ("Sun Gro-Canada"), and Sun Gro-Canada's direct and indirect Canadian subsidiaries. Unless otherwise specified, references to "Hines" or the "Company" refer to Hines Horticulture, Inc. and its subsidiaries.

Hines Nurseries produces approximately 4,100 varieties of ornamental shrubs and color plants through its eight nursery facilities located in California, Oregon, Pennsylvania, South Carolina and Texas. Hines Nurseries sells to more than 1,900 retail and commercial customers, representing more than 7,300 outlets throughout the United States and Canada. Sun Gro produces high quality, sphagnum peat moss and peat-based potting and growing mixes. Sphagnum peat moss is a natural, organic material that is generally considered the highest quality growing medium available due to its excellent water and nutrient retention and aeration characteristics. Sun Gro controls approximately 49,000 acres of peat bogs throughout Canada and produces its peat moss and peat-based mixes in ten facilities strategically located across Canada and the United States.

History

Ownership

Hines was founded in 1920 by James W. Hines Sr. in San Gabriel, California. Hines was a family owned business until its acquisition by the Weyerhauser Company in 1976. Hines was sold in 1990 to a private investment group and certain members of management. In August 1995, Hines was acquired by Madison Dearborn Capital Partners, L.P. ("MDCP"), a private equity investment firm and certain members of management. On June 22, 1998, Hines completed an initial public offering of 5.1 million shares of its common stock (the "Offering").

Recent Acquisitions

Hines has completed a number of recent acquisitions to expand and diversify its operations. Often they have complemented the Company's existing operations and enhanced the Company's product offerings.

The following table sets forth information with respect to these acquisitions:

<TABLE>
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Date	Acquired Company	Purchase Price	Location	Principal Products
<C>	<C>	<C>	<C>	<S>
April 1998	Lakeland	$22.4 million	Canada, Oregon and Utah	Sphagnum peat moss and peat-based mixes
December 1997	Bryfogle's	$19.0 million	Pennsylvania	Color bedding plants
October 1997	Pacific Color	$ 1.7 million	California	Color bedding plants
November 1996	Flynn	$11.7 million	California	Ornamental plants and flowering color plants
August 1996	Iverson	$10.3 million	South Carolina	Perennial flowers and plants
January 1995	OGP	$17.6 million	Oregon	Ornamental, cold-tolerant plants and flowering color plants
June 1993	Sun Gro	$48.9 million	Canada, Michigan, Texas and Washington	Sphagnum peat moss and peat-based mixes

</TABLE>

On April 6, 1998, the Company acquired Lakeland Peat Moss, Ltd. and certain affiliated entities ("Lakeland"), a leading producer of sphagnum peat moss and peat-based potting and growing mixes in western Canada, with facilities in

Utah and Oregon. Lakeland's products are sold primarily to retail customers and, to a lesser extent, professional customers such as greenhouse growers, vegetable farmers and golf course developers located primarily in the western United States.

On December 16, 1997, the Company acquired Bryfogle's Wholesale, Inc. and certain affiliated entities ("Bryfogle's"), a producer of color bedding plants sold primarily to home centers and mass merchandisers in Pennsylvania and surrounding states. This acquisition significantly enhanced the Company's offerings of annual bedding and holiday plants.

On October 20, 1997, the Company acquired the assets of Pacific Color Nurseries, Inc. ("Pacific Color"), a producer of color bedding plants sold primarily to home centers and mass merchandisers in California. The acquisition of Pacific Color increased the Company's offerings of annual bedding and holiday plants.

On November 27, 1996, the Company acquired Flynn Nurseries, Inc. ("Flynn"), a producer of ornamental plants, flowering color plants and perennials sold to various retail customers throughout the United States. Hines acquired Flynn, in part, because of its location in Southern California where there are ideal growing conditions and its close proximity to the Company's Irvine, California nursery.

On August 30, 1996, the Company acquired Iverson Perennial Gardens ("Iverson"), a producer of perennial flowers and plants sold primarily to home centers, mass merchandisers and other retail customers located in the southeastern, eastern and midwestern regions of the United States. The Iverson acquisition has enhanced the Company's market presence in the eastern and southeastern United States, increased penetration into the perennial plant market and provided expansion capacity at the South Carolina nursery location.

On January 27, 1995, the Company acquired Oregon Garden Products ("OGP"), a producer of ornamental, cold-tolerant, container-grown plants sold primarily to home centers, mass merchandisers and other retail customers located in the eastern and midwestern regions of the United States and flowering color plants sold primarily to retail customers located in the northwestern United States. The OGP acquisition broadened Hines Nurseries' product mix and added undeveloped acreage which provides Hines Nurseries with significant opportunities for future expansion.

In June 1993, Hines acquired Sun Gro-U.S. and its subsidiaries in order to enter the peat-products market, thereby diversifying the Company's operations and expanding its share of the market for horticultural products.

Business Overview

Hines Nurseries is one of the largest commercial nursery operations in North America, producing one of the broadest assortments of container-grown plants in the industry. Hines Nurseries sells its nursery products primarily to the retail segment which includes the premium independent garden centers, as well as the leading home centers and mass merchandisers, such as Home Depot, Lowe's, Wal-Mart, Kmart and Target. Sun Gro is also the largest North American producer and marketer of sphagnum peat moss and professional peat-based growing mixes, which it primarily sells to professional customers, including greenhouse growers, nursery growers and golf course developers. As a result of both internal expansion and acquisitions, the Company has grown sales from approximately \$50 million in 1992 to almost \$235 million in 1998, representing a compound annual growth rate of 29%. Unaudited pro forma net sales for 1998, after giving effect to the acquisition of Lakeland as if it had occurred on January 1, 1998, would have been approximately \$241 million.

Key Growth Strategies

Expand Production. The Company is experiencing unfulfilled demand from a number of key nursery customers. Accordingly, the Company plans to continue expanding its nursery acreage and greenhouse facilities in 1999 in order to increase production of key product lines (including the color plant category), and to commercially introduce new plant varieties. By expanding production at existing facilities, the Company seeks not only to increase sales volume, but also to leverage its established operating processes and management, thereby reducing unit costs.

Increase Customer Penetration and Expand Customer Base. With its strategically-located nurseries and its emphasis on customer service, the Company has established a national customer base and distribution system for a wide variety of ornamental plants. The Company is pursuing opportunities to increase its volume with existing customers by (1) increasing sales to successful "big box" retailers and premium independent garden centers as they open additional outlets, and (2) increasing same-store sales by capitalizing on its customers' continued expansion of lawn and garden floor space with a broader variety of merchandise, particularly in the color plant category. The Company also intends to pursue new relationships with other high volume retailers and premium garden centers. Management believes that the demand for value-added peat-based mixes by professional growers is increasing and that there is a trend among professional growers to outsource the mixing of these products. Sun Gro intends to further penetrate the professional market by expanding its offerings of customized value-added mixes and technical expertise in order to capitalize on this trend.

Pursue Strategic Acquisitions. The Company believes that strategic acquisitions will continue to play an important role in expanding its geographic presence and product offerings. For example, since optimizing production and distribution of color plants such as holiday crops, annual bedding plants and perennials requires regional growing capacity, the Company will continue to seek acquisitions of additional regional color plant growers as it continues to expand its nursery network. The Company will continue to apply its proprietary operating processes to recently acquired businesses to facilitate integration and to improve operating performance. In the peat division, the Company will continue to seek acquisitions of businesses that offer operating synergies and complementary products.

Hines' Nursery Business

Hines Nurseries produces and markets approximately 4,100 varieties of ornamental, container-grown plants grown primarily for outdoor use, most of that are sold under its Hines Nurseries(TM) and Iverson(TM) trade names. Most of Hines Nurseries' varieties fall into the following categories:

<TABLE>
<CAPTION>

Product Category	Representative Products	Approximate % of Hines Nurseries' 1997 Revenue	Approximate % of Hines Nurseries' 1998 Revenue	Typical Growing Times
<C>	<S>	<C>	<C>	<C>
Evergreens				
Broadleafs	Azalea, boxwood, camellia, euonymous, holly	26.7%	25.7%	12-18 months
Conifers	Pines, spruce, junipers	13.4	12.4	18-24 months
Deciduous Plants	Barberry, dogwood, forsythia, spirea	13.3	8.7	12-18 months
Flowering Color Plants				
Perennials	Daylillies, clematis, ornamental grasses	17.6	21.9	4-10 months
Annual bedding plants	Marigolds, petunias	11.5	15.8	2-4 months
Tropical flowering plants	Bougainvillea, hibiscus	6.4	4.1	6-12 months
Holiday plants	Easter lilly, poinsettia	0.8	0.8	3-6 months
Speciality / topiary plants	Trellises, bonsais	7.6	9.0	24-36 months
Other	Ferns, trees	2.7	1.6	6-18 months
		100.0%	100.0%	

</TABLE>

Since 1993, Hines Nurseries has added numerous plant varieties to its product line. Recently, Hines Nurseries has aggressively expanded its offering of flowering color plants. Hines Nurseries has also successfully developed patio-ready type products, which it markets under the names of Patio Tropics(TM) and Festival Pots(TM). These products generally command premium prices and improved profit margins than other plants offered by the Company.

The Company sells its nursery products primarily to the retail segment which includes the premium independent garden centers, as well as the leading home centers and mass merchandisers, such as Home Depot, Lowe's, Wal-Mart, Kmart and Target. The following table sets forth the estimated percentage of Hines Nurseries' net sales by customer type for the period indicated:

Customer Type	1996	1997	1998
Home centers	29%	32%	37%
Mass merchandisers	23	27	26
Independent garden centers	21	18	16
Garden center chains	11	11	11
Rewholesalers	13	9	8
Landscapers and others	3	3	2
Total	100%	100%	100%

The Company believes sales to home centers and mass merchandisers have increased significantly during the past several years as a result of the rapid growth of this channel of distribution. Management believes the Company enjoys competitive advantages in selling into this channel due to its ability to provide a broad assortment of consistently high quality products in large volumes, its nationwide distribution and its value-added

services such as custom labeling, bar-coding, full electronic data interchange and technical support. Management expects to participate in the overall growth of this channel to a greater extent than its competitors that do not offer such services. Hines Nurseries' top ten customers accounted for approximately 48%, 58% and 62% of Hines Nurseries' net sales in 1996, 1997 and 1998, respectively. Hines Nurseries' largest customer, Home Depot, accounted for approximately 15%, 18% and 20% of its net sales in 1996, 1997 and 1998, respectively, and approximately 10%, 12% and 14% of the Company's consolidated net sales in 1996, 1997 and 1998, respectively.

Research and Development. Hines Nurseries' product sourcing and development yield unique plant varieties, which are marketed under a trade name and patented whenever possible. The Company applies for patents on plant varieties that are significantly different from existing varieties. Differences among plant varieties may include coloration, size at maturity or hardiness in drought or cold conditions. These varieties command higher prices, provide higher unit margins and enhance the Company's reputation as a product innovator.

Sales and Marketing. Most of Hines Nurseries' facilities have separate sales forces, which include a sales manager, in-house customer service representatives, direct sales consultants and various support personnel. As of December 31, 1998, Hines Nurseries employed approximately 122 direct sales consultants, key account managers and merchandisers. National accounts are serviced through "National Account Task Teams" comprised of a senior management member and direct sales personnel from each nursery supplying the account. Hines Nurseries also markets its products through trade shows, print advertising in trade journals, direct mail promotion and catalogues.

Competition. Competition in the nursery products segment of the lawn and garden industry is based principally on breadth of product offering, consistent product quality and product availability, customer service and price. The nursery products segment is highly fragmented, comprised of approximately 30,000 primarily small and regionally based growers, with the top 100 growers accounting for approximately 22% of the industry volume in

1997. Management believes Hines Nurseries is one of only two growers able to serve every major regional market in North America; the Company's only national competitor being Monrovia Nursery Company. In each of its markets, Hines competes with regional growers such as Color Spot in the West, Clinton Nurseries in the Northeast, Zelenka Nurseries in the Midwest, Wight Nurseries in the South and many other smaller regional and local growers. Hines Nurseries' key competitive advantage is its ability to provide consistent, high quality products in large volumes, its nationwide distribution and its value-added services.

Sun Gro Peat and Peat-Based Products Business

Sun Gro harvests and produces high quality, sphagnum peat moss and peat-based potting and growing mixes. Sphagnum peat moss is partially decomposed sphagnum moss, a plant whose unique cellular structure consists of large cavities with sponge-like absorption characteristics for air and water. Because the optimal balance of air and water is essential for root development and plant growth, organic sphagnum peat moss is generally considered the highest quality growing medium available. While there are less expensive products on the market that are used for similar purposes, such as top soil, manure, bark, mulch and composts made from yard or sewage wastes, these products do not contain the superior soil aeration and water and nutrient retention characteristics of peat moss.

Sun Gro markets peat moss under its Sunshine(TM), Parkland(TM), Fairway(TM), Black Gold(TM), Lakeland Grower(TM), Alberta Rose(TM), Nature's(TM) and Gardener's Gold(TM) trade names in both the professional and retail markets in four different grades: fine, medium, coarse and super coarse. Fine grade is typically sold in the retail market, while the other grades, particularly coarse grade, are sold to professional growers. Capitalizing on its strong market position in the professional peat moss market, Sun Gro has become one of the leading North American suppliers of value-added, peat-based growing mixes used for specific professional applications such as seed germination, cutting propagation and greenhouse crop production. As a result of Sun Gro's success with this product line, higher margin professional growing mixes now constitute a greater percentage of Sun Gro's professional market sales than pure peat moss. Sun Gro's retail potting mixes use a similar blend of ingredients

as its professional growing mixes, but are specifically targeted to home gardeners. By highlighting formulations for specific plant varieties, Sun Gro has expanded its product offerings to the retail customer.

Sun Gro's peat moss and peat-related products are sold directly and by distributors throughout the United States and Canada. Sun Gro also markets its product internationally through distributors who sell to Mexico and Japan and, to a lesser extent, other countries in Asia and South America. Peat moss is sold to both the professional and retail markets, while growing mixes are sold exclusively to the professional market as potting mixes are to the retail market. Sun Gro's professional customers consist of greenhouse growers, nursery growers and golf course developers. Sun Gro's retail customers are similar to those of Hines Nurseries.

The following table sets forth the estimated percentage of Sun Gro's net sales by customer type for the period indicated:

Customer Type	1996	1997	1998
Professional:			
Greenhouse growers and vegetable farmers	61%	57%	61%
International/others	10	11	7
Golf course developers	5	6	5
Total Professional	76%	74%	73%
Retail:			

Home centers and mass merchandisers	16%	18%	17%
Independent garden centers	5	5	3
Garden center chains	3	3	7
Total Retail	24%	26%	27%
Total Professional and Retail	100%	100%	100%

</TABLE>

Sun Gro's top ten customers accounted for approximately 30%, 28% and 26% of Sun Gro's net sales in 1996, 1997 and 1998, respectively. No single Sun Gro customer accounted for more than 10% of consolidated net sales in 1996, 1997 and 1998.

Research and Development. Sun Gro's research and development efforts focus on the creation and development of new value-added peat-based growing mixes for retail and professional customers. Such mixes often command higher prices and provide higher profit margins than peat alone. Differences in growing mixes may relate to differences in coarseness of peat and amounts of nutrient additives, including limestone, and other mix constituents, such as perlite, vermiculite and bark. Sun Gro's research and development efforts have resulted in the commercial introduction of approximately 35 new growing mixes and related products since 1992.

Sales and Marketing. Sun Gro sells its products on a direct basis and through a network of approximately 205 distributors located throughout North America. As of December 31, 1998, Sun Gro's direct sales force was comprised of approximately 36 employees who are highly trained in the technical applications of its products. Approximately 56% of Sun Gro's sales are conducted through the distributor network. Sun Gro's distributor network provides broad market coverage, reduces credit exposure and distributes products to smaller growers cost effectively.

Competition. Competition in the peat moss and professional growing and potting mix segment of the lawn and garden industry is based principally upon product quality, distribution, service and price. Management believes Sun Gro is one of the largest producers and marketers of plant-growing media in North America. Sun Gro's principal competition comes from Premier Canadian Enterprises, Ltd., a Canadian producer of peat moss, and The Scotts Company, which competes mostly in the retail growing mix and potting mix markets. Sun Gro's key competitive advantages are its control over high quality peat moss reserves, its strong relationships throughout its distributor network and its ability to provide significant technical support.

Financial Information on the Company's Foreign Operations and Operating Segments

See Notes 13 and 18 to the Company's consolidated financial statements, which are included as a separate section of this Report beginning on page F-1.

Seasonality

The Company's nursery business is highly seasonal in nature, with most of its sales typically occurring in the first half of the year. Sun Gro's business is more heavily weighted towards the professional markets, which do not typically experience the large seasonal variances present in the retail peat market. The table below sets forth the Company's quarterly net sales, as a percentage of total year net sales, during the year ended December 31, 1998:

<TABLE>
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Quarter	Percentage of Total 1998 Net Sales
<S>	<C>
First Quarter	21%
Second Quarter	49
Third Quarter	15

Fourth Quarter................................	15

	100%
	===

</TABLE>

Patents and Trademarks

The Company has registered numerous trademarks, service marks and logos used in its businesses in the United States and Canada. In addition, the Company has developed and continues to develop specialty plants for which it holds patents registered with the U.S. Patent and Trademark Office. The Company currently holds 24 patents with 1 patent application pending.

Government Regulation

The Company is subject to certain United States and Canadian federal, state, local and provincial health, safety and environmental laws and regulations regarding the production, storage and transportation of certain products and the disposal of its wastes. The EPA and similar state and local agencies regulate the Company's operations and activities, including but not limited to water runoff and the use of certain pesticides in its nursery operations. With respect to its peat moss operations, the Company has various operating, monitoring and site maintenance obligations, which are prescribed by various Canadian and U.S. agencies. The Company does not anticipate that future expenditures for compliance with such environmental laws and regulations will have a material adverse effect on the Company's financial position or results of operations. The Company cannot give any assurance, however, that compliance with such laws and regulations, or compliance with other environmental laws and regulations that may be enacted in the future, will not have an adverse effect.

Hines Nurseries obtains certain irrigation water supplied to local water districts from facilities owned and operated by the United States acting through the Department of Interior Bureau of Reclamation ("reclamation water"). The use and price of reclamation water, including availability of subsidized water rates, is governed by federal reclamation laws and regulations. Hines Nurseries utilizes reclamation water as one of the water supplies for its Northern California and Oregon facilities. While the Company believes that the nursery operations are in compliance with applicable regulations and it maintains a continuous compliance program, there can be no assurance that changes in law will not reduce availability of or increase the price of, reclamation water to the Company.

Employees

As of December 31, 1998, the Company employed approximately 2,945 persons, including approximately 775 seasonal employees. Of this total, approximately 2,255 were employed by Hines Nurseries, including approximately 495 seasonal employees (seasonal employment peaked at 1,456 in April), and approximately 690 were employed by Sun Gro, including approximately 280 seasonal employees (its peak seasonal employment). As of December 31, 1998, approximately 500 of Sun Gro's employees were employed in Canada. All of Hines Nurseries' employees are non-union. The non-management employees at Sun Gro's Canadian peat processing facilities, which vary seasonally in number from approximately 200 to 300, are represented by various labor unions, with collective bargaining agreements in effect for all such facilities. Sun Gro's agreement with the United Food and Commercial Workers Union, which covers 135 employees at its Manitoba facility, expires in May 1999 and the Company expects negotiations to begin in April 1999. Sun Gro's agreements with the Brotherhood of Carpenters and Joiners of America, which cover 71 employees at Sun Gro's Lameque, New Brunswick facility and 49 employees at its Maisonnette, New Brunswick facility, expire in December 2000 and August 2001, respectively. The Company's management believes labor relations are good.

CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains forward-looking statements. Hines desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protections of the safe harbor with respect to all forward-looking statements. Several important factors, in addition to the specific factors discussed in connection with such forward-looking statements individually, could affect the future results of the Company and could cause those results to differ materially from those expressed in the forward-looking statements contained herein.

The Company's estimated or anticipated future results, products and service performance or other non-historical facts are forward-looking and reflect Hines' current perspective of existing trends and information. These statements involve risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, the continued ability of Hines' to access water, the impact of growing conditions, risks associated with customer concentration, future acquisitions and the ability to integrate such acquisitions in a timely and cost effective manner, the ability to manage growth, the impact of competition, the ability to obtain future financing, limitations of leverage and debt restrictions, government regulations, the successful and timely implementation of the Company's Year 2000 Compliance Program and other risks and uncertainties defined from time to time in Hines' Securities and Exchange Commission filings.

Therefore, the Company wishes to caution each reader of this report to consider carefully these factors as well as the specific factors discussed with each forward-looking statement in this report and disclosed in the Company's filings with the Securities and Exchange Commission as such factors, in some cases, have affected, and in the future (together with other factors) could affect, the ability of the Company to implement its business strategy and may cause actual results to differ materially from those contemplated by the statements expressed herein.

Item 2. PROPERTIES

The Company owns approximately 3,190 acres related to its nursery facilities and approximately 1,792 acres of harvestable peat bogs in Canada. In addition, the Company leases approximately 1,377 acres related to its nursery facilities (including leases from Blooming Farm, Inc., an affiliated entity) and approximately 49,000 acres of harvestable peat bogs in Canada from provincial governments and various private parties. Sun Gro has historically been able to renew its leases upon expiration. However, no assurance can be given that Sun Gro will be able to do so in the future. The Company's management believes that its owned and leased facilities are sufficient to meet its operating requirements for the foreseeable future.

The Company's facilities are identified in the table below:

<TABLE>
<CAPTION>

Location	Description	Status
<C>	<S>	<C>
Hines Nurseries		
Danville, Pennsylvania.............	141 acre nursery	Leased
Fallbrook, California..............	266 acre nursery	Leased(a)
Forest Grove, Oregon...............	1,106 acre nursery	Owned/leased(b)
Fulshear, Texas....................	450 acre nursery	Owned
Irvine, California.................	454 acre nursery and headquarters	Leased
Lake Elsinore, California..........	85 acres of undeveloped land	Leased(a)
Northern California(c).............	1,445 acre nursery	Owned
San Joaquin Valley, California(d)..	48 acre nursery	Owned/leased(e)
Trenton, South Carolina............	572 acre nursery	Owned/leased(f)
Sun Gro		
Seba Beach, Alberta................	53,000 square foot processing and mixing	Owned/leased(g)

	facility and 11,666 acres of peat bogs	
Vilna, Alberta....................	61,540 square foot processing and mixing facility located on 295 acres and 1,676 acres of peat bogs	Owned/leased(g)
Wandering River, Alberta..........	2,723 acres of peat bogs	Owned/leased(g)
Corrigall Lake, Mallaig, Lobstick, Alberta...........................	1,602 acres of peat bogs and 30 acres of vacant land	Owned/leased(g)
Elma, Manitoba....................	73,700 square foot processing and mixing facility and 20,352 acres of peat bogs	Owned/leased(g)
Julius, Manitoba..................	39,000 square foot processing facility and 3,818 acres of peat bogs	Owned/leased(g)
Lameque, New Brunswick............	50,400 square foot processing and mixing facility and 4,454 acres of peat bogs	Owned/leased(g)
Maisonnette, New Brunswick........	47,900 square foot processing facility and 1,029 acres of peat bogs	Owned/leased(g)
Quincy, Michigan..................	83,700 square foot mixing facility	Owned
Terrell, Texas....................	55,800 square foot mixing facility	Owned
Surrey, British Columbia..........	30,000 square foot depot/storage yard	Leased
Iroquois Falls, Ontario...........	29 acres of vacant land	Owned
Matheson, Bingle Lake, Ontario.....	1,794 acres of peat bogs	Owned/leased(g)
Niagara Falls, Ontario............	8,000 square foot depot/storage yard	Owned
Montreal, Quebec..................	33,000 square foot depot/storage yard	Owned
Bellevue, Washington..............	10,000 square foot office (headquarters)	Leased
Hubbard, Oregon...................	24,840 square foot mixing facility on 7 acres	Owned
Fillmore, Utah....................	48,400 square foot mixing facility on 21 acres	Owned

</TABLE>

(a) The lease contains a purchase option that the Company has exercised. The Company is in negotiations regarding the purchase price, and expects to consummate the purchase of this property in 1999.

(b) The Company owns 745 acres and leases 361 acres at this nursery.

(c) The Northern California nursery consists of sites in Vacaville and Allendale, California.

(d) The San Joaquin Valley nursery consists of sites in Chowchilla and Madera, California.

(e) The Company owns 38 acres and leases 10 acres at this nursery.

(f) The Company owns 512 acres and leases 60 acres at this nursery.

(g) The Company leases all but 1,792 acres in the aggregate of these peat bogs from Canadian provincial governments and various private parties. The Company's peat processing facilities are owned by the Company but, with the exception of the Vilna peat-processing facility, these facilities are situated on land leased to the Company by Canadian provincial governments and various private parties.

Item 3. LEGAL PROCEEDINGS

From time to time, the Company is involved in various disputes and litigation matters, which arise in the ordinary course of business. The litigation process is inherently uncertain and it is possible that the resolution of these disputes and lawsuits may adversely affect the Company's financial position. Management believes, however, that the ultimate resolution of such matters will not have a material adverse impact on the Company's consolidated financial position or results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

As a result of the Company's initial public offering on June 22, 1998, the common stock of Hines trades on The Nasdaq National Market under the symbol "HORT". As of March 15, 1999, there were 70 registered holders of record of the Company's common stock. The following table sets forth the quarterly high and low share price for the year ended December 31, 1998:

<TABLE>
<CAPTION>

	High	Low
<S>	<C>	<C>
2nd quarter, (from June 22)	$11 3/8	$10 1/2
3rd quarter	11 1/4	6 7/8
4th quarter	8 7/8	5

</TABLE>

Hines has not paid dividends on the common stock in the past and does not presently plan to pay dividends on the common stock. The payment of dividends is restricted under the terms of the Company's senior credit agreement and senior subordinated note indenture. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Recent Sales of Unregistered Securities

On February 5, 1998, in a transaction exempt from Registration under Section 4(2) of the Securities Act, Hines issued to MDCP, for $2,000,000 in cash, 2,000 shares of Hines' 12% Cumulative Redeemable Senior Preferred Stock ("Senior Preferred Stock"), having an aggregate liquidation value of $2,000,000. All of Hines' Senior Preferred Stock was converted into common stock in connection with the Offering.

On March 18, 1998, in a transaction exempt from Registration under Section 4(2) of the Securities Act, Hines issued and sold to Abbott Capital 1330 Investors I, L.P. ("Abbott") (1) 4,250 shares of Senior Preferred, at a price per share of $970.21 per share, and (2) presently exercisable warrants to purchase 93,034 shares of common stock, with an exercise price of $.01 per share. Each warrant entitled the holder to purchase one share of common stock at a price of $1.36. The purchase price was paid in cash. Abbott exercised all of its warrants immediately prior to the Offering.

On April 2, 1998, in a transaction exempt from Registration under Section 4(2) of the Securities Act Hines issued and sold to Abbott (1) 250 shares of Senior Preferred Stock, at a price per share of $970.21 per share, and (2) presently exercisable warrants to purchase 5,473 shares of common stock, with an exercise price of $.01 per share. Each warrant entitled the holder to purchase one share of common stock at a price of $1.36. The purchase price was paid in cash. Abbott exercised all of its warrants immediately prior to the Offering.

Item 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial data for the years ended December 31, 1994 and December 31, 1995 have been derived from Hines' consolidated financial statements, which have been audited by Arthur Andersen LLP, independent accountants. The selected historical consolidated financial data for the years ended December 31, 1996 through December 31, 1998 have been derived from Hines' consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP, independent accountants, as indicated in their report included elsewhere herein. The following selected historical consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K.

<TABLE>
<CAPTION>

	For the Years Ended December 31, (a)				
	1994	1995	1996	1997	1998
	(In thousands, except share and per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:					
Net sales	$134,781	$ 156,909	$ 164,323	$ 201,256	$ 234,962
Cost of goods sold	60,827	72,245	80,812	99,407	115,013
Gross profit	73,954	84,664	83,511	101,849	119,949
Operating expenses	50,274	58,392	60,757	70,408	82,170
Unusual operating expenses (b)	--	--	830	343	--
Operating income	23,680	26,272	21,924	31,098	37,779
Interest expense	9,422	17,831	21,080	21,805	20,460
Provision for income taxes	3,635	2,850	636	3,516	6,845
Income from continuing operations	10,623	5,591	208	5,777	10,474
Income (loss) from continuing operations per common share: (c)					
Basic	29,860 (d)	0.06	(0.48)	(0.12)	0.32
Diluted	29,860	0.06	(0.48)	(0.12)	0.32
Weighted average shares outstanding (f):					
Basic	264	3,061,984	7,439,190	7,550,174	15,106,960
Diluted	264	3,061,984	7,439,190	7,550,174	15,353,016
Other Data:					
Capital expenditures	$ 7,389	$ 7,684	$ 8,752	$ 10,130	$ 19,189
Cash paid for income taxes (e)	131	3	4	161	168
Balance Sheet Data (at end of period):					
Working capital	$ 26,132	$ 42,825	$ 29,597	$ 27,548	$ 51,757
Short-term debt	18,025	16,751	34,254	48,502	33,916
Total assets	140,906	188,544	227,515	268,819	315,110
Long-term debt	63,107	157,742	152,769	160,356	145,633
Redeemable preferred stock	--	31,460	54,525	70,682	--
Shareholders' equity (deficit)	9,930	(67,798)	(70,900)	(71,751)	63,322

</TABLE>

NOTES TO SELECTED CONSOLIDATED FINANCIAL DATA
(dollars in thousands)

(a) From January 1, 1994 through December 31, 1998, the Company acquired the following six companies: OGP (January 27, 1995), Iverson (August 30, 1996), Flynn (November 27, 1996), Pacific Color (October 20, 1997), Bryfogle's (December 16, 1997) and Lakeland (April 6, 1998). The financial results include the operations of each acquisition since its respective acquisition date.

(b) Unusual operating expenses consist of certain severance and other restructuring costs of $830 and $1,537 in 1996 and 1997, respectively, net of a $1,194 gain from receipt of insurance proceeds on an involuntary disposal of fixed assets in 1997.

(c) After deduction of the minority interest in earnings of subsidiaries of $2,740 and $3,958 for the years ended December 31, 1994 and 1995 and accrued preferred stock dividends of $1,460, $3,775, $6,666 and $5,609 for the years ended December 31, 1995, 1996, 1997 and 1998, respectively.

(d) The financial statements for the year ended December 31, 1995 reflect purchase accounting for the exchange by certain members of management and other investors of their minority interests for stock of Hines in connection with the recapitalization of Hines on August 4, 1995. The repurchase by Hines of its own stock from shareholders (other than the continuing management shareholders) was recorded as a repurchase and retirement of treasury stock, which resulted in negative shareholders' equity. As a result of this transaction, the earnings per share amount for the year ended December 31, 1994 is not considered to be comparable to those for the years ended December 31, 1995, 1996, 1997 and 1998.

(e) Hines derives significant benefits under the U.S. federal tax code by qualifying to use the cash method of accounting and by qualifying under the "farming exception" to the uniform cost capitalization rules. As a result, the Company has generally not been required to pay significant cash income taxes and has generated net operating losses for federal income tax purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview--Tax Matters."

(f) All shares and per share amounts reflect a 1.3611-for-one reverse stock split effected on June 22, 1998.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K. This discussion contains trend analysis and other forward-looking statements that involve risks and uncertainties. Such risks and uncertainties are discussed at "Cautionary Statement for Purposes of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995" on page 8 of the Annual report of Form 10-K.

Overview

General. Hines is one of the largest commercial nursery operations in North America, producing one of the broadest assortments of container-grown plants in the industry. The Company sells its nursery products primarily to the retail segment which includes the premium independent garden centers, as well as the leading home centers and mass merchandisers, such as Home Depot, Lowe's, Wal-Mart, Kmart and Target. The Company is also the largest North American producer and marketer of sphagnum peat moss and professional peat-based growing mixes. The Company sells its peat-based products primarily to professional customers, including greenhouse growers, nursery growers and golf course developers. The Company believes that sales of its nursery products have been positively affected by societal and demographic trends, such as greater levels of homeownership, the aging of the American population and the increasing popularity of gardening. Recent trends in the retail distribution channel, such as the expansion of large "big box" retailers and their growing emphasis on the lawn and garden category, have increased consumer exposure to lawn and garden products. Management believes these trends have favorably impacted the Company and provide excellent opportunities for improved operating performance.

Seasonality. The Company's nursery business, like that of its competitors, is highly seasonal. The Company has, and expects to continue to experience significant variability in net sales, operating income and net income on a quarterly basis.

Acquisitions. The Company has completed a number of recent acquisitions to expand and diversify its operations. In the three years ended December 31, 1998, the Company completed five acquisitions. These acquisitions have and will continue to affect the period-to-period comparability of the operating results discussed below. The Company intends to pursue strategic acquisitions from time to time that increase its production capacity, broaden or complement its existing product lines, expand its geographic presence or offer operating synergies. The Company believes that the highly fragmented nature of the nursery industry presents it with a number of opportunities to make such acquisitions, though the Company does not have current agreements to consummate any such acquisitions.

Tax Matters. The Company derives significant benefits under the U.S. federal tax code by qualifying to use the cash method of accounting for federal income tax purposes. Under the cash method, sales are included in taxable income when payments are received and expenses are deducted as they are paid. The primary benefit the Company receives is the ability to deduct the cost of inventory as it is incurred. As a result of the Company's ability to deduct its growing costs under the farming exception, the Company has generally not been required to pay cash income taxes and has generated net operating losses for federal income tax purposes. During the same period, the Company has continued to show a tax provision relating to the recording of deferred taxes. At December 31, 1998, the Company had approximately $36 million in net operating loss carryforwards for federal income tax reporting purposes.

Results of Operations

Fiscal Year Ended December 31, 1998 compared to Fiscal Year Ended December 31, 1997.

Net sales. Net sales of $235.0 million for the fiscal year ended December 31, 1998 increased $33.7 million, or 16.7%, from net sales of $201.3 million for the comparable period in 1997. The Company's sales of nursery products increased 19.1%, which included $16.2 million of sales from Pacific Color (acquired on October 20, 1997) and Bryfogle's (acquired on December 16, 1997). Excluding these acquisitions, sales from

the Company's nursery operations increased 7.4% from the comparable period in 1997. The higher sales were primarily due to increased sales in the eastern and southern regions of the country, resulting from continued expansion of existing operations. This increase was partially offset by lower sales in the western and southwestern regions of the country, particularly in California, where the historically strong seasonal demand was reduced due to excessive rainfall attributable to El Nino during the period.

Net sales of the Company's peat moss and peat-based products increased by $9.4 million, or 12.7%, from the comparable period in 1997. Fiscal year 1998 sales included $11.7 million from Lakeland, acquired on April 6, 1998. Excluding the Lakeland acquisition, sales decreased 3.1% from the comparable period in 1997. Sales of peat-based products in the western United States were negatively impacted during the first half of the year by unseasonably wet weather attributable to El Nino. The Company's strategy of emphasizing sales to professional customers was reflected in a 3.3%, or $1.8 million, increase in sales to this customer segment during the period. Likewise, the Company's strategy to move away from unprofitable and low margin customers resulted in reduced sales to retail customers of $4.1 million, or 22.0%, compared to 1997.

Gross profit. Gross profit of $119.9 million (51.1% of net sales) for the year ended December 31, 1998 increased $18.1 million, or 17.8%, from gross profit of $101.8 million (50.6% of net sales) for the comparable period in 1997. The increase was primarily attributable to higher sales and improved gross profit from the Company's peat moss operations resulting from the heightened emphasis on professional customers and pricing improvements in all professional products. As a percent of sales, gross margin improved by .5% to 51.1% of net sales as lower nursery operation gross margins were more than offset by improved margins in the peat moss operations. The gross margins of the nursery operations were depressed by the newly-acquired companies, which initially have lower margins than those of the core nursery business. However, the gross profit and operating performance of recently acquired companies have generally improved following the installation of Hines' operating systems and their integration into the Company.

Operating expenses. Operating expenses of $82.2 million (35.0% of net sales) for the fiscal year ended December 31, 1998 increased $11.4 million, or 16.1%, from $70.8 million (35.2% of net sales) for the comparable period in 1997. The increase was primarily attributable to acquisitions and the significant investment in sales and management infrastructure required to support the Company's current and future growth. Excluding the impact of acquisitions, the operating expenses of the Company's nursery operations increased 21.7% while operating expenses of the Company's peat moss operation decreased 13.6%. The increase in operating expenses of the nursery operations was due to higher selling and general and administrative expenses, related to significant investments in sales and management infrastructure required to support the Company's current and future growth. The decrease in operating expenses of the Company's peat moss operations was primarily due to the reduction in promotional and advertising programs targeted at retail customers resulting from the shift away from the lower margin retail peat business. Total operating expenses as a percentage of net sales decreased .2% to 35.0% due primarily to improved operating leverage at the Company's peat moss operation.

Operating income. Operating income of $37.8 million (16.1% of net sales) for the fiscal year ended December 31, 1998 increased $6.7 million, or 21.5%, from $31.1 million (15.5% of net sales) for the comparable period in 1997. Operating income increased primarily due to higher sales and gross profit margins, which were partially offset by higher operating expenses, as described above. The higher operating margin resulted from improved gross margin and a reduction in operating expenses as a percentage of net sales.

Interest expense. Interest expense of $19.5 million for the year ended December 31, 1998 decreased $1.2 million from $20.7 million for the comparable period in 1997. The decrease was attributable to lower borrowing levels and financing costs under the Company's revolving credit facilities during the third and fourth quarter of the year. Another contributing factor was the redemption of $42.0 million of senior subordinated notes in connection with the Company's initial public offering of common stock in June 1998.

Provision for income taxes. The Company's effective income tax rate was 39.5% and 37.8% for the years ended December 31, 1998 and 1997, respectively. The higher effective tax rate in 1998 was due to the non-deductibility of the goodwill amortization related to recent acquisitions.

Net income. Net income of $6.1 million for the year ended December 31, 1998 increased $0.3 million, or 5.2%, from $5.8 million for the comparable period in 1997. Excluding the $4.4 million extraordinary loss on the early extinguishment of debt, net income increased by $4.7 million, or 81.4%, from net income of $5.8 million for the comparable period in 1997. The increase in net income was primarily attributable to an increase in sales and gross margins, partially offset by an increase in operating expenses, as described above.

Fiscal Year Ended December 31, 1997 compared to Fiscal Year Ended December 31, 1996.

Net sales. The Company had consolidated net sales of $201.3 million in 1997, representing an increase of $37.0 million, or 22.5%, from net sales of $164.3 million in 1996. The Company's sales of nursery products increased 38.2% to $127.5 million from net sales of $92.2 million in 1996. This 1997 performance reflects increased sales volume and prices from its existing nursery operations as well as $26.3 million of sales from the acquisitions of Iverson on August 30, 1996, Flynn on November 27, 1996, Pacific Color on October 20, 1997 and Bryfogle's on December 16, 1997. Excluding these acquisitions, sales from the nursery operations increased 9.6% in 1997. This sales growth resulted primarily from higher sales to home centers and mass merchandisers as well as increased sales volume of flowering color plants. Net sales of peat moss and peat-based products increased 2.3% to $73.8 million from $72.1 million in 1996 primarily due to volume growth in the professional market. Sales of peat to the retail market also increased in 1997 as a result of higher unit sales volume, partially offset by lower retail peat prices. Peat prices in the first half of 1997 continued to be adversely affected by the unusually long peat moss harvesting season in eastern Canada in 1995, which created an excess supply of peat moss in the Company's eastern markets.

Gross profit. Gross profit of $101.8 million (50.6% of net sales) for the fiscal year ended December 31, 1997 represents an increase of $18.3 million, or 21.9%, from gross profit of $83.5 million (50.8% of net sales) in 1996. This increase was primarily attributable to the Company's 1996 and 1997 nursery acquisitions and higher sales from the Company's existing nursery operations. The slight decrease in gross margin percentage was primarily due to lower margins from these acquisitions, which are in varying stages of being integrated into the Company's existing nursery operations.

Operating expenses. Operating expenses of $70.8 million (35.2% of net sales) for the fiscal year ended December 31, 1997 represented an increase of $9.2 million, or 14.9%, from $61.6 million of operating expenses (37.5% of net sales) in 1996. Operating expenses in 1997 included $0.3 million of unusual expenses, which consisted of $1.5 million of severance and other restructuring costs (compared to $0.8 million in 1996), net of a $1.2 million gain on the involuntary disposal of fixed assets in connection with property damage covered by insurance. While the absolute increase was largely related to the Company's nursery acquisitions, the reduction as a percentage of net sales was primarily attributable to leveraging fixed costs over a larger sales base.

Operating income. Operating income of $31.1 million (15.4% of net sales) for the fiscal year ended December 31, 1997 represents an increase of $9.2 million, or 42.0%, from $21.9 million (13.3% of net sales) in 1996. The increase was primarily due to the Company's nursery acquisitions and higher sales from the Company's existing nursery operations. The improved operating margin resulted from a reduction in operating expenses as a percentage of sales more than offsetting the slight decrease in gross margins.

Interest expense. Interest expense of $20.7 million for the fiscal year ended December 31, 1997 increased $0.6 million from $20.1 million in 1996. The increase was attributable to higher borrowing levels as a result of increased capital expenditures and working capital requirements relating to the acquisitions. This increase was partially offset by lower interest rates.

Provision for income taxes. The effective income tax rate was 37.8% and 75.4% for the years ended December 31, 1997 and 1996, respectively. The decrease in the Company's effective income tax rate was due primarily to the $0.3 million increase in the valuation allowance in 1996 against certain net operating loss carryforwards and investment tax credits related to Sun Gro-Canada.

Net income. Net income of $5.8 million for 1997 represented an increase of $5.6 million from net income of $0.2 million for the comparable period in 1996. The increase was primarily due to the Company's higher sales and operating margins as discussed above.

Liquidity and Capital Resources

The Company has historically satisfied its working capital requirements through operating cash flow. Due to the highly seasonal nature of the

Company's nursery operations, borrowings under its revolving credit facilities fund peak needs.

On June 22, 1998, the Company completed the issuance of 5.1 million shares of common stock through an initial public offering resulting in net proceeds to the Company (after deducting issuance costs) of approximately $50.2 million. The proceeds were used for the redemption on July 29, 1998, of $42.0 million in aggregate principal amount of senior subordinated notes and repayment, in part, of certain debt secured by a mortgage.

In conjunction with the Offering, the Company entered into a new senior credit facility (the "Senior Credit Facility") with Bankers Trust Company, Bank of America, N.T. & S.A. and Harris Trust & Savings Bank. The Senior Credit Facility amended and restated the Company's previous senior credit facilities to provide for a new $50.0 million term loan and a $200.0 million revolving credit facility, increasing the Company's total borrowing capacity by $100.0 million. The revolving credit facility is comprised of a $100.0 million working capital facility and a $100.0 million acquisition facility. The Senior Credit Facility has a five-year term. The revolving credit facility and all other obligations under the Senior Credit Facility are secured by substantially all of the assets and common stock of Hines Nurseries and Sun Gro-U.S., as well as a pledge of 65% of the common stock of Sun Gro-Canada. The principal repayment schedule for the term loan is $2.5 million in 1999, $6.25 million in 2000, $11.25 million in 2001, $18.75 million in 2002 and $11.25 million in 2003. Amounts borrowed under the acquisition facility will convert into a term loan in 2000 and will begin to amortize thereafter. The Senior Credit Facility, among other things, limits the ability of Hines and subsidiaries to pay any dividends.

In October 1995, Hines Nurseries issued $120.0 million in aggregate principal amount of 11 3/4% senior subordinated notes due 2005 (the "Senior Subordinated Notes") to refinance certain indebtedness incurred in connection with the acquisition of Hines by MDCP and certain members of management. These Senior Subordinated Notes were subsequently exchanged in a registered offering for $120.0 million of its 11 3/4% Senior Subordinated Notes due 2005, Series B. As of December 31, 1998, $78.0 million in aggregate principal amount remains outstanding. The indenture pursuant to which the Senior Subordinated Notes were issued imposes a number of restrictions on Hines Nurseries and Sun Gro-U.S. The indenture limits, among other things, their ability to incur additional indebtedness, to make certain restricted payments (including dividends to Hines), to make certain asset dispositions, to incur certain liens and to enter into certain significant transactions. In addition, breach of a material term of the indenture or any other material indebtedness that results in the acceleration of such indebtedness would trigger an event of default under the Senior Credit Facility, causing all amounts owing thereunder to become immediately due and payable. The Senior Credit Facility imposes a number of similar and certain additional restrictions (including financial covenants) on Hines Nurseries and Sun Gro-U.S and its subsidiaries.

Net cash provided by operating activities for the year ended December 31, 1998 of $16.0 million increased $13.8 million, from $2.2 million for the comparable period in 1997. The higher cash level generated was primarily due to increases in net income and accounts receivable collections compared with the prior year. The seasonal nature of the Company's operations results in a significant increase in certain components of working capital (primarily accounts receivable and inventory) during the growing and selling cycles. As a result, operating activities during the first and fourth quarters of 1998 used significant amounts of cash, totaling $27.1 million and $14.5 million, respectively. In contrast, the operating activities for the second and third quarters generated substantial cash, totaling $40.0 million and $17.6 million, respectively, as the Company shipped inventory and collected accounts receivable.

Net cash used for investment activities during the year ended December 31, 1998 increased $9.1 million to $38.8 million from $29.7 million for the comparable period in 1997. The increase was primarily due to the Company's increased purchases of fixed assets to develop additional nursery acreage, and the purchase of nursery-related structures, certain vehicles, machinery and equipment.

Net cash provided by financing activities during the year ended December 31, 1998 decreased $8.7 million to $20.8 million from $29.5 million for the comparable period in 1997. The decrease was primarily associated with the redemption of a portion of the Senior Subordinated Notes and the repayment of other debt obligations.

The Company typically draws under its revolving credit facilities in the first and fourth quarters to fund its inventory buildup of nursery products and seasonal operating expenses. Approximately 79% of the sales of Hines Nurseries occur in the first half of the year, generally allowing the Company to reduce borrowings under its revolving credit facilities in the second and third quarters. Working capital requirements for the Company's peat moss operations are less seasonal in nature, with slight inventory buildups generally occurring in the third and fourth quarters. On March 15, 1999, the Company had unused borrowing capacity of $81.0 million and $35.5 million under its acquisition revolver and working capital revolver, respectively, within the Senior Credit Facility.

As a result of the Company's ability to deduct its growing costs under the farming exception, the Company has generally not been required to pay cash income taxes in recent years and has generated net operating losses for federal income tax purposes. Even with the benefits of the farming exception, the Company may nonetheless be required to pay cash income taxes in future years after use, loss or expiration of its tax net operating loss carry forwards. Such cash income taxes could also result from increased taxable income due to, among other reasons, (1) reduction in the Company's deduction for interest expense resulting from the Company's repayment of indebtedness with the proceeds of the Offering, (2) any slowdown in, or elimination of, future growth in the Company's inventory of growing plants, or (3) limits on the Company's ability to use net operating loss carryforwards to offset all of its tax liability under the alternative minimum tax system.

The Company's capital expenditures were approximately $19.2 million for the year ended December 31, 1998. The capital expenditures for Hines Nurseries ($15.8 million) related primarily to the purchase and development of additional nursery acreage and the purchase of nursery-related structures, certain vehicles, machinery and equipment. The capital expenditures for Sun Gro ($3.4 million) related primarily to peat bog development and the purchase of peat bog harvesting and processing equipment. The Company's capital expenditures for 1999 are expected to be approximately $25.1 million.

Management believes that cash generated by operations and borrowings available under the Senior Credit Facility will be sufficient to meet the Company's anticipated working capital, capital expenditures and debt service requirements for the foreseeable future. However, as a result of its plan to pursue strategic acquisitions, the Company may require additional debt or equity financing in the future.

Year 2000 Compliance

The Company has instituted a program to determine whether its computerized information systems are able to interpret dates beyond the year 1999 (the "Year 2000 Compliance Program") and has implemented programming modifications to its main operational and financial reporting systems that will address these issues. All modified programming is currently operational and testing has been completed. The financial systems of companies recently acquired by the Company may not be entirely Year 2000 compliant. It is expected, however, that the Company will integrate the financial data of these acquired companies into the Company's main system during 1999 and will have no need to rely on any non-compliant systems.

The Company is in the early stage of evaluating non-information technology systems, which would include telephone equipment, greenhouse automation and watering systems. Upgrades or replacements are being made as necessary, and is expected to be completed by the end of 1999.

Evaluation and testing of personal computers will be performed internally. As needed, personal computers will be made Year 2000 compliant by systematic upgrades or replacements by the end of 1999.

The Company relies on third party suppliers for finished goods, raw materials, water, other utilities, transportation and a variety of other key services. The Company is evaluating the status of suppliers with a material relationship with the Company through confirmation and follow-up procedures and expects this phase to be completed by mid-1999.

The total cost of the Year 2000 Compliance Program is not expected to be material to the Company's consolidated financial position or results of operations. To date, the Company has spent approximately $.3 million on Year 2000 compliance. The Company believes that the total cost of ensuring Year 2000 compliance for its own operational and financial systems will be less than $.5 million.

Although management believes the Company has an adequate plan to be Year 2000 compliant, there can be no assurance that this program ultimately will be successful. The Company will continue to assess where alternative courses of action are needed as the information technology and non-information technology readiness plans are executed. The drive for formal contingency planning will be in the third quarter of 1999, once a significant amount of the business groups' readiness plans have been completed.

The principal business risks to the Company relating to completion of Year 2000 efforts are:

- The inability of key business partners to provide goods and services as a result of Year 2000 issues.

- Unforeseen issues arising in connection with recent and future acquisitions/business partnerships.

Because the Company's Year 2000 readiness is dependent upon key business partners also being Year 2000 ready, there can be no guarantee that the Company's efforts will prevent a material adverse impact on its results of operations, financial condition and cash flows. The possible consequences to the Company of its key business partners' inability to provide goods and services as a result of Year 2000 issues include temporary delays in delivery of finished products; delays in receipt of key ingredients, containers and packaging supplies; invoice and collection errors; and excess inventory of perishable items. The Company believes that its readiness efforts, which include confirmation and other testing with critical suppliers to determine if contingency planning is needed, should reduce the likelihood of such disruptions.

The foregoing represents a Year 2000 readiness disclosure entitled to protection as provided in the Year 2000 Information and Readiness Disclosure Act.

New Accounting Pronouncements

In 1998, Hines adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 supersedes SFAS 14, "Financial Reporting for Segments of a Business Enterprise", replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. The adoption of SFAS 131 had no effect on the Company's consolidated results of operations, financial position or cash flows. SFAS 131 did however require the disclosure of segment information (refer to Note 13 to the Company's consolidated financial statements).

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP provides guidance on accounting for certain costs in connection with obtaining or developing computer software for internal use and requires that entities capitalize such costs once certain criteria are met. The Company is required to adopt SOP 98-1 as of January 1, 1999.

Effects of Inflation

Management believes the Company's results of operations have not been materially impacted by inflation over the past three years.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As part of its ongoing business, the Company is exposed to certain market risks, including fluctuations in interest rates, foreign currency exchange rates, commodity prices and its common stock price. The Company does not enter into transactions designed to mitigate its market risks for trading or speculative purposes. As of December 31, 1998, the Company had no foreign exchange contracts and options outstanding.

The Company manages its interest rate risk by balancing the amount of its fixed and variable long-term debt. For fixed rate debt, interest rate changes affect the fair market value of such debt but do not impact earnings or cash flows. Conversely, for variable rate debt, interest rate changes generally do not affect the fair market value of such debt but do impact future earnings and cash flows, assuming other factors are held constant. At December 31, 1998, Hines had fixed rate long-term debt of $78.0 million and variable rate long-term debt of $69.0 million. Holding other variables constant (such as foreign exchange rates and debt levels), a one percentage point increase in interest rates would have decreased the unrealized fair market value of the fixed rate debt at December 31, 1998 by approximately $3.9 million and would be expected to have an estimated impact on pre-tax earnings and cash flows for next year of approximately $.7 million for the variable debt.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information in response to this item is submitted as a separate section of this Report on page F-1.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to the Company's 1998 Proxy Statement to be filed with the Securities and Exchange Commission.

Item 11. EXECUTIVE COMPENSATION

Incorporated by reference to the Company's 1998 Proxy Statement to be filed with the Securities and Exchange Commission.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference to the Company's 1998 Proxy Statement to be filed with the Securities and Exchange Commission.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the Company's 1998 Proxy Statement to be filed with the Securities and Exchange Commission.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. The financial statements listed in "Index to Financial Statements."

2. The exhibits listed in "Index to Exhibits."

(b) Reports on Form 8-K:

The Registrant filed no current reports on Form 8-K during the fourth quarter of the fiscal year ended December 31, 1998.

INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Acquisition Agreement dated as of July 20, 1995 by and among the Company, MDCP and Macluan Capital (Nevada) Inc. as amended by Amendment No. 1 to Acquisition Agreement dated as of August 4, 1995.(1)
3.1	Restated Certificate of Incorporation of the Company.(4)
3.2	Amended and Restated By-laws of the Company.+
4.1	Form of certificate representing Common Stock.(4)
4.2	Amended and Restated Credit Agreement dated June 26, 1998 among Hines Nurseries, Inc., Sun Gro Horticulture Canada, Ltd., and Lakeland Canada, Ltd., as borrowers, the lenders listed therein, Bank of America N.T. & S.A., as syndication agent, Harris Trust & Savings Bank, as documentation agent, BT Bank of Canada, as Canadian agent, and Bankers Trust Company, as administrative agent.(5)
4.3	Registration Agreement dated as of June 11, 1998 by and between Hines Holdings, Inc. and MDCP(4)
10.1	Stockholders Agreement dated as of August 4, 1995 by and among the Company and the other parties signatory thereto.(1)
10.2	Amendment No. 1 to Stockholders Agreement dated as of November 27, 1996.(2)
10.3	Amendment No. 2 to Stockholders Agreement dated as of December 15, 1997.(5)
10.4	Employment Agreement dated as of August 3, 1995 between Hines Horticulture and Douglas D. Allen.(1)*
10.5	Employment Agreement dated as of August 3, 1995 between Hines Horticulture and Stephen P. Thigpen.(1)*
10.6	Sun Gro Horticulture Inc. U.S. Executive Supplemental Retirement Plan.(1)*
10.7	Employment Agreement dated as of August 4, 1995 between Hines Horticulture and Claudia M. Pieropan.(1)*
10.8	Hines Horticulture Nursery Division Vision 2000 Management Variable Compensation Plan.(3)*
10.9	Sun Gro Division Management Variable Compensation Plan.(3)*
10.10	Management Stock Agreement dated as of September 29, 1997 by and between the Company and Stephen P. Thigpen.(2)
10.11	Management Stock Pledge Agreement dated as of September 29, 1997 by and between the Company and Stephen P. Thigpen.(2)
10.12	Promissory Note dated as of September 29, 1997 from Stephen P. Thigpen, as maker, to the Company.(2)
10.13	Purchase and Sale Agreement dated as of August 4, 1995 by and between Oregon Garden Products, Inc., as seller, and Blooming Farm, Inc., as buyer.(1)
10.14	Promissory Note dated August 4, 1995, from Blooming Farm, Inc., as maker, to Oregon Garden Products, Inc., as seller, and Blooming Farm, Inc., as buyer.(1)
10.15	Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Financing Statement dated August 4, 1995 from Blooming Farm, Inc., as trustor, to Ticor Title Insurance Company, as trustee, and Oregon Garden Products, Inc., as beneficiary.(1)

<TABLE>
<CAPTION>

Exhibit Number	Description
<C>	<S>
10.16	Agricultural Lease dated as of June 26, 1998 between Blooming Farm, Inc., as lessor, and Oregon Garden Products, Inc., as lessee.+
10.17	Demand Note dated October 17, 1997 in the principal amount of $2,500,000 from the Company, as maker, to MDCP.(2)
10.18	Purchase Agreement dated as of December 16, 1997 by and among the Company, Abbott Capital 1330 Investors I, LP and MDCP.(2)
10.19	Stock Purchase Warrants of the Company dated as of December 16, 1997 in favor of MDCP.(2)
10.20	Amendment No. 1 to Purchase Agreement, dated as of June 11, 1998, by and among Hines Holdings, Inc., MDCP and Abbott Capital 1330 Investors I, LP.(4)
10.21	Securities Purchase Agreement dated as of February 5, 1998 by and between the Company and MDCP.(2)
10.22	1998 Long-Term Equity Incentive Plan.(6)
10.23	Form of Incentive Stock Option Agreement.(4)
21.1	Subsidiaries of the Company.(4)
23.1	Consent of PricewaterhouseCoopers LLP+
27.1	Financial Data Schedule.+

</TABLE>

+Filed herewith.

*Management contract or compensatory arrangement.

(1) Incorporated by reference to Hines Holdings, Inc.'s Registration Statement on Form S-4, File No. 33-99452, filed on November 15, 1995 and amended on December 22, 1995 and January 8, 1996.

(2) Incorporated by reference to Hines Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997.

(3) Incorporated by reference to Hines Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.

(4) Incorporated by reference to Hines Horticulture, Inc.'s Registration Statement on Form S-1, File No. 333-51943, filed on May 6, 1998 and amended on May 26 1998 and June 16, 1998.

(5) Incorporated by reference to Hines Horticulture, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

(6) Incorporated by reference to Hines Horticulture, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on March 24, 1999.

HINES HORTICULTURE, INC.

/s/ Claudia M. Pieropan

By: ____________________________________

Claudia M. Pieropan
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person on behalf of the registrant in the capacities indicated on March 24, 1999.

<TABLE>
<CAPTION>

Signature	Title	
<S>	<C>	<C>
/s/ Stephen P. Thigpen ____________________________________	President, Chief Executive Officer and Director	

Stephen P. Thigpen	(principal executive officer)
/s/ Douglas D. Allen Douglas D. Allen	Chairman of the Board
/s/ Claudia M. Pieropan Claudia M. Pieropan	Chief Financial Officer, Secretary and Treasurer (principal financial and accounting officer)
/s/ James R. Tennant James R. Tennant	Director
/s/ Ronald A. Pierre Ronald A. Pierre	Director
/s/ Thomas R. Reusche Thomas R. Reusche	Director
/s/ Paul R. Wood Paul R. Wood	Director

</TABLE>

HINES HORTICULTURE, INC.
INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of Hines Horticulture, Inc. (formerly Hines Holdings, Inc.)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Hines Horticulture, Inc. (formerly Hines Holdings, Inc.) and its subsidiaries at December 31, 1998 and 1997 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Newport Beach, California
February 22, 1999

HINES HORTICULTURE, INC.
(FORMERLY HINES HOLDINGS, INC.)

CONSOLIDATED BALANCE SHEETS
December 31, 1997 and 1998
(Dollars in thousands)

<TABLE>
<CAPTION>

	December 31, 1997	December 31, 1998
ASSETS		
<S>	<C>	<C>
CURRENT ASSETS:		
Cash	$ 2,543	$ 515
Accounts receivable, net of allowance for doubtful accounts of $1,193 and $1,224	20,569	26,741
Inventories	106,007	118,126
Prepaid expenses and other current assets	1,958	2,326
Total current assets	131,077	147,708
FIXED ASSETS, net of accumulated depreciation and depletion of $20,459 and $29,221	92,406	125,417
DEFERRED FINANCING EXPENSES, net of accumulated amortization of $2,332 and $1,235	6,477	4,077
GOODWILL, net of accumulated amortization of $1,474 and $2,675	38,859	37,908
	$268,819	$315,110

<CAPTION>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:		
Accounts payable	$ 8,046	$ 9,388
Accrued liabilities	5,090	6,351
Accrued payroll and benefits	6,521	6,156
Accrued interest	219	751
Long-term debt, current portion	5,400	3,066
Borrowings on revolving credit facility	43,102	30,850
Deferred income taxes	35,151	39,389
Total current liabilities	103,529	95,951
LONG-TERM DEBT	160,356	145,633
DEFERRED INCOME TAXES	6,003	10,204
COMMITMENTS AND CONTINGENCIES		
CUMULATIVE REDEEMABLE SENIOR PREFERRED STOCK 12 PERCENT, par value $.01 per share; liquidation preference of $1,000 per share; 50,000 shares authorized; 39,500 shares issued at December 31, 1997	43,967	--
CUMULATIVE REDEEMABLE JUNIOR PREFERRED STOCK 12 PERCENT, par value $.01 per share; liquidation preference of $1 per share; 22,000,000 shares authorized; 20,847,986 shares issued at December 31, 1997	26,715	--
SHAREHOLDERS' EQUITY (DEFICIT)		
Common Stock		
Authorized--60,000,000 shares $.01 par value; Issued and outstanding--7,708,481 and 22,072,549 shares at December 31, 1997 and 1998	77	221
Additional paid in capital (accumulated accretion of cumulative redeemable preferred stock in excess of additional paid in capital)	(829)	127,992
Notes receivable from stock sales	(366)	(326)
Deficit	(70,633)	(64,565)
Total shareholders' equity (deficit)	(71,751)	63,322
	$268,819	$315,110

The accompanying notes are an integral part of these consolidated financial statements

HINES HORTICULTURE, INC.
(FORMERLY HINES HOLDINGS, INC.)

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 1996, 1997 and 1998
(Dollars in thousands except per share data)

	1996	1997	1998
Sales, net	$ 164,323	$ 201,256	$ 234,962
Cost of goods sold	80,812	99,407	115,013
Gross profit	83,511	101,849	119,949

Selling and distribution expenses	43,308	50,233	56,001
General and administrative expenses	18,239	20,403	25,779
Other operating (income) expenses	(790)	(228)	390
Unusual expenses	830	343	--
Total operating expenses	61,587	70,751	82,170
Operating income	21,924	31,098	37,779
Other expenses			
Interest	20,140	20,708	19,453
Amortization of deferred financing expenses	940	1,097	1,007
	21,080	21,805	20,460
Income before provision for income taxes	844	9,293	17,319
Income tax provision	636	3,516	6,845
Income before extraordinary item	208	5,777	10,474
Extraordinary item, net of tax benefit	--	--	4,406
Net income	208	5,777	6,068
Less: Preferred stock dividends and warrant accretion	(3,775)	(6,666)	(5,609)
Net income (loss) applicable to common stock	$ (3,567)	$ (889)	$ 459
Basic earnings per share:			
Income (loss) before extraordinary item	$ (0.48)	$ (0.12)	$ 0.32
Extraordinary item	$ --	$ --	$ (0.29)
Net income (loss) per common share	$ (0.48)	$ (0.12)	$ 0.03
Diluted earnings per share:			
Income (loss) before extraordinary item	$ (0.48)	$ (0.12)	$ 0.32
Extraordinary item	$ --	$ --	$ (0.29)
Net income (loss) per common share	$ (0.48)	$ (0.12)	$ 0.03
Weighted average shares outstanding--Basic	7,439,190	7,550,174	15,106,960
Weighted average shares outstanding--Diluted	7,439,190	7,550,174	15,353,016

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements

HINES HORTICULTURE, INC.
(Formerly Hines Holdings, Inc.)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 1996, 1997 and 1998
(Dollars in thousands except for share data)

<TABLE>
<CAPTION>

	Common Stock					
	Number of Shares	Amount	(i)	Notes Rec. Stock Sales	Retained Earnings (Deficit)	Shareholders' Equity (Deficit)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, December 31, 1995	7,346,999	$ 73	$ 8,467	$ --	$(76,338)	$(67,798)
Net proceeds from						

issuance of stock, net of expenses	208,184	2	169	--	--	171
Redemption of stock	(42,007)	--	(58)	--	--	(58)
Repurchase and retirement of stock	--	--	--	--	(280)	(280)
Cumulative undeclared dividends	--	--	(3,775)	--	--	(3,775)
Issuance of warrants, net of discount	--	--	824	--	--	824
Notes receivable from stock sales	--	--	--	(192)	--	(192)
Net income	--	--	--	--	208	208
BALANCE, December 31, 1996	7,513,176	75	5,627	(192)	(76,410)	(70,900)
Net proceeds from issuance of stock, net of expenses	213,048	2	24	--	--	26
Redemption of stock	(17,743)	--	(24)	--	--	(24)
Cumulative undeclared dividends	--	--	(6,666)	--	--	(6,666)
Issuance of warrants, net of discount	--	--	210	--	--	210
Notes receivable from stock sales	--	--	--	(174)	--	(174)
Net income	--	--	--	--	5,777	5,777
BALANCE, December 31, 1997	7,708,481	77	(829)	(366)	(70,633)	(71,751)
Net proceeds from issuance of stock, net of expenses	5,100,000	51	50,122	--	--	50,173
Preferred stock conversion	8,231,635	82	84,127	--	--	84,209
Promissory note conversion	117,302	2	1,198	--	--	1,200
Warrant conversion	915,131	9	(1,101)	--	--	(1,092)
Cumulative undeclared dividends	--	--	(5,609)	--	--	(5,609)
Issuance of warrants, net of discount	--	--	84	--	--	84
Payments received on notes receivable from stock sales	--	--	--	40	--	40
Net income	--	--	--	--	6,068	6,068
BALANCE, December 31, 1998	22,072,549	$221	$127,992	$(326)	$(64,565)	$ 63,322

</TABLE>

(i) Accumulated accretion of cumulative redeemable preferred stock (in excess) less than additional paid-in capital

The accompanying notes are an integral part of these consolidated financial statements.

HINES HORTICULTURE, INC.
(Formerly Hines Holdings, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1996, 1997 and 1998
(Dollars in thousands)

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 208	$ 5,777	$ 6,068
Adjustments to reconcile net income to net cash provided by operating activities--			
Depreciation, depletion and amortization	4,962	6,407	10,454
Amortization of deferred financing costs	940	1,097	1,007
Loss on early extinguishment of debt	--	--	7,417
Deferred income taxes	508	3,647	2,232
Loss on sale of fixed assets	--	--	230
Gain on involuntary disposal of fixed assets	--	(1,194)	--
Other	525	(81)	--
	7,143	15,653	27,408
Change in working capital accounts, net of effect of acquisitions:			
Accounts receivable	824	(4,373)	(1,863)
Inventories	(4,270)	(9,495)	(9,873)
Prepaid expenses and other current assets	(815)	1,008	(244)
Other assets	(577)	(322)	--
Accounts payable and accrued liabilities	(3,500)	297	590
Other liabilities	(361)	(581)	--
Net cash (used in) provided by operating activities	(1,556)	2,187	16,018
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(8,752)	(10,130)	(19,189)
Proceeds from sale of fixed assets	175	154	301
Proceeds from insurance claims	--	1,194	--
Purchase of fixed assets from insurance claims proceeds	--	(1,324)	--
Acquisitions, net of cash	(21,915)	(19,632)	(19,929)
Net cash used in investing activities	(30,492)	(29,738)	(38,817)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings on revolving line of credit	202,785	220,188	174,748
Repayments on revolving line of credit	(186,121)	(206,443)	(187,000)
Proceeds from the issuance of long-term debt	--	12,000	85,655
Repayments of long-term debt	(4,209)	(4,910)	(103,731)
Deferred financing costs	(253)	(1,223)	(2,183)
Premium paid on redemption of Senior Subordinated Notes	--	--	(3,841)
Repurchase and retirement of stock	(280)	(75)	--
Repayments of notes receivables from stock sales	--	--	40
Issuance of preferred and common stock	20,612	9,926	57,083
Other	(36)	--	--
Net cash provided by financing activities	32,498	29,463	20,771
NET INCREASE (DECREASE) IN CASH	450	1,912	(2,028)
CASH, beginning of period	181	631	2,543
CASH, end of period	$ 631	$ 2,543	$ 515
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of capitalized interest	$ 23,702	$ 20,729	$ 18,921
Cash paid for income taxes	$ 4	$ 161	$ 168

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements

HINES HORTICULTURE, INC.
(FORMERLY HINES HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands)

1. Summary of Significant Accounting Policies

Description of Business

Hines Horticulture, Inc. ("Hines"), a Delaware corporation, produces and distributes horticultural products through its two operating divisions, Hines Nurseries and Sun Gro Horticulture ("Sun Gro"). On June 12, 1998, Hines succeeded to the business of Hines Holdings, Inc., a Nevada corporation, as a result of the merger of Hines Holdings, Inc. into Hines, the purpose of which was to change the Company's name and jurisdiction of incorporation. The business of Hines is currently conducted through Hines Nurseries, Inc. (formerly Hines Horticulture, Inc.) ("Hines Nurseries") and through Sun Gro Horticulture Inc. ("Sun Gro-U.S.") its wholly owned subsidiary, Sun Gro Horticulture Canada Ltd. ("Sun Gro-Canada"), and Sun Gro-Canada's direct and indirect Canadian subsidiaries. Hines, together with Hines Nurseries, Sun Gro-U.S., Sun Gro-Canada, and Sun Gro-Canada's direct and indirect Canadian subsidiaries, are hereafter collectively referred to as the "Company."

Hines Nurseries is a leading national supplier of ornamental, container-grown plants with nursery facilities located in California, Oregon, Pennsylvania, South Carolina and Texas. Hines Nurseries markets its products to retail customers throughout the United States.

Sun Gro produces, markets and distributes peat-based horticulture products for both retail and professional customers. Sun Gro markets its products in North America and various international markets with manufacturing facilities located in Canada and the United States.

Consolidation

The consolidated financial statements include the accounts of Hines and its wholly owned subsidiaries Hines Nurseries and Sun Gro, including Sun Gro's wholly owned subsidiary, Sun Gro-Canada. All material intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition and Concentration of Credit Risk

The Company recognizes revenue, net of sales discounts and allowances, upon product shipment to the customer. The Company is subject to credit risk primarily through accounts receivables. Credit risk on accounts receivables is minimized as a result of the large and diverse nature of the Company's customer base throughout North America. The Company does not require collateral for its accounts receivable. Certain customers are granted deferred payment terms (dating). At December 31, 1997 and 1998, significant amounts of accounts receivable are subject to dating terms. The Company's largest customer accounted for approximately 10%, 12% and 14% of the Company's consolidated net sales in 1996, 1997 and 1998, respectively.

Amortization of Deferred Financing Expenses

Deferred financing expenses are being amortized using a method, which approximates the effective interest method over the term of the associated financing agreements.

Depreciation and Depletion

Fixed assets are stated at cost less accumulated depreciation. Interest is capitalized for qualifying assets during the assets' acquisition period. In 1998, $709 of interest was capitalized. No interest was capitalized in 1996 or 1997. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the

respective asset's estimated useful life. Depreciation has been provided for on a straight-line basis over the following estimated economic useful lives:

Buildings	20 to 60 years
Machinery and equipment	2 to 25 years
Vehicles and trailers	2 to 15 years
Furniture and fixtures	3 to 5 years

Bog depletion is based on the volume of peat produced during the year at rates which will amortize the bog acquisition costs, as well as the initial bog clearing and development costs, over the period of production of peat from the bog.

Goodwill and Negative Goodwill

In connection with the sale of the Company in 1990, the Company recorded $6,100 of negative goodwill. Negative goodwill equals the excess of the fair market value of the acquired net assets over the acquisition purchase price after reducing the amount allocated to the fixed assets acquired to zero. The Company has amortized negative goodwill on a straight-line basis as a component of other operating expenses over the period from June 29, 1990 to December 31, 1997.

In connection with the acquisition of the interests of minority shareholders for stock in the Company, approximately $14,700 of goodwill was recorded and is being amortized over a 35-year period as a component of other operating expenses.

Goodwill recorded in connection with the Company's recent acquisitions, as discussed in Note 3, is being amortized over an estimated life of 35 years.

At each balance sheet date, the Company reviews the recoverability of goodwill by comparing projected operating income on an undiscounted basis to the net book value of the related assets. If the carrying value of goodwill exceeds projected operating income, the carrying value of goodwill is written down to undiscounted projected operating income.

Impairment of Long-Lived Assets

The Company annually evaluates its long-lived assets, including identifiable intangible assets, for potential impairment. When circumstances indicate that the carrying amount of the asset may not be recoverable, as demonstrated by the projected undiscounted cash flows, an impairment loss would be recognized based on fair value.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Hines' nursery stock has an average growing period of approximately eighteen months. The nursery stock is classified as a current asset based on Hines Nurseries' normal operating cycle.

Foreign Currency Translation

The Company considers the U.S. dollar to be the functional currency of Sun Gro's Canadian operations. Monetary assets and liabilities are translated at the foreign exchange rate in effect as of the balance sheet date.

Non-monetary assets and liabilities are translated at historical rates and revenues and expenses at average exchange rates for the period. Gains or losses from changes in exchange rates are recognized in the consolidated results of operations in the year of occurence.

Income Taxes

Hines' operations are agricultural in nature. Hines reports its results for income tax purposes on the cash basis.

The Company accounts for income taxes using an asset and liability approach which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Advertising

The Company expenses advertising costs at the time the advertising first takes place. Advertising expense was $1,658, $1,898 and $1,124 for the years ended December 31, 1996, 1997 and 1998, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Earnings (Loss) Per Share ("EPS")

Basic earnings per share is computed by dividing net income, after deduction of preferred dividends, by the weighted average number of common shares outstanding in each year. Diluted earnings per share is computed by dividing net income, after deduction of preferred dividends, by the weighted average number of common shares outstanding plus any potential dilution that could occur if options and warrants were converted into common stock in each year.

In 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). In accordance with the implementation provisions of SFAS 128, the Company has restated earnings per share in the Consolidated Statements of Operations for the year ended December 31, 1996.

There is no difference between the numerators and denominators for basic and diluted earnings per share since common stock equivalents have been excluded from the earnings per share calculation for fiscal years 1996 and 1997 (in the amounts of $52 and $618, respectively) because the effect would be anti-dilutive. A reconciliation of the numerators and denominators of basic and diluted earnings per share for the year ended December 31, 1998 is as follows (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	Year Ended December 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Dollar in Thousands)		
<S>	<C>	<C>	<C>
Income before extraordinary item.......	$10,474		
Less: Preferred stock dividends........	(5,609)		
Basic EPS			
Income (loss) applicable to common stock................................	4,865	15,107	$0.32
Effect of Dilutive Securities			
Warrants...............................	40	218	
Convertible notes......................	18	28	
Diluted EPS			
Income applicable to common stock plus assumed conversions...................	$ 4,923	15,353	$0.32

</TABLE>

Recent Accounting Pronouncements

In 1998, Hines adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS 131 supersedes SFAS 14, "Financial Reporting for Segments of a Business Enterprise", replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's consolidated results of operations, financial position or cash flows. SFAS 131 did however require the disclosure of segment information (refer to Note 13).

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP provides guidance on accounting for certain costs in connection with obtaining or developing computer software for internal use and requires that entities capitalize such costs once certain criteria are met. The Company is required to adopt SOP 98-1 as of January 1, 1999.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentations.

2. Initial Public Offering

On June 22, 1998, the Company completed the issuance of 5.1 million shares of common stock through an initial public offering ("the Offering"), resulting in net proceeds to the Company (after deducting issuance costs) of approximately $50,200. A portion of the proceeds was used to repay in part certain borrowings secured by real property bearing interest at 11.75% per annum and maturing on June 27, 2005. The remaining proceeds were

used for the redemption on July 29, 1998, of $42,000 in aggregate principal amount of the 11.75% Senior Subordinated Notes due 2005, Series B (the "Senior Subordinated Notes"). The Senior Subordinated Notes were redeemed at a price of 109.139% of the aggregate principal amount thereof ($45,800 at July 29, 1998), plus accrued and unpaid interest thereon through the date of redemption. Payment of the redemption premium and the recognition of a portion of the deferred costs related to the Senior Subordinated Notes resulted in an extraordinary loss of $3,000, net of related income taxes of $2,000, in the quarter ended September 30, 1998.

Concurrent with the closing of the Offering, the Company entered into an amended and restated senior credit facility (the "Senior Credit Facility") to provide for a new $50,000 term loan and $200,000 revolving credit facility, as further discussed in Note 7. The revolving credit facility is comprised of a $100,000 working capital revolver and a $100,000 acquisition revolver. The Senior Credit Facility replaced the Company's existing senior credit facility and increased the aggregate size of the Company's borrowing facilities by $100,000. The prepayment of the previous credit facilities resulted in an extraordinary loss related to the write-off of unamortized financing costs of $1,400, net of $1,000 in related income taxes, during the three months ended June 30, 1998.

In connection with the Offering, on June 22, 1998, Hines effected a 1.3611-for-one reverse stock split with respect to its common stock which has been reflected in the accompanying financial statements for all periods presented.

Immediately prior to the Offering, (i) all of the outstanding shares of the Company's 12% Cumulative Redeemable Senior Preferred Stock, par value $.01 per share, and all of the outstanding shares of the Company's 12% Cumulative Redeemable Junior Preferred Stock, par value $.01 per share, together, in each case, with all accrued and unpaid dividends thereon through the date of the closing of the Offering, were converted into shares of common stock at the initial public offering price less underwriting discounts and commissions, (ii) a portion of the Company's outstanding 6% convertible subordinated promissory notes, which were issued in connection with certain acquisitions in the aggregate principal amount of $1,200, was converted into shares of common stock at the initial public offering price less underwriting discounts and commissions, and (iii) all of the outstanding warrants to purchase common stock were exercised in accordance with their terms. These actions, as well as the above noted stock split, are collectively referred to herein as the "Equity Recapitalization".

3. Acquisitions

Lakeland Peat Moss

On April 6, 1998, the Company acquired all of the issued and outstanding shares of capital stock of Lakeland Peat Moss, Ltd. and certain affiliated entities (collectively "Lakeland"), a producer of sphagnum peat moss in western Canada, for approximately U.S. $22,437. The acquisition was accounted for using the purchase method. The purchase price allocation is summarized as follows:

<TABLE>

<S>	<C>
Cash	$ 640
Accounts receivable	4,309
Inventories	2,246
Prepaid expenses	124
Fixed assets	23,606
Accounts payable and accrued liabilities	(2,431)
Long-term debt	(101)
Deferred income taxes	(5,956)
Total purchase price	$22,437

</TABLE>

Bryfogle's

On December 16, 1997, the Company acquired all of the issued and outstanding shares of Bryfogle's Wholesale, Inc., Bryfogle's Power Plants, and Power Plants II, Inc. (collectively "Bryfogle's") for approximately $18,981. The acquisition was accounted for using the purchase method. The purchase price allocation is summarized as follows:

Cash	$ 54
Accounts receivable	452
Inventories	1,088
Fixed assets	4,163
Other assets	639
Goodwill	13,752
Accounts payable and accrued liabilities	(756)
Deferred tax liability--non-current	(411)
Total purchase price	$18,981

Pacific Color Nurseries

On October 20, 1997, the Company acquired certain assets and assumed certain liabilities of Pacific Color Nurseries, Inc. ("PCN") for $1,705. The acquisition was accounted for using the purchase method. The purchase price allocation is summarized as follows:

Accounts receivable	$ 100
Inventories	200
Prepaid expenses	5
Fixed assets	1,385
Goodwill	285
Accounts payable and accrued liabilities	(270)
Total purchase price	$1,705

Flynn Nurseries

On November 27, 1996, the Company acquired all of the issued and outstanding shares of Flynn Nurseries, Inc. ("Flynn") for $11,653. The acquisition was accounted for using the purchase method. The purchase price allocation is summarized as follows:

Cash	$ 39
Accounts receivable	642
Inventories	11,644
Prepaid expenses	48
Fixed assets	3,162
Goodwill	5,279
Accounts payable and accrued liabilities	(3,981)
Long-term debt	(16)
Deferred tax liability non-current	(5,164)
Total purchase price	$11,653

Iverson Perennial Gardens

On August 30, 1996, the Company acquired certain assets and assumed certain liabilities of Iverson Perennial Gardens, Inc. ("Iverson") for $10,301. The acquisition was accounted for using the purchase method. The purchase price allocation is summarized as follows:

Accounts receivable	$ 1,181
Inventories	2,416
Prepaid expenses	40
Fixed assets	1,296
Goodwill	6,114
Accounts payable and accrued liabilities	(691)
Long-term debt	(55)
Total purchase price	$10,301

The consolidated financial statements reflect the operations of Iverson, Flynn, PCN, Bryfogle's, and Lakeland since the dates of their respective acquisition. The following summary of condensed unaudited pro forma results of operations for the year ended December 31, 1997 reflects the acquisitions of Bryfogle's, PCN and Lakeland as if they had occurred on January 1, 1997. The following summary of condensed unaudited pro forma results of operations for the year ended December 31, 1998 gives effect to the following transactions as if they had occurred as of January 1, 1998: (i) the acquisition of Lakeland; (ii) the Equity Recapitalization; (iii) the closing of the new Senior Credit Facility; and (iv) the Offering (in thousands, except per share data):

	For the Year Ended December 31,	
	1997	1998
Sales, net	$234,046	$241,154
Net Income (loss) applicable to common stock(a)	(477)	13,716
Basic earnings per share:		
Income (loss) per common share	$ (.06)	$ .64
Diluted earnings per share:		
Income (loss) per common share	$ (.06)	$ .64

(a) After deduction of preferred stock dividends of $6,666 for the year ended December 31, 1997.

The pro forma results do not necessarily represent results, that would have occurred if the acquisitions had taken place as of the dates assumed, nor are they indicative of the results of future combined operations.

4. Unusual Expenses

During 1997, the Company received $1,194 of insurance proceeds from claims to replace assets that had been damaged and recorded a gain of $1,194, representing the difference between the proceeds received and the carrying amount of the damaged assets. As of December 31, 1998, the Company had acquired $1,324 of fixed assets utilizing the insurance proceeds.

In December 1996, the Company approved a restructuring plan for Sun Gro which, for the year ended December 31, 1996, resulted in an unusual charge of $830, representing severance-related payments. An additional liability of $1,537 was recognized during the year ended December 31, 1997, representing

$1,100 of severance-related payments and $437 of other related restructuring charges. As of December 31, 1998, there was no remaining reserve balance.

5. Inventories

Inventories consisted of the following:

	December 31, 1997	December 31, 1998
Nursery stock	$ 95,195	$104,085
Finished goods	4,003	4,818
Materials and supplies	6,809	9,223
	$106,007	$118,126

6. Fixed Assets

Fixed assets consisted of the following:

	December 31, 1997	December 31, 1998
Land	$ 7,103	$ 11,238
Peat reserves and bog costs	49,146	62,873
Buildings and improvements	21,915	33,955
Machinery and equipment	27,691	40,454
Construction in progress	7,010	6,118
	112,865	154,638
Less-Accumulated depreciation and depletion	20,459	29,221
	$ 92,406	$125,417

7. Revolving Lines of Credit

On August 4, 1995, the Company entered into a revolving credit agreement that, as amended on December 16, 1997, provided for a line of credit equal to the lesser of $75,000 or a specified percentage of accounts receivable and inventory. Borrowings under this line were at interest rates approximating the U.S. prime rate plus 1.5 percent or the Eurodollar rate plus 2.5 percent. The line of credit was secured by substantially all of the assets and common stock of Hines Nurseries and Sun Gro-U.S., as well as a pledge of 66% of the common stock of Sun Gro-Canada. The agreement contained covenants that, among other matters, established minimum interest coverage and maximum leverage ratios and minimum earnings and maximum capital expenditure amounts. The average daily amount of the unused portion of the line of credit was subject to a commitment fee of 0.5 percent per annum.

On December 16, 1997 the Company entered into another revolving loan agreement that provided for a line of credit equal to the lesser of $10,000 or a percentage of accounts receivable and inventory balances, as stipulated in the agreement. Borrowings under this line were at interest rates approximating the U.S. prime rate plus 0.75 percent or the Eurodollar rate plus 2.25 percent. The line of credit was secured by substantially all of the assets of Hines Nurseries. The agreement contained covenants, which, among other matters, established minimum interest coverage and maximum leverage ratios and minimum earnings and maximum capital expenditure amounts. The average daily amount of the unused portion of the line of credit was subject to a commitment fee of 0.5 percent per annum.

Concurrent with the Offering, the Company entered into an amended and restated Senior Credit Facility to provide for a new $50,000 term loan and a $200,000 revolving credit facility, which replaced the Company's

existing senior credit facility and increased the aggregate size of the Company's borrowing facilities by $100,000. The revolving credit facility is comprised of a $100,000 working capital revolver and a $100,000 acquisition revolver.

After an initial period, the interest rate spread over the U.S. prime rate and Eurodollar rate varies depending upon the Company's quarterly leverage and interest coverage ratios as defined in the Senior Credit Facility agreement. The revolving credit facility and all other obligations under the Senior Credit Facility are secured by substantially all of the assets and common stock of Hines Nurseries and Sun Gro-U.S., as well as a pledge of 65% of the common stock of Sun Gro-Canada. The Senior Credit Facility contains covenants that, among other matters, establish minimum interest coverage and net worth and maximum leverage ratios and capital expenditure amounts. After an initial period, the average daily amount of the unused portion of the revolving credit facility is subject to a commitment fee which varies depending upon the Company's quarterly leverage ratio as defined in the Senior Credit Facility agreement. The revolving credit facility expires on June 30, 2003. Amounts borrowed under the acquisition facility will convert into a term loan on June 30, 2000 and will begin to amortize thereafter. The weighted average interest rate on borrowings outstanding under the Company's revolving lines of credit as of December 31, 1997 and 1998 was approximately 8.4% and 7.7%, respectively.

8.Long-term Debt

<TABLE>
<CAPTION>

<S>	December 31, 1997 <C>	December 31, 1998 <C>
Acquisition term loan, interest at the bank's reference rate (8.5 percent per annum at December 31, 1997) plus 1.25 percent or the Eurodollar rate plus 2.75 percent per annum. Principal payments due quarterly beginning March 31, 2000 through 2002 ranging from $300 to $600 as specified in the loan agreement, with the remaining principal due on December 31, 2002, secured by inventory and fixed assets	$ 12,000	--

Convertible subordinated promissory note, interest at 6 percent per annum. Principal due December 16, 2005	1,000	--
Senior term debt, interest at the bank's reference rate (8.5 percent per annum at December 31, 1997) plus 1.5 percent or the Eurodollar rate plus 2.5 percent per annum. Principal payments due on June 30, September 30 and December 31 through 2000 ranging from $500 to $3,250, secured by inventories and fixed assets	17,000	--
Note payable, interest at 10 percent per annum, non recourse, secured by specified real property, blended payments of $81 per month from July 1, 1992 through June 1, 2005, with all remaining principal due on June 28, 2005	7,999	--
Note payable, interest at 10 percent per annum, until June 1, 1995, and 11.75 percent, thereafter, non recourse, secured by specified real property, monthly interest payments only until June 1, 1992, blended payments of $88 per month from July 1, 1995, through June 1, 2005, with all remaining principal due on June 27, 2005	7,693	--
Acquisition term loan, interest at the bank's reference rate (7.75 percent per annum at December 31, 1998) plus .25 percent or the Eurodollar rate plus 1.25 percent per annum. Principal payments due from September 30, 2000 through June 30, 2003 ranging from 2.50% to 37.5% of the outstanding balance as of June 26, 2000, as specified in the loan agreement	--	19,000
Term debt, interest at the bank's reference rate (7.75 percent per annum at December 31, 1998) plus .25 percent or the Eurodollar rate plus 1.25 percent per annum. Principal payments due from June 30, 1999 through June 30, 2003 ranging from $1,250 to $11,250, as specified in the loan agreement	--	50,000
Senior Subordinated Notes, Series B, interest at 11.75 percent per annum payable semi-annually on each June 30 and December 31, maturing on October 15, 2005	120,000	78,000
Capital lease obligations, equipment financing contracts and other obligations due at various dates through 2000	64	1,699
	165,756	148,699
Less current portion	5,400	3,066
	$160,356	$145,633

</TABLE>

Estimated principal maturities of long-term debt outstanding at December 31, 1998 are as follows:

<TABLE>

<S>	<C>
1999	$ 3,066
2000	8,333
2001	13,625
2002	27,300

2003	18,375
Thereafter	78,000
	$148,699

</TABLE>

The Senior Subordinated Notes were issued by Hines Nurseries and are redeemable, in whole or in part, at the option of the Company, on or after October 15, 2000 at prices specified by the indenture agreement (105.875% as a percentage of the principal amount thereof in 2000 to 100.000% in 2004). Upon a change of control, each holder will have the right to require Hines Nurseries to repurchase such holder's notes at a price equal to 101 percent of the principal amount thereof plus accrued interest, if any, to the date of repurchase. The Senior Subordinated Notes are unsecured and subordinated to all existing and future senior debt and unconditionally guaranteed on a senior subordinated basis by Hines and Sun Gro-U.S.

The indenture governing the Senior Subordinated Notes imposes certain limitations on the ability of Hines and Sun Gro-U.S. to, among other things, incur additional indebtedness, pay dividends or make certain other restricted payments and consummate certain asset sales.

9. Commitments and Contingencies

Operating Leases

The Company leases certain land, office and warehouse facilities under various renewable long-term operating leases, which expire through 2010. Certain of these leases include escalation clauses based upon changes in the consumer price index and/or the fair rental value of leased land. One of the operating land leases requires the Company to pay rent equal to the greater of 2.25 percent, increasing to 3 percent by the year 2010, of the sales derived from the related land or a minimum per acre amount, as defined in the agreement. Total rent expense under these operating lease agreements for the years ended December 31, 1996, 1997 and 1998 was $1,302, $1,684 and $1,592 respectively.

As of December 31, 1998, the Company's future minimum annual payments under its non-cancelable operating leases are as follows:

<TABLE>

<S>	<C>
1999	$ 3,778
2000	3,424
2001	2,694
2002	1,696
2003	1,012
Thereafter	6,570
	$19,174

</TABLE>

Legal Matters

From time to time, the Company is involved in various disputes and litigation matters, which arise in the ordinary course of business. The litigation process is inherently uncertain and it is possible that the resolution of

these disputes and lawsuits may adversely affect the Company. Management believes, however, that the ultimate resolution of such matters will not have a material adverse impact on the Company's consolidated financial position or results of operations.

10. Shareholders' Equity

Stock Option Plan: On June 22, 1998, the Board adopted the 1998 Long-Term Equity Incentive Plan (the "1998 Stock Plan"). The 1998 Stock Plan provides for grants of stock options, stock appreciation rights ("SARs"), restricted stock, performance awards and any combination of the foregoing to certain directors, officers and employees of the Company and its subsidiaries. The purpose of the 1998 Stock Plan is to provide such individuals with incentives to maximize shareholder value and otherwise contribute to the success of the Company and to enable the Company to attract, retain and reward the best available persons for positions of substantial responsibility. The options are granted at the fair market value of the shares underlying the options at the date of grant, generally become exercisable over a four-year period and expire in ten years.

Approximately 2.6 million shares of common stock will be available for issuance pursuant to the 1998 Stock Plan, subject to adjustment in the event of a reorganization, stock split, merger or similar change in the corporate structure of the Company or the outstanding shares of common stock.

The Company adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") in 1998. As permitted by SFAS 123, the Company measures compensation cost in accordance with Accounting Principles Board Opinon No. 25, "Accounting for Stock Issued to Employees", and related interpretations, but provides pro forma disclosures of net income and earnings per share as if the fair value method (as defined in SFAS 123) had been applied. Had compensation cost been determined using the fair value method prescribed by SFAS 123, the Company's net loss and earnings (loss) per share would have been as follows (in thousands, except per share amounts):

	Year Ended December 31, 1998
Pro forma net loss:	$(352)
Pro forma basic earnings (loss) per share	$(.02)
Pro forma diluted earnings (loss) per share	$(.02)

The Company estimates the weighted average fair value of each stock option on the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions: no dividend yield; expected volatility of approximately 50%; risk-free interest rate of 5.56% and expected life of approximately four years.

A summary of the status of the Company's stock option plan as of December 31, 1998 is presented below:

	Shares	Weighted Average Exercise Price
Outstanding as of January 1, 1998	--	$ --
Granted	2,081,600	$10.99
Exercised	--	$ --
Cancelled	(37,649)	$11.00
Total outstanding as of December 31,1998	2,043,951	$10.99

For options outstanding as of December 31, 1998, the weighted average remaining contractual life was 9.5 years with expiration dates ranging from June 22, 2008 to October 20, 2008. The range of exercise prices was $6.875 to $11.00 for options outstanding as of December 31, 1998. The weighted average fair value of options granted during the year ended December 31, 1998 was $4.93.

11. Income Taxes

The components of income (loss) from continuing operations before provision for income taxes and the provision for income taxes consisted of the following:

	For the Years Ended December 31,		
	1996	1997	1998
Income (loss) before income taxes:			
U.S.	$ 1,902	$ 8,321	$ 17,890
Foreign	(1,058)	972	(571)
	$ 844	$ 9,293	$ 17,319
Current:			
Federal	264	--	--
State	34	10	41
Foreign	--	--	143
	298	10	184
Deferred:			
Federal	456	3,345	5,974
State	74	698	867
Foreign	(192)	(537)	(180)
	338	3,506	6,661
	$ 636	$ 3,516	$ 6,845

The reported provision for income taxes differs from the amount computed by applying the statutory federal income tax rate of 34 percent to income before provision for income taxes as follows:

	For the Years Ended December 31,		
	1996	1997	1998
Provision computed at statutory rate	$ 287	$ 3,161	$ 5,888
Increase (decrease) resulting from:			
State tax, net of federal benefit	71	433	605
Foreign taxes	(95)	(63)	(13)
Goodwill	(127)	(93)	349
Meals and entertainment	100	113	199
Change in valuation			

allowance	328	--	--
Other	72	(35)	(183)
	$ 636	$ 3,516	$ 6,845

</TABLE>

Deferred tax assets (liabilities) are comprised of the following:

<TABLE>
<CAPTION>

	December 31, 1997	December 31, 1998
<S>	<C>	<C>
Deferred tax assets:		
Deferred expenses	$ 1,210	$ 690
Capital loss carryforwards	660	851
Deferred currency loss	304	1,300
Net operating loss carryforwards	14,417	14,357
Investment tax credit carryforwards	384	298
Other	650	241
Valuation allowance	(3,166)	(2,141)
Gross deferred tax assets	14,459	15,596
Deferred tax liabilities:		
Accrual to cash adjustment	(36,280)	(41,361)
Deferred currency gain	(235)	--
Fixed asset basis differences	(15,255)	(19,042)
Investment in foreign subsidiary	(1,749)	(3,250)
Other	(2,094)	(1,536)
Gross deferred tax liabilities	(55,613)	(65,189)
Net deferred tax liability	(41,154)	(49,593)
Deferred income tax liability, current	(35,151)	(39,389)
Deferred income tax liability, non-current	(6,003)	(10,204)
	$(41,154)	$(49,593)

</TABLE>

The Company derives significant benefits by qualifying to use the cash method of accounting for federal income tax purposes. Under the cash method, sales are included in taxable income when payments are received and expenses are deducted as they are paid. The primary benefit the Company receives is the ability to deduct the cost of inventory as it is incurred. The net benefit realized by the Company thus far is represented by the "Accrual to Cash Adjustment" item above. Because the items to which this "Accrual to Cash Adjustment" relate to are comprised of current assets and current liabilities in the balance sheet (such as inventory, accounts receivable, accounts payable, etc.), this deferred tax item is also characterized as current.

At December 31, 1998, the Company had approximately $36,000 in net operating loss carryforwards for federal income tax reporting purposes. The Company's federal net operating losses begin to expire in 2005.

Included in the valuation allowance is $1,000 that relates to the deferred tax assets recorded from acquisitions. Any tax benefits subsequently recognized for these deferred tax assets will be allocated to goodwill.

At December 31, 1998, Sun Gro-Canada had capital loss carryforwards and investment tax credits of approximately Cdn. $2,908 (U.S. $1,890) and Cdn. $459 (U.S. $298), respectively. Their use is limited to future taxable earnings of Sun Gro-Canada. A full valuation allowance has been recorded against the deferred tax assets

associated with the capital loss carryforwards and the investment tax credits. The capital loss may be carried forward indefinitely and the investment tax credits expire as follows (Canadian dollars):

Year of Expiration	Investment Tax Credits
1999	$165
2000	150
2001	123
2002	21
2003	--
	$459

During 1998, the Canadian net operating loss carryforward of approximately Cdn. $7,000 was fully utilized and the valuation allowance related to it was released.

12. Employee Benefit Plans

Sun Gro sponsors defined contribution plans for certain salaried U.S. employees, certain salaried Canadian employees and certain hourly Canadian employees. Participants of the salaried U.S. investment plan may make voluntary contributions to the plan up to 15 percent of their compensation (as defined). Sun Gro contributes five percent of each participant's compensation (as defined) up to a maximum of $3,500 per participant depending upon Sun Gro's performance.

Participants of the salaried and hourly Canadian investment plan must contribute 3 percent of their compensation (as defined) and may make voluntary contributions to the plan up to 18 percent of their compensation (as defined). Sun Gro contributes up to 5 percent and 3 percent of each participant's compensation (as defined) with no maximum for the salaried and hourly plans, respectively.

The total expense related to these plans was $395, $284 and $0 for the years ended December 31, 1996, 1997 and 1998, respectively.

13. Segment Information

The Company operates in two business segments in the horticultural industry: nursery products and peat-based products. The Company evaluates the performance of its segments based primarily on operating income. Refer to Note 19 "Guarantor/ Non-guarantor Disclosures" for the required disclosures about the Company's segments for the three years ended December 31, 1998.

14. Supplemental Cash Flow Information

Supplemental disclosure of non-cash investing and financing activities were as follows:

<TABLE>
<CAPTION>

	December 31, 1996	December 31, 1997	December 31, 1998
Fair value of assets acquired	$31,822	$22,069	$30,535
Liabilities assumed and incurred in connection with acquisitions	9,907	2,437	10,606
Cash paid	$21,915	$19,632	$19,929

</TABLE>

15. Fair Values of Financial Instruments

The Company used the following methods and assumptions in estimating its fair value disclosures for financial instruments:

Cash

The carrying amount reported in the balance sheet for cash approximates its fair value.

Short-term and Long-term Debt

The fair value of the Senior Subordinated Notes is based on the closing price of the debt securities at December 31, 1997 and 1998. The carrying amount of the Company's other long-term debt approximates its fair value based upon borrowing rates currently available to the Company. The carrying amount of the short-term debt approximates the fair value based on the short-term maturity of the instrument.

Redeemable Preferred Stock

The fair value of the Senior Preferred Stock and Junior Preferred Stock approximates its carrying value as of December 31, 1997, as the stock was recently issued.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1997 and 1998 are as follows:

<TABLE>
<CAPTION>

	Ended December 31,			
	1997		1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash	$ 2,543	$ 2,543	$ 515	$ 515
Short-term debt	43,102	43,102	30,850	30,850
Long-term debt (including current portion)	165,756	177,756	148,699	155,719
Redeemable preferred stock	70,682	70,682	--	--

</TABLE>

17. Valuation and Qualifying Accounts

Activity with respect to the Company's allowance for doubtful accounts receivable is summarized as follows:

	For the Years Ended December 31,		
	1996	1997	1998
Beginning balance	$ 1,165	$ 1,019	$ 1,193
Charges to expense	225	474	131
Amounts written off	(371)	(300)	(100)
Ending balance	$ 1,019	$ 1,193	$ 1,224

18. Geographic Information

Geographic information is summarized as follows:

	For the Years Ended December 31,		
	1996	1997	1998
Net Sales:			
United States			
Sales to unaffiliated customers	$155,136	$191,150	$221,655
Canada			
Sales to unaffiliated customers	9,187	10,106	13,307
Transfers to other geographic areas	14,531	13,852	19,758
Eliminations	(14,531)	(13,852)	(19,758)
	$164,323	$201,256	$234,962
Operating income:			
United States	$ 21,379	$ 28,637	$ 32,988
Canada	545	2,461	4,791
Eliminations	--	--	--
	$ 21,924	$ 31,098	$ 37,779
Total assets:			
United States	$196,579	$241,679	$241,090
Canada	54,689	54,174	75,797
Eliminations	(23,753)	(27,034)	(1,777)
	$227,515	$268,819	$315,110

Export sales from the United States totaled $6,780, $7,872 and $9,952 for the years ended December 31, 1996, 1997 and 1998, respectively.

19. Guarantor/Non-guarantor Disclosures

The Senior Subordinated Notes issued by Hines Nurseries (the issuer) have been guaranteed by Hines (the parent guarantor) and by Sun Gro-U.S. (the subsidiary guarantor). The issuer and the subsidiary guarantor are wholly owned subsidiaries of the parent guarantor and the parent and subsidiary guarantees are full, unconditional, and joint and several. Separate financial statements of Hines Nurseries and Sun Gro-U.S. are not presented and Hines Nurseries and Sun Gro-U.S. are not filing separate reports under the Exchange Act because management believes that they would not be material to investors. The Senior Subordinated Notes are not guaranteed by Sun Gro-Canada or its present or future subsidiaries.

The following condensed consolidating information shows (a) Hines on a parent company basis only as the parent guarantor (carrying its investment in its subsidiary under the equity method), (b) Hines Nurseries as the issuer (carrying its investment in its subsidiary under the equity method), (c) Sun Gro-U.S. as subsidiary guarantor (carrying its investment in Sun Gro-Canada under the equity method), (d) Sun Gro-Canada and its direct and indirect subsidiaries, as subsidiary non-guarantors, (e) eliminations necessary to arrive at the

information for the parent guarantor and its direct and indirect subsidiaries on a consolidated basis and (f) the parent guarantor on a consolidated basis, as follows:

- .Consolidating balance sheets as of December 31, 1997 and December 31, 1998
- .Consolidating statements of operations for the year ended December 31, 1996, 1997 and 1998; and
- .Consolidating statements of cash flows for the year ended December 31, 1996, 1997 and 1998

GUARANTOR / NON-GUARANTOR DISCLOSURES

CONSOLIDATING BALANCE SHEET

As of December 31, 1997
(Dollars in thousands)

<TABLE>
<CAPTION>

		Nursery Segment	Peat-based Segment				
	Hines Horticulture (Parent Guarantor)	Hines Nurseries (Issuer)	Sun Gro-U.S. (Subsidiary Guarantor)	Sun Gro-Canada (Subsidiary Non-Guarantor)	Sun Gro Sub-total	Eliminations	Consolidated Total
ASSETS							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Current assets:							
Cash..................	$ --	$ 2,543	$ --	$ --	$ --	$ --	$ 2,543
Accounts receivable, net..................	--	7,945	10,188	2,436	12,624	--	20,569
Inventories...........	--	98,391	2,162	5,454	7,616	--	106,007
Prepaid expenses and other current assets................	--	872	536	550	1,086	--	1,958
Deferred income							

taxes.................	--	50	804	169	973	(1,023)	--
Total current assets..............	--	109,801	13,690	8,609	22,299	(1,023)	131,077
Fixed assets, net.......	--	44,398	4,242	43,766	48,008	--	92,406
Deferred financing expenses, net..........	--	5,248	247	982	1,229	--	6,477
Goodwill, net...........	--	38,041	--	818	818	--	38,859
Deferred income taxes...	16	10,163	--	--	--	(10,179)	--
Investments in subsidiaries...........	55,596	8,925	7,832	--	7,832	(72,353)	--
	$ 55,612	$216,576	$26,011	$54,175	$80,186	$(83,555)	$268,819

<CAPTION>

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Current liabilities:							
Accounts payable.......	$ --	$ 5,053	$ 1,117	$ 1,876	$ 2,993	$ --	$ 8,046
Accrued liabilities....	3	2,738	1,930	638	2,568	--	5,309
Accrued payroll and benefits..............	--	5,036	887	598	1,485	--	6,521
Long-term debt, current portion.......	--	2,400	--	3,000	3,000	--	5,400
Revolving line of credit................	--	36,231	6,871	--	6,871	--	43,102
Deferred income taxes.................	--	36,174	--	--	--	(1,023)	35,151
Other liabilities......	--	--	(224)	224	--	--	--
Intercompany accounts..............	55,678	(75,078)	(1,308)	20,708	19,400	--	--
Total current liabilities.........	55,681	12,554	9,273	27,044	36,317	(1,023)	103,529
Long-term debt..........	1,000	151,856	--	7,500	7,500	--	160,356
Deferred income taxes...	--	2,829	1,555	11,798	13,353	(10,179)	6,003
Cumulative redeemable senior preferred stock..................	43,967	--	--	--	--	--	43,967
Cumulative redeemable junior preferred stock..................	26,715	--	--	--	--	--	26,715
Shareholders' equity (deficit)							
Common stock...........	77	13,471	11,413	--	11,413	(24,884)	77
Additional paid in capital (accumulated accretion of cumulative redeemable preferred stock in excess of additional paid in capital)......	(829)	21,364	5,889	1,777	7,666	(29,030)	(829)
Notes receivable from stock sales...........	(366)	--	--	--	--	--	(366)
Retained earnings (deficit).............	(70,633)	14,502	(2,119)	6,056	3,937	(18,439)	(70,633)
Total shareholders' equity (deficit)....	(71,751)	49,337	15,183	7,833	23,016	(72,353)	(71,751)
	$ 55,612	$216,576	$26,011	$54,175	$80,186	$(83,555)	$268,819

</TABLE>

GUARANTOR / NON-GUARANTOR DISCLOSURES--(CONTINUED)

CONSOLIDATING BALANCE SHEET

As of December 31, 1998
(Dollars in thousands)

<TABLE>
<CAPTION>

		Nursery Segment	Peat-based Segment				
	Hines Horticulture (Parent Guarantor)	Hines Nurseries (Issuer)	Sun Gro-U.S. (Subsidiary Guarantor)	Sun Gro-Canada (Subsidiary Non-Guarantor)	Sun Gro Sub-total	Eliminations	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS							
Current assets:							
Cash	$ --	$ 515	$ --	$ --	$ --	$ --	$ 515
Accounts receivable, net	--	9,164	14,526	3,051	17,577	--	26,741
Inventories	--	108,235	2,696	7,195	9,891	--	118,126
Prepaid expenses and other current assets	--	1,124	558	644	1,202	--	2,326
Deferred income taxes	32	20	957	963	1,920	(1,972)	--
Total current assets	32	119,058	18,737	11,853	30,590	(1,972)	147,708
Fixed assets, net	--	56,198	6,067	63,152	69,219	--	125,417
Deferred financing expenses, net	--	4,077	--	--	--	--	4,077
Goodwill, net	--	37,116	--	792	792	--	37,908
Deferred income taxes	--	14,508	--	--	--	(14,508)	--
Investments in subsidiaries	66,188	12,149	12,194	--	12,194	(90,531)	--
	$ 66,220	$243,106	$36,998	$75,797	$112,795	$(107,011)	$315,110
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)							
Current liabilities:							
Accounts payable	$ --	$ 3,982	$ 1,872	$ 3,534	$ 5,406	$ --	$ 9,388
Accrued liabilities	--	1,638	3,637	1,076	4,713	--	6,351
Accrued payroll and benefits	--	4,790	718	648	1,366	--	6,156
Accrued interest	--	751	--	--	--	--	751
Long-term debt, current portion	--	2,066	--	1,000	1,000	--	3,066
Revolving line of credit	--	30,850	--	--	--	--	30,850
Deferred income taxes	--	41,361	--	--	--	(1,972)	39,389
Intercompany accounts	2,898	(33,577)	13,366	17,313	30,679	--	--
Total current liabilities	2,898	51,861	19,593	23,571	43,164	(1,972)	95,951
Long-term debt	--	126,633	--	19,000	19,000	--	145,633
Deferred income taxes	--	4,683	3,497	16,532	20,029	(14,508)	10,204
Shareholders' equity	--						
Common stock	221	17,971	11,414	4,500	15,914	(33,885)	221
Additional paid in capital	127,992	21,362	5,889	1,777	7,666	(29,028)	127,992

Notes receivable from stock sales...........	(326)	--	--	--	--	--	(326)
Retained earnings (deficit).............	(64,565)	20,596	(3,395)	10,417	7,022	(27,618)	(64,565)
Total shareholders' equity..............	63,322	59,929	13,908	16,694	30,602	(90,531)	63,322
	$ 66,220	$243,106	$36,998	$75,797	$112,795	$(107,011)	$315,110

</TABLE>

CONSOLIDATING STATEMENT OF OPERATIONS

For the year ended December 31, 1996
(Dollars in thousands)

<TABLE>
<CAPTION>

		Nursery Segment	Peat-based Segment				
	Hines Horticulture (Parent Guarantor)	Hines Nurseries (Issuer)	Sun Gro-U.S. (Subsidiary Guarantor)	Sun Gro-Canada (Subsidiary Non-Guarantor)	Sun Gro Sub-total	Eliminations	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Sales, net..............	$ --	$ 92,214	$62,922	$23,718	$86,640	($14,531)	$164,323
Cost of goods sold......	--	45,650	33,544	16,149	49,693	(14,531)	80,812
Gross profit...........	--	46,564	29,378	7,569	36,947	--	83,511
Operating expenses......	--	26,393	28,170	7,024	35,194	--	61,587
Operating income.......	--	20,171	1,208	545	1,753	--	21,924
Other expenses:							
Interest...............	--	18,420	536	1,184	1,720	--	20,140
Interest--intercompany..........	--	(672)	552	120	672	--	--
Amortization of deferred financing expenses, other..................	(208)	1,485	867	299	1,166	(1,503)	940
	(208)	19,233	1,955	1,603	3,558	(1,503)	21,080
Income (loss) before provision for (benefit from) income taxes.....	208	938	(747)	(1,058)	(1,805)	1,503	844
Income tax provision (benefit)..............	--	730	98	(192)	(94)	--	636
Net income (loss).......	$ 208	$ 208	$(845)	$(866)	$(1,711)	$ 1,503	$ 208

CONSOLIDATING STATEMENT OF OPERATIONS

For the year ended December 31, 1997
(Dollars in thousands)

<CAPTION>

		Nursery Segment	Peat-based Segment				
	Hines Horticulture (Parent Guarantor)	Hines Nurseries (Issuer)	Sun Gro-U.S. (Subsidiary Guarantor)	Sun Gro-Canada (Subsidiary Non-Guarantor)	Sun Gro Sub-total	Eliminations	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>

Sales, net	$ --	$127,465	$63,685	$23,958	$87,643	$(13,852)	$201,256
Cost of goods sold	--	64,175	33,980	15,104	49,084	(13,852)	99,407
Gross Profit	--	63,290	29,705	8,854	38,559	--	101,849
Operating expenses	--	33,977	30,380	6,394	36,774	--	70,751
Operating income	--	29,313	(675)	2,460	1,785	--	31,098
Other expenses:							
Interest	39	18,928	708	1,033	1,741	--	20,708
Interest--intercompany	--	(1,036)	889	147	1,036	--	--
Amortization of deferred financing expenses, other	(5,800)	1,347	48	310	358	5,192	1,097
	(5,761)	19,239	1,645	1,490	3,135	5,192	21,805
Income (loss) before provision for (benefit from) income taxes	5,761	10,074	(2,320)	970	(1,350)	(5,192)	9,293
Income tax provision (benefit)	(16)	4,274	(239)	(503)	(742)	--	3,516
Net income (loss)	$ 5,777	$ 5,800	$(2,081)	$ 1,473	$(608)	$ (5,192)	$ 5,777

</TABLE>

CONSOLIDATING STATEMENT OF OPERATIONS

For the year ended December 31, 1998
(Dollars in thousands)

<TABLE>
<CAPTION>

		Nursery Segment	Peat-based Segment				
	Hines Horticulture (Parent Guarantor)	Hines Nurseries (Issuer)	Sun Gro-U.S. (Subsidiary Guarantor)	Sun Gro-Canada (Subsidiary Non-Guarantor)	Sun Gro Sub-total	Eliminations	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Sales, net	$ --	$151,806	$69,849	$33,065	$102,914	$(19,758)	$234,962
Cost of goods sold	--	78,198	36,182	20,391	56,573	(19,758)	115,013
Gross Profit	--	73,608	33,667	12,674	46,341	--	119,949
Operating expenses	--	45,983	28,304	7,883	36,187	--	82,170
Operating income	--	27,625	5,363	4,791	10,154	--	37,779
Other expenses:							
Interest	44	17,625	592	1,192	1,784	--	19,453
Interest--intercompany	--	(1,475)	1,424	51	1,475	--	--
Amortization of deferred financing expenses, other	(6,094)	(2,550)	(2,945)	151	(2,794)	12,445	1,007
	(6,050)	13,600	(929)	1,394	465	12,445	20,460
Income before provision for income taxes	6,050	14,025	6,292	3,397	9,689	(12,445)	17,319
Income tax provision (benefit)	(18)	4,104	2,802	(43)	2,759	--	6,845
Net income before extraordinary items	6,068	9,921	3,490	3,440	6,930	(12,445)	10,474

Extraordinary items, net of tax.................	--	3,827	124	455	579		4,406
Net income.............	$ 6,068	$ 6,094	$ 3,366	$ 2,985	$ 6,351	$(12,445)	$ 6,068

</TABLE>

GUARANTOR / NON-GUARANTOR DISCLOSURES--(Continued)

CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended December 31, 1996
(Dollars in thousands)

<TABLE>
<CAPTION>

		Nursery Segment	Peat-based Segment				
	Hines Horticulture (Parent Guarantor)	Hines Nurseries (Issuer)	Sun Gro-U.S. (Subsidiary Guarantor)	Sun Gro-Canada (Subsidiary Non-Guarantor)	Sun Gro Sub-total	Eliminations	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Cash provided by (used in) operating activities...........	($ 577)	($8,963)	$ 884	$3,084	$3,968	$4,016	($1,556)
Cash flows from investing activities:							
Purchase of fixed assets, net..........	--	(5,761)	(1,446)	(1,370)	(2,816)	--	(8,577)
Acquisitions, net of cash.................	--	(21,915)	--	--	--	--	(21,915)
Net cash used in investing activities.........	--	(27,676)	(1,446)	(1,370)	(2,816)	--	(30,492)
Cash flows from financing activities:							
Proceeds from (repayments on) revolving line of credit..............	--	12,388	4,276	--	4,276	--	16,664
Intercompany advances (repayments).........	(19,755)	19,820	(132)	67	(65)	--	--
Repayments of long-term debt...........	--	(2,459)	--	(1,750)	(1,750)	--	(4,209)
Deferred financing costs................	--	(87)	(44)	(122)	(166)	--	(253)
Dividends received (paid)...............	--	7,427	(7,427)	--	(7,427)	--	--
Issuance of preferred and common stock.....	20,612	--	4,016	--	4,016	(4,016)	20,612
Repurchase and retirement of stock................	(280)	--	--	--	--	--	(280)
Other.................	--	--	(36)	--	(36)	--	(36)
Net cash provided by (used in) financing activities.........	577	37,089	653	(1,805)	(1,152)	(4,016)	32,498
Net increase (decrease) in cash...............	--	450	91	(91)	--	--	450
Cash and cash equivalents, beginning							

of year..............	--	181	--	--	--	--	181
Cash, end of year......	$ --	$ 631	$ 91	($ 91)	$ --	$ --	$ 631

</TABLE>

GUARANTOR / NON-GUARANTOR DISCLOSURES--(Continued)

CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended December 31, 1997
(Dollars in thousands)

<TABLE>
<CAPTION>

		Nursery Segment	Peat-based Segment				
	Hines Horticulture (Parent Guarantor)	Hines Nurseries (Issuer)	Sun Gro-U.S. (Subsidiary Guarantor)	Sun Gro-Canada (Subsidiary Non-Guarantor)	Sun Gro Sub-total	Eliminations	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Cash provided by (used in) operating activities...........	$(9,858)	$ 3,149	$(6,998)	$6,299	$ (699)	$9,595	$ 2,187
Cash flows from investing activities:							
Purchase of fixed assets, net..........	--	(7,169)	(741)	(2,066)	(2,807)	--	(9,976)
Proceeds from insurance claims.....	--	1,194	--	--	--	--	1,194
Purchase of fixed assets from insurance claims proceeds............	--	(1,324)	--	--	--	--	(1,324)
Acquisitions, net of cash................	--	(19,632)	--	--	--	--	(19,632)
Net cash used in investing activities.........	--	(26,931)	(741)	(2,066)	(2,807)	--	(29,738)
Cash flows from financing activities:							
Proceeds from (repayments on) revolving line of credit...............	--	12,030	1,715	--	1,715	--	13,745
Intercompany advances (repayments).........	7	(10,879)	10,893	(21)	10,872	--	--
Proceeds from the issuance of long-term debt............	--	12,000	--	--	--	--	12,000
Repayments of long-term debt............	--	(2,160)	--	(2,750)	(2,750)	--	(4,910)
Deferred financing costs................	--	(966)	(257)	--	(257)	--	(1,223)
Dividends received (paid)...............	--	6,169	(6,169)	--	(6,169)	--	--
Repurchase and retirement of stock................	(75)	--	--	--	--	--	(75)
Issuance of preferred and common stock.....	9,926	9,500	95	--	95	(9,595)	9,926

Net cash provided by

(used in) financing activities	9,858	25,694	6,277	(2,771)	3,506	(9,595)	29,463
Net increase (decrease) in cash	--	1,912	(1,462)	1,462	--	--	1,912
Cash, beginning of year	--	631	--	--	--	--	631
Cash, end of year	$ --	$ 2,543	$(1,462)	$1,462	$ --	$ --	$ 2,543

</TABLE>

GUARANTOR / NON-GUARANTOR DISCLOSURES--(CONTINUED)

CONSOLIDATING STATEMENT OF OPERATIONS

For the year ended December 31, 1998
(Dollars in thousands)

<TABLE>
<CAPTION>

		Nursery Segment	Peat-based Segment				
	Hines Horticulture (Parent Guarantor)	Hines Nurseries (Issuer)	Sun Gro-U.S. (Subsidiary Guarantor)	Sun Gro-Canada (Subsidiary Non-Guarantor)	Sun Gro Sub-total	Eliminations	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Cash provided by (used in) operating activities	($4,543)	$ 3,680	$14,486	($2,105)	$12,381	$4,500	$ 16,018
Cash flows from investing activities:							
Purchase of fixed assets, net	--	(15,814)	(679)	(2,395)	(3,074)	--	(18,888)
Acquisitions, net of cash	2,118	(250)	--	(21,797)	(21,797)	--	(19,929)
Net cash used in investing activities	2,118	(16,064)	(679)	(24,192)	(24,871)	--	(38,817)
Cash flows from financing activities:							
Proceeds from (repayments on) revolving line of credit	--	(5,381)	(6,871)	--	(6,871)	--	(12,252)
Intercompany advances (repayments)	(52,780)	33,176	(2,193)	21,797	19,604	--	--
Proceeds from the issuance of long-term debt	--	65,655	--	20,000	20,000	--	85,655
Repayments of long-term debt	(1,918)	(86,212)	(101)	(15,500)	(15,601)	--	(103,731)
Deferred financing costs	--	(2,183)	--	--	--	--	(2,183)
Premium paid on redemption of Senior Subordinated Notes	--	(3,841)	--	--	--	--	(3,841)
Dividends received (paid)	--	4,642	(4,642)	--	(4,642)	--	--
Repayments of notes receivables from stock sales	40	--	--	--	--	--	40
Issuance of preferred							

and common stock.....	57,083	4,500	--	--	--	(4,500)	57,083
Net cash provided by (used in) financing activities.........	2,425	10,356	(13,807)	26,297	12,490	(4,500)	20,771
Net decrease in cash...	--	(2,028)	--	--	--	--	(2,028)
Cash, beginning of year..................	--	2,543	--	--	--	--	2,543
Cash, end of year......	$ --	$ 515	$ --	$ --	$ --	$ --	$ 515

</TABLE>

EXHIBIT 3.2

AMENDED AND RESTATED BY-LAWS

OF

HINES HORTICULTURE, INC.

A Delaware Corporation

(Effective as of March 25, 1999)

ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of Hines Horticulture, Inc. (the "Corporation") in the State of Delaware shall be located at 9 East Loockerman Street, in the City of Dover, County of Kent, 19901. The name of the Corporation's registered agent at such address shall be National Registered Agents, Inc. The registered office and/or registered agent of the Corporation may be changed from time to time by action of the Board of Directors.

Section 2. Other Offices. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. Annual Meeting. An annual meeting of the stockholders shall be held each year within 150 days after the close of the immediately preceding fiscal year of the Corporation or at such other time specified by the Board of Directors for the purpose of electing Directors and conducting such other proper business as may come before the annual meeting. At the annual meeting, stockholders shall elect Directors and transact such other business as properly may be brought before the annual meeting pursuant to Article II, Section 11 hereof.

Section 2. Special Meetings. Special meetings of the stockholders may only be called in the manner provided in the Restated Certificate of Incorporation.

Section 3. Place of Meetings. The Board of Directors may designate any place, either within or without the State of Delaware, as the place of meeting for any annual meeting or for any special meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal executive office of the Corporation. If for any reason any annual meeting shall not be held during any year, the business thereof may be transacted at any special meeting of the stockholders.

Section 4. Notice. Whenever stockholders are required or permitted to take action at a meeting, written or printed notice stating the place, date, time and, in the case of special meetings, the purpose or purposes, of such meeting, shall be given to each stockholder entitled to vote at such meeting not less than 10 nor more than 60 days before the date of the meeting. All such notices shall be delivered, either personally or by mail, by or at the direction of the Board of Directors, the chairman of the board, the president or the secretary, and if mailed, such notice shall be deemed to be delivered when deposited in the United States mail, postage prepaid, addressed to the stockholder at his, her or its address as the same appears on the records of the Corporation. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Section 5. Stockholders List. The officer having charge of the stock ledger of the Corporation shall make, at least 10 days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at such meeting arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 6. Quorum. The holders of a majority of the outstanding shares of capital stock entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders, except as otherwise provided by the General Corporation Law of the State of Delaware or by the Restated Certificate of Incorporation. If a quorum is not present, the holders of a majority of the shares present in person or represented by proxy at the meeting, and entitled to vote at the meeting, may adjourn the meeting to another time and/or place. When a specified item of business requires a vote by a class or series (if the Corporation shall then have outstanding shares of more than one class or series) voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum (as to such class or series) for the transaction of such item of business.

Section 7. Adjourned Meetings. When a meeting is adjourned to another time and place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 8. Vote Required. When a quorum is present, the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, unless (i) by express provisions of an applicable law or of the Restated Certificate of Incorporation a different vote is required, in which case such express provision shall govern and control the decision of such question, or (ii) the subject matter is the election of Directors, in which case Section 2 of Article III hereof shall govern and control the approval of such subject matter.

Section 9. Voting Rights. Except as otherwise provided by the General Corporation Law of the State of Delaware, the Restated Certificate of Incorporation of the Corporation or any amendments thereto or these By-laws, every stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of common stock held by such stockholder.

Section 10. Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him or her by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally. Any proxy is suspended when the person executing the proxy is present at a meeting of stockholders and elects to vote, except that when such proxy is coupled with an interest and the fact of the interest appears on the face of the proxy, the agent named in the proxy shall have all voting and other rights referred to in the proxy, notwithstanding the presence of the person executing the proxy. At each meeting of the stockholders, and before any voting commences, all proxies filed at or before the meeting shall be submitted to and examined by the secretary or a person designated by the secretary, and no shares may be represented or voted under a proxy that has been found to be invalid or irregular.

Section 11. Business Brought Before an Annual Meeting. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) brought before the meeting by or at the direction of the Board of Directors or (iii) otherwise properly brought before the meeting by a stockholder who was a stockholder of record at the time of giving notice provided for in this By-law. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 60 days nor more than 90 days prior to the first anniversary of the prior year's annual meeting; provided, however, that in the event that the annual meeting is changed by more than 30 days from such anniversary date, notice by the stockholder to be timely must be not later than the close of business on the 10th day following the date on which such notice of the date of the annual meeting was mailed or such public

announcement was made. A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of the Corporation which are beneficially owned by the stockholder and (iv) any material interest of the stockholder in such business. Notwithstanding anything in these By-laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this section. The presiding officer of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this section; if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. For purposes of this section, "public announcement" shall mean disclosure in a press release reported by Dow Jones News Service, Associated Press or a comparable national news service. Nothing in this section shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

ARTICLE III

DIRECTORS

Section 1. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to such powers as are herein and in the Restated Certificate of Incorporation expressly conferred upon it, the Board of Directors shall have and may exercise all the powers of the Corporation, subject to the provisions of the laws of Delaware, the Restated Certificate of Incorporation and these By-laws.

Section 2. Number, Election and Term of Office. The number of Directors which shall constitute the first Board of Directors shall be six. Thereafter, subject to any rights of the holders of any series of Preferred Stock to elect additional Directors under specified circumstances, the number of Directors which shall constitute the Board of Directors shall be fixed from time to time by resolution adopted by the affirmative vote of a majority of the total number of Directors then in office. The Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the annual meeting of the stockholders and entitled to vote in the election of Directors; provided that, whenever the holders of any class or series of capital stock of the Corporation are entitled to elect one or more Directors pursuant to the provisions of the Restated Certificate of Incorporation of the Corporation (including, but not limited to, for purposes of these By-laws, pursuant to any duly authorized certificate of designation), such Directors shall be elected by a plurality of the votes of such class or series present in person or represented by proxy at the meeting and entitled to vote in the election of such Directors. The Directors shall be elected in this manner at the annual meeting of stockholders, except as provided in Section 4 of this Article III, and each Director shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 3. Removal and Resignation. Any director or the entire Board of Directors may be removed at any time, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of Directors. Whenever the holders of any class or series are entitled to elect one or more Directors by the provisions of the Corporation's Restated Certificate of Incorporation, the provisions of this section shall apply, in respect to the removal without cause of a Director or Directors so elected, to the vote of the holders of the outstanding shares of that class or series and not to the vote of the outstanding shares as a whole. Any Director may resign at any time upon written notice to the corporation.

Section 4. Vacancies. Vacancies and newly created directorships resulting from any increase in the total number of Directors may be filled only in the manner provided in the Restated Certificate of Incorporation.

Section 5. Nominations.

(a) Only persons who are nominated in accordance with the procedures set forth in these By-laws shall be eligible to serve as Directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this By-law, who is entitled to vote generally in the election of Directors at the meeting and who shall have complied with the notice procedures set forth below in Section 5(b).

(b) In order for a stockholder to nominate a person for election to the Board of Directors of the Corporation at a meeting of stockholders, such stockholder shall have delivered timely notice of such stockholder's intent to make such nomination in writing to the secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation (i) in the case of an annual meeting, not less than 60 nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is changed by more than 30 days from such anniversary date, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed or public disclosure of the meeting was made, and (ii) in the case of a special meeting at which Directors are to be elected, not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed or public announcement of the meeting was made. Such stockholder's notice shall set forth (i) as to each person whom the stockholder proposes to nominate for election as a Director at such meeting all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); (ii) as to the stockholder giving the notice (A) the name and address, as they appear on the Corporation's books, of such stockholder and (B) the class and number of shares of the Corporation which are beneficially owned by such stockholder and also which are owned of record by such stockholder; and (iii) as to the beneficial owner, if any, on whose behalf the nomination is made, (A) the name and address of such person and (B) the class

and number of shares of the Corporation which are beneficially owned by such person. At the request of the Board of Directors, any person nominated by the Board of Directors for election as a Director shall furnish to the secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

(c) No person shall be eligible to serve as a Director of the Corporation unless nominated in accordance with the procedures set forth in this section. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by this section, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded. A stockholder seeking to nominate a person to serve as a Director must also comply with all applicable requirements of the Exchange Act, and the rules and regulations thereunder with respect to the matters set forth in this section.

Section 6. Annual Meetings. The annual meeting of the Board of Directors shall be held without other notice than this By-law immediately after, and at the same place as, the annual meeting of stockholders, unless otherwise provided by resolution of the Board.

Section 7. Other Meetings and Notice. Regular meetings, other than the annual meeting, of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by resolution of the board. Special meetings of the Board of Directors may be called by the chairman of the board, the president (if the president is a Director) or, upon the written request of at least a majority of the Directors then in office, the secretary of the Corporation on at least 24 hours notice to each Director, either personally, by telephone, by mail or by telecopy.

Section 8. Chairman of the Board, Quorum, Required Vote and Adjournment. The Board of Directors shall elect, by the affirmative vote of a majority of the total number of Directors then in office, a chairman of the board, who shall preside at all meetings of the stockholders and Board of Directors at which he or she is present and shall have such powers and perform such duties as the Board of Directors may from time to time prescribe. If the chairman of the board is not present at a meeting of the stockholders or the Board of Directors, the president (if the president is a Director and is not also the chairman of the board) shall preside at such meeting, and, if the president is not present at such meeting, a majority of the Directors present at such meeting shall elect one of their members to so preside. A majority of the total number of Directors then in office shall constitute a quorum for the transaction of business. Unless by express provision of an applicable law, the Restated Certificate of Incorporation or these By-laws a different vote is required, the vote of a majority of Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 9. Committees. The Board of Directors may, by resolution passed by a majority of the total number of Directors then in office, designate one or more committees, each committee to consist of one or more of the Directors of the Corporation, which to the extent provided in such resolution or these By-laws shall have, and may exercise, the powers of the Board of Directors in the management and affairs of the Corporation, except as otherwise limited by law. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

Section 10. Committee Rules. Each committee of the Board of Directors may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by a resolution of the Board of Directors designating such committee. Unless otherwise provided in such a resolution, the presence of at least a majority of the members of the committee shall be necessary to constitute a quorum. Unless otherwise provided in such a resolution, in the event that a member and that member's alternate, if alternates are designated by the Board of Directors, of such committee is or are absent or disqualified, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member.

Section 11. Communications Equipment. Members of the Board of Directors or any committee thereof may participate in and act at any meeting of such board or committee through the use of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear and speak with each other, and participation in the meeting pursuant to this section shall constitute presence in person at the meeting.

Section 12. Waiver of Notice and Presumption of Assent. Any member of the

Board of Directors or any committee thereof who is present at a meeting shall be conclusively presumed to have waived notice of such meeting except when such member attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Such member shall be conclusively presumed to have assented to any action taken unless his or her dissent shall be entered in the minutes of the meeting or unless his or her written dissent to such action shall be filed with the person acting as the secretary of the meeting before the adjournment thereof or shall be forwarded by registered mail to the secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to any member who voted in favor of such action.

Section 13. Action by Written Consent. Unless otherwise restricted by the Restated Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

ARTICLE IV

OFFICERS

Section 1. Number. The officers of the Corporation shall be elected by the Board of Directors and shall consist of a chairman of the board, a chief executive officer, a president, one or more vice-presidents, a secretary, a chief financial officer and such other officers and assistant officers as may be deemed necessary or desirable by the Board of Directors. Any number of offices may be held by the same person. In its discretion, the Board of Directors may choose not to fill any office for any period as it may deem advisable, except that the offices of president and secretary shall be filled as expeditiously as possible.

Section 2. Election and Term of Office. The officers of the Corporation shall be elected annually by the Board of Directors at its first meeting held after each annual meeting of stockholders or as soon thereafter as convenient. Vacancies may be filled or new offices created and filled at any meeting of the Board of Directors. Each officer shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 3. Removal. Any officer or agent elected by the Board of

Directors may be removed by the Board of Directors at its discretion, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 4. Vacancies. Any vacancy occurring in any office because of death, resignation, removal, disqualification or otherwise may be filled by the Board of Directors.

Section 5. Compensation. Compensation of all executive officers shall be approved by the Board of Directors, and no officer shall be prevented from receiving such compensation by virtue of his or her also being a Director of the Corporation.

Section 6. Chairman of the Board. The chairman of the board shall preside at all meetings of the stockholders and of the Board of Directors and shall have such other powers and perform such other duties as may be prescribed to him or her by the Board of Directors or provided in these By-laws.

Section 7. Chief Executive Officer. The chief executive officer shall have the powers and perform the duties incident to that position. Subject to the powers of the Board of Directors and the chairman of the board, the chief executive officer shall be in the general and active charge of the entire business and affairs of the Corporation, and shall be its chief policy making officer. The chief executive officer shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or provided in these By-laws. The chief executive officer is authorized to execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where

the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. Whenever the president is unable to serve, by reason of sickness, absence or otherwise, the chief executive officer shall perform all the duties and responsibilities and exercise all the powers of the president.

Section 8. The President. The president of the Corporation shall, subject to the powers of the Board of Directors, the chairman of the board and the chief executive officer, have general charge of the business, affairs and property of the Corporation, and control over its officers, agents and employees. The president shall see that all orders and resolutions of the Board of Directors are carried into effect. The president is authorized to execute bonds, mortgages and other contracts requiring a seal, under the seal of the

Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. The president shall have such other powers and perform such other duties as may be prescribed by the chairman of the board, the chief executive officer, the Board of Directors or as may be provided in these By-laws.

Section 9. Vice-Presidents. The vice-president, or if there shall be more than one, the vice-presidents in the order determined by the Board of Directors or the chairman of the board, shall, in the absence or disability of the president, act with all of the powers and be subject to all the restrictions of the president. The vice-presidents shall also perform such other duties and have such other powers as the Board of Directors, the chairman of the board, the chief executive officer, the president or these By-laws may, from time to time, prescribe. The vice-presidents may also be designated as executive vice-presidents or senior vice-presidents, as the Board of Directors may from time to time prescribe.

Section 10. The Secretary and Assistant Secretaries. The secretary shall attend all meetings of the Board of Directors, all meetings of the committees thereof and all meetings of the stockholders and record all the proceedings of the meetings in a book or books to be kept for that purpose or shall ensure that his or her designee attends each such meeting to act in such capacity. Under the chairman of the board's supervision, the secretary shall give, or cause to be given, all notices required to be given by these By-laws or by law; shall have such powers and perform such duties as the Board of Directors, the chairman of the board, the chief executive officer, the president or these By-laws may, from time to time, prescribe; and shall have custody of the corporate seal of the Corporation. The secretary, or an assistant secretary, shall have authority to affix the corporate seal to any instrument requiring it and when so affixed, it may be attested by his or her signature or by the signature of such assistant secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his or her signature. The assistant secretary, or if there be more than one, any of the assistant secretaries, shall in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the Board of Directors, the chairman of the board, the chief executive officer, the president, or secretary may, from time to time, prescribe.

Section 11. The Chief Financial Officer. The chief financial officer shall have the custody of the corporate funds and securities; shall keep full and accurate all books and accounts of the

Corporation as shall be necessary or desirable in accordance with applicable law or generally accepted accounting principles; shall deposit all monies and other valuable effects in the name and to the credit of the Corporation as may be ordered by the chairman of the board or the Board of Directors; shall cause the funds of the Corporation to be disbursed when such disbursements have been duly authorized, taking proper vouchers for such disbursements; and shall render to the Board of Directors, at its regular meeting or when the Board of Directors so requires, an account of the Corporation; shall have such powers and perform such duties as the Board of Directors, the chairman of the board, the chief executive officer, the president or these By-laws may, from time to time, prescribe. If required by the Board of Directors, the chief financial officer shall give the Corporation a bond (which shall be rendered every six years) in such sums and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of the office of chief financial officer and for the restoration to the Corporation, in case of death, resignation, retirement or removal from office of all books, papers, vouchers, money and other property of whatever kind in the possession or under the control of the chief financial officer belonging to the Corporation.

Section 12. Other Officers, Assistant Officers and Agents. Officers, assistant officers and agents, if any, other than those whose duties are provided for in these By-laws, shall have such authority and perform such duties as may from time to time be prescribed by resolution of the Board of Directors.

Section 13. Absence or Disability of Officers. In the case of the absence or disability of any officer of the Corporation and of any person hereby authorized to act in such officer's place during such officer's absence or disability, the Board of Directors may by resolution delegate the powers and duties of such officer to any other officer or to any Director, or to any other person selected by it.

ARTICLE V

CERTIFICATES OF STOCK

Section 1. Form. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Corporation by the chairman of the board, the chief executive officer or the president and the secretary or an assistant secretary of the Corporation, certifying the number of shares owned by such holder in the Corporation. If such a certificate is countersigned (i) by a transfer agent or an assistant transfer agent other than the Corporation or its employee or (ii) by a registrar, other than the Corporation or its employee, the signature of any such chairman of the board, chief executive officer, president, secretary or assistant secretary may be facsimiles. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers

of the Corporation whether because of death, resignation or otherwise before such certificate or certificates have been delivered by the Corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the Corporation. All certificates for shares shall be consecutively numbered or otherwise identified. The name of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the books of the Corporation. Shares of stock of the Corporation shall only be transferred on the books of the Corporation by the holder of record thereof or by such holder's attorney duly authorized in writing, upon surrender to the Corporation of the certificate or certificates for such shares endorsed by the appropriate person or persons, with such evidence of the authenticity of such endorsement, transfer, authorization and other matters as the Corporation may reasonably require, and accompanied by all necessary stock transfer stamps. In that event, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate or certificates and record the transaction on its books. The Board of Directors may appoint a bank or trust company organized under the laws of the United States or any state thereof to act as its transfer agent or registrar, or both in connection with the transfer of any class or series of securities of the Corporation.

<u>Section 2.</u> <u>Lost Certificates.</u> The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates previously issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his or her legal representative, to give the Corporation a bond sufficient to indemnify the Corporation against any claim that may be made against the Corporation on account of the loss, theft or destruction of any such certificate or the issuance of such new certificate.

<u>Section 3.</u> <u>Fixing a Record Date for Stockholder Meetings.</u> In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than 60 nor less than 10 days

before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be the close of business on the next day preceding the day on which notice is first given. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 4. Fixing a Record Date for Other Purposes. In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment or any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purposes of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any

such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 5. Registered Stockholders. Prior to the surrender to the Corporation of the certificate or certificates for a share or shares of stock with a request to record the transfer of such share or shares, the Corporation may treat the registered owner as the person entitled to receive dividends, to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner. The Corporation shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof.

Section 6. Subscriptions for Stock. Unless otherwise provided for in the subscription agreement, subscriptions for shares shall be paid in full at such time, or in such installments and at such times, as shall be determined by the Board of Directors. Any call made by the Board of Directors for payment on subscriptions shall be uniform as to all shares of the same class or as to all shares of the same series. In case of default in the payment of any installment or call when such payment is due, the Corporation may proceed to collect the amount due in the same manner as any debt due the Corporation.

ARTICLE VI

GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Restated Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, in accordance with applicable law. Dividends may be paid in cash, in property or in shares of the capital stock, subject to the provisions of the Restated Certificate of Incorporation. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or any other purpose and the Directors may modify or abolish any such reserve in the manner in which it was created.

Section 2. Issuance of Stock. The shares of all classes of stock of the Corporation may be issued by the Corporation from time to time for such consideration as from time to time may be fixed by the Board of Directors of the Corporation, provided that shares of stock having a par value shall not be issued for a consideration less than such par value, as determined by the Board. At any time, or from time to time, the Corporation may grant rights or options to purchase from the Corporation any shares of its stock of any class or classes to run for such period of time, for such consideration, upon such terms and conditions, and in such form as the Board of Directors may determine. The Board of Directors shall have authority, as provided by law, to determine that only a part of the consideration which shall be received by the Corporation for the shares of its stock which it shall issue from time to time, shall be capital; provided, however, that, if all the shares issued shall be shares

having a par value, the amount of the part of such consideration so determined to be capital shall be equal to the aggregate par value of such shares. The excess, if any, at any time, of the total net assets of the Corporation over the amount so determined to be capital, as aforesaid, shall be surplus. All classes of stock of the Corporation shall be and remain at all times nonassessable.

Section 3. Checks, Drafts or Orders. All checks, drafts or other orders for the payment of money by or to the Corporation and all notes and other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation, and in such manner, as shall be determined by resolution of the Board of Directors or a duly authorized committee thereof.

Section 4. Contracts. In addition to the powers otherwise granted to officers pursuant to Article IV hereof, the Board of Directors may authorize any officer or officers, or any agent or agents, of the Corporation to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 5. Loans. The Corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the Corporation or of its subsidiaries, including any officer or employee who is a Director of the Corporation or its subsidiaries, whenever, in the judgment of the Directors, such loan, guaranty or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the Corporation. Nothing in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the Corporation at common law or under any statute.

Section 6. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 7. Corporate Seal. The Board of Directors may provide a corporate seal which shall be in the form of a circle and shall have inscribed thereon the name of the Corporation and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 8. Voting Securities Owned By Corporation. Voting securities in any other corporation held by the Corporation shall be voted by the chief executive officer, the president or a vice-president, unless the Board of Directors specifically confers authority to vote with respect thereto, which authority may be general or confined to specific instances, upon some other person or officer. Any person authorized to vote securities shall have the power to appoint proxies, with general power of substitution.

Section 9. Inspection of Books and Records. The Board of Directors shall have power from time to time to determine to what extent and at what times and places and under what conditions and

regulations the accounts and books of the Corporation, or any of them, shall be open to the inspection of the stockholders; and no stockholder shall have any right to inspect any account or book or document of the Corporation, except as conferred by the laws of the State of Delaware, unless and until authorized so to do by resolution of the Board of Directors or of the stockholders of the

Corporation.

Section 10. Section Headings. Section headings in these By-laws are for convenience of reference only and shall not be given any substantive effect in limiting or otherwise construing any provision herein.

Section 11. Inconsistent Provisions. In the event that any provision of these By-laws is or becomes inconsistent with any provision of the Restated Certificate of Incorporation, the General Corporation Law of the State of Delaware or any other applicable law, the provision of these By-laws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect.

ARTICLE VII

AMENDMENTS

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the Corporation is expressly authorized to make, alter, amend, change, add to or repeal these By-laws by the affirmative vote of a majority of the total number of Directors then in office. Any alteration or repeal of these By-laws by the stockholders of the Corporation shall require the affirmative vote of a majority of the outstanding shares of the Corporation entitled to vote on such alteration or repeal; provided, however, that Section 11 of Article II and Sections 2, 3, 4 and 5 of Article III and this Article VII shall not be altered, amended or repealed and no provision inconsistent therewith shall be adopted without the affirmative vote of the holders of at least 66% of the outstanding shares of the Corporation entitled to vote in the election of directors, voting together as a class.

EXHIBIT 10.16

AMENDED AND RESTATED AGRICULTURAL LEASE

THIS AMENDED AND RESTATED AGRICULTURAL LEASE ("Lease") is made and entered into as of June 26, 1998 (the "Effective Date") by and between BLOOMING FARM, INC., a Delaware corporation ("Lessor"), and HINES NURSERIES, a Delaware corporation ("Lessee").

R E C I T A L S

A. Lessor is the owner of that certain real property located in Washington County, Oregon, consisting of approximately 343 acres, more or less, as more particularly described on Exhibit "A" attached hereto and incorporated herein by this reference (the "Property").

B. Lessor has leased the Property to Lessee pursuant to two (2) separate lease agreements dated August 4, 1995 and June 21, 1996, respectively (collectively the "Prior Leases") which Prior Leases the Lessee and Lessor desire to amend and restate and combine into a single agreement on the terms and conditions contained in this Lease.

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties agree as follows:

1. Leased Premises. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, upon the terms and conditions set forth in this Lease, the approximately 343 acres of real property described in Exhibit "A", together with all improvements and structures thereon and all appurtenant rights thereto, including, without limitation, wells, pumps, motors, electrical panels, electrical hookups, water discharge facilities, pipelines, irrigation systems, easements, rights-of-way for ingress and egress, licenses and water rights and privileges, which water rights and privileges include, without limitation, any and all rights such real property may have, or that Lessor may have with respect to such real property, including any above-ground and below-ground pipeline, rights, easements, licenses or privileges with respect to any canal or distribution integration program, to receive irrigation water from Tualatin Valley Irrigation District ("TVID") (collectively, the "Premises").

2. Term. The term of this Lease shall commence on the Effective Date, and end on May 31, 2008 (the "Lease Term").

3. Rent. As and for rental of the Property, Lessee shall pay to

Lessor annually the sum of Two Hundred and No/100 Dollars ($200.00) per acre, for a total annual rent of Sixty-Eight Thousand Six Hundred and No/100 Dollars ($68,600.00). The rent

shall be paid in equal monthly installments of Five Thousand Seven Hundred Sixteen and 66/100 Dollars ($5,716.66) due in arrears on the last day of each month. Lessee shall pay the rent to Lessor at Lessor's address for notices hereunder or at such other place as Lessor shall from time to time designate in writing.

4. Real Property and Water District Taxes and Assessments; Water Costs. All real estate taxes, assessments or similar levies of any kind and all water district taxes, assessments or similar levies of any kind levied against the Property at the inception date of this Lease and assessed or falling due during the Lease Term shall be paid by Lessee. All such taxes, assessments or similar levies shall be pro-rated for Lessee's period of occupancy. All taxes and assessments assessed against or attributable to improvements placed upon the Property by the Lessee and Lessee's personal property on the Property, shall be paid by Lessee. The cost of water, together with any water standby or other charges, necessary for the adequate and proper irrigation of crops grown on the Property shall be borne by Lessee.

5. Utilities. Lessee shall pay for all charges for light, power, and all other services and utilities supplied to the Property during the Lease Term.

6. Water Supply. Any and all of Lessor's rights to extract any groundwater beneath the Property, use of any TVID facilities serving the Property, and any future allocations of irrigation water from TVID to which the Property might be entitled during the Term of this Lease are hereby transferred to Lessee for the Term of this Lease.

7. Compliance with Laws; Waste.

(a) Compliance with Laws. Lessee shall not do or suffer to be done on or about the Property, anything that would or does violate or conflict with any law, ordinance, rule or regulation now in force or effect, or that may hereinafter be enacted, promulgated or adopted by Federal, State or local authority.

(b) Waste. Lessee shall not commit or suffer to be committed any waste on the Property (provided that, the use or application of pesticides, herbicides, sprays or other materials on the Property or on any crops, in accordance with federal, state or county laws and regulations, shall not constitute waste). Lessee shall not maintain any nuisance on the Property, and shall not use the Property for any unlawful purposes. Lessor and Lessee acknowledge and agree that any and all deterioration of the Property due to salinity, drainage and related problems or the use of the Property by Lessee in accordance with normal and customary agricultural

practices does not constitute waste or a nuisance or a breach of any of the terms of this Lease.

8. Agricultural Conservation Programs. If applicable, Lessor and Lessee acknowledge that certain acreage allotments, bases, and yields, have been and in the future will be established by the United States Department of Agriculture. Lessee agrees to work with Lessor and the Washington County or other applicable Agricultural Stabilization and Conservation Service ("A.S.C.S.") Office to do all things reasonably necessary to maintain all such required allotments, bases, and yields. Lessee further agrees, at its expense, to comply with all rules and regulations dealing with conservation use acres and set-aside acreage. Any payments made in connection with or affecting operations conducted on or in conjunction with the Property during the Lease Term (including without limitation any payments for participation in an agricultural program under or in compliance with any federal, state, county or municipal law or regulation that involve crop controls, compliance payments on the acreage of crops actually produced, conservation practices, the diversion of crop land acreage from cash crop production, price supports, parity payments or other agricultural payments) shall belong to Lessee, and Lessor shall have no interest therein. To the extent and so long as the same is permitted under applicable A.S.C.S. regulations, the Property may be combined with other property of Lessee for purposes of any A.S.C.S. or other payment or subsidy program.

9. Environmental Indemnity and Covenants.

(a) Lessor's Representations and Warranties. Lessor represents and warrants that any handling, transportation, storage, treatment or usage of Hazardous Substances (as defined in subparagraph (f) below) that has occurred on the Property during the period of its ownership has been in compliance with all Environmental Requirements (as defined in subparagraph (e) below). Lessor further represents and warrants that, to the best of its knowledge and belief and except as otherwise disclosed to Lessee in writing, any currently known Hazardous Substances which might be present above, on, or beneath the Property do not exceed those concentrations which would violate current applicable laws and regulations.

(b) Lessor's Indemnity of Lessee. Lessor hereby agrees to indemnify and hold harmless Lessee from and against, any and all losses, costs, claims, or damages to the Property or suffered by Lessee resulting from use, generation, manufacture, production, storage, release, discharge, or disposal of Hazardous Substances (as defined in subparagraph (f) below) on, under, or about the Property which are caused by Lessor or occurred prior to the commencement of this Lease.

Further, Lessor assumes all liabilities for any clean-up, remediation, and/or restoration costs which result from such use, generation, manufacture, production, storage,release, discharge, or disposal of Hazardous Substances.

(c) Lessee's Indemnity of Lessor. Lessee hereby agrees to indemnify and hold harmless Lessor from and against, any and all losses, costs, claims, or damages to the Property or suffered by Lessor resulting from use, generation, manufacture, production, storage, release, discharge, or disposal of Hazardous Substances (as defined in subparagraph (f) below) on, under, or about the Property which are caused by Lessee or occurred during the term of this Lease, other than caused by Lessor. Further, Lessee assumes all liabilities for any clean-up, remediation, and/or restoration costs which result from such use, generation, manufacture, production, storage, release, discharge, or disposal of Hazardous Substances.

(d) Covenants Regarding Use. Lessee covenants that during the Lease Term it will not use, generate, manufacture, produce, store, release, discharge, or dispose of on, under or about the Property or transport to or from the Property any Hazardous Substances except: (i) petroleum, gasoline or diesel fuel, propane or natural gas used to operate motor vehicles or farm machinery or equipment; and (ii) Hazardous Substances used in the production of agricultural crops on the Property or activities related thereto, which are commonly used for such purposes in the vicinity of the Property, and which are used in compliance with applicable laws.

(e) "Environmental Requirements" Defined. "Environmental Requirements" means all applicable present statutes, regulations, rules, ordinances, codes, licenses, permits, orders, approvals, plans, authorizations, concessions, franchises, and similar items, of all governmental agencies, departments, commissions, boards, bureaus, or instrumentalities of the United States, states or political subdivisions thereof and all applicable judicial, administrative, and regulatory decrees, judgments, and orders relating to the protection of human health or the environment, including, without limitation, all requirements, including, but not limited to, those pertaining to reporting, licensing, permitting, investigation, and remediation of emissions, discharges, releases, or threatened releases of "Hazardous Substances", chemical substances, pollutants, contaminants or hazardous or toxic substances, materials or wastes whether solid, liquid, or gaseous in nature, into the air, surface water, groundwater, or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal,

transport, or handling of chemical substances, materials, or wastes, whether solid, liquid, or gaseous in nature.

(f) "Hazardous Substances" Defined. The term "Hazardous Substances" shall include without limitation: (i) those substances included within the definitions of "Hazardous Substances," "Hazardous Materials," "Toxic Substances" or "Solid Waste" in CERCLA (42 U.S.C. 9601 et seq.), RCRA (42 U.S.C. 6901 et seq.) and the Hazardous Materials Transportation Act (49 U.S.C. Sections 1801 et seq.), TSCA (15 U.S.C. (S) 2601 et seq.) and in the regulations promulgated pursuant to said laws; (ii) those substances defined as hazardous wastes in any applicable law of the state of Oregon and in the regulations promulgated pursuant to said laws; (iii) those substances listed in the United States Department of Transportation Table of Hazardous Materials (49 CFR 172.101 and amendments thereto) or by the Environmental Protection Agency (or any successor agency) as hazardous substances (40 CFR Part 302 and amendments thereto); (iv) such other substances, materials and wastes which are or become regulated under applicable local, state or federal law, or which are classified as hazardous or toxic under federal, state, or local laws or regulations; and (v) any material, waste or substance which is petroleum, asbestos, polychlorinated biphenyls, flammable explosives, or radioactive materials. Any reference herein to statutory or regulatory sections shall be deemed to include any amendments thereto and any successor sections. "Hazardous Substances" shall also include any substance the presence of which requires investigation or remediation under any federal, state or local statute, regulation, ordinance, order, action or policy; and includes, in addition, any substance the presence of which causes or threatens to cause a nuisance upon the Property or adjacent property or threatens the health and safety of persons on or about the Property.

10. Concerning the Property. Lessor represents and warrants to Lessee that it is the sole and lawful record and beneficial owner of the Property and that it has the full authority to enter into this Lease and perform as herein contemplated.

11. Indemnity and Insurance.

(a) Indemnity of Lessor. Except as otherwise provided in this

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Lease, Lessee shall indemnify, defend, and hold Lessor, Lessor's employees and agents, and Lessor's property harmless from and against all claims, losses, damages, liabilities and expenses (including attorneys' fees) arising from personal injury or physical damage to any person or property occurring on the Property and caused by Lessee, Lessee's employees, agents or representatives, or due to

Lessee's operations on the Property during the Lease Term. The obligation of Lessee to indemnify, defend, and hold harmless Lessor, however, shall not apply to, and Lessee shall not be liable for, claims, losses, damages, liabilities and expenses as and to the extent the same arise from or relate to (i) the negligence or willful misconduct of Lessor or Lessor's employees, agents or representatives, or (ii) any condition on, of or affecting the Property on or prior to the date of execution and delivery of this Lease.

(b) Indemnity of Lessee. Lessor shall indemnify, defend and hold
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Lessee harmless from all claims, losses, damages, liabilities and expenses (including attorneys' fees) arising from or relating to (i) the negligence or willful misconduct of Lessor or Lessor's employees, agents or representatives, or (ii) any condition on, of or affecting the Property on or prior to the date of execution and delivery of this Lease.

(c) Insurance. Lessee shall, at Lessee's sole expense, keep and
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maintain in full force during the term hereof, (a) worker's compensation insurance, unless Lessee has no employees, (b) a general liability insurance policy (covering both bodily injury and property damage) in an amount not less than Five Hundred Thousand Dollars ($500,000.00) for injury or death of one person, in an amount not less than One Million and No/100 Dollars ($1,000,000.00) for injury or death of more than one person in any one accident or occurrence, and property damage insurance in an amount not less than Three Hundred Thousand and No/100 Dollars ($300,000.00).

12. Right of First Refusal.

(a) If at any time during the Term, Lessor shall reach substantial agreement on the basic business terms of a sale of all or any portion of the Property (the "Sale Parcel") to a prospective purchaser or the basic business terms for the sale of a Sale Parcel for which Lessee previously elected not to exercise its rights under this Section shall have materially changed, then Lessor shall notify Lessee in writing (the "Lessor's Notice") setting forth (i) the size and location of the Sale Parcel, (ii) the proposed closing date, (iii) the purchase Price, and (iv) all other economic terms upon which Lessor is prepared to sell the Sale

Parcel to the prospective purchaser.

(b) Provided Lessee is not in default of the terms hereunder, Lessee shall have the right of first refusal to purchase the Sale Parcel on the terms and conditions outlined in Lessor's Notice, which right is exercisable by written notice from Lessee to Lessor given not less than ten (10)

business days after the giving of Lessor's Notice, time being of the essence. If Lessee fails to notify Lessor in writing that it will purchase the Sale Parcel within the prescribed ten (10) business day period, Lessee's rights under this Section shall terminate, and Lessor shall have no further obligation under this Section with respect to the Sale Parcel, except that if Lessor, within six (6) months after the date of Lessor's Notice, has not closed on the sale of the Sale Parcel under terms and conditions which are substantially similar to those set forth in the applicable Lessor's Notice, then Lessee's rights under this Section to lease such portion of the Sale Parcel shall be reinstated and Lessor shall be required to reissue Lessor's Notice upon expiration of such six (6) month period. If Lessee shall exercise its right to purchase the Sale Parcel, pursuant to this Section, such sale shall be consummated on the terms and conditions of Section 13(c) hereof, except to the extent such terms and conditions conflict with those set forth in the Lessor's Notice in which case the terms in Lessor's Notice shall control.

13. Option to Purchase.

(a) For the period from the Effective Date until three (3) months prior to the end of the Term (the "Option Period"), and so long as Lessee is not in default hereunder, Lessor hereby grants to Lessee an option to purchase all or a portion of the Property at a purchase price (the "Purchase Price") equal to the current fair market value at the time Lessee exercises such option. Said option shall be exercised by written notice to Lessor (the "Option Notice") at any time during the Option Period which notice shall identify the portion of the Property Lessee desires to purchase (the "Option Parcel") and Tenant's estimate of the current fair market value of the Option Parcel ("Proposed Purchase Price"). If the Lessor objects to the Proposed Purchase Price, Lessor shall send written notice ("Objection Notice") to Lessee, which notice must be received by Lessee not later than seven (7) business days after Lessor's receipt of the Option Notice (the "Objection Period"), time being of the essence. If Lessee fails to receive the Objection Notice within the Objection Period, the Lessor shall be deemed to have accepted the Proposed Purchase Price.

(b) If Lessee receives the Objection Notice within the Objection Period, the current fair market value of the Option Parcel shall be determined in the following manner:

(i) Within twenty (20) days following Lessee's receipt of the Objection Notice, Lessor and Lessee shall each select an appraiser of their choice and

give the other party written notice of such appraiser's name, address and telephone number.

(ii) Within thirty (30) days following Lessee's receipt of the Objection Notice, the two (2) appraisers so selected by Lessor and Lessee shall then select a third (3rd) appraiser and furnish Lessor and Lessee written notice of such appraiser's name, address and telephone number.

(iii) All appraisers selected pursuant to this section shall be M.A.I. appraisers, unless Lessor and Tenant shall otherwise agree in writing, each having at least ten (10) years experience with agricultural property in Washington County, Oregon. Within forty (40) days following Lessee's receipt of the Objection Notice, each of the three (3) selected appraisers shall independently determine and separately submit to both Lessor and Lessee their respective estimates of the current fair market value of the Option Parcel. For the purposes of this lease, the fair market value shall be the average of the two (2) closest estimates (or identical estimates if applicable), provided that if there are no two (2) closest estimates, the current fair market value shall be an average of the three (3) estimates.

(iv) All fees, costs and expenses incurred in connection with obtaining the appraisals and set forth in this section shall be shared equally by Lessor and Lessee; however, Lessor and Lessee shall each bear their own attorneys' fees incurred with respect to this procedure.

(c) If Lessee's option hereunder is exercised, the following closing procedure shall apply:

(i) The closing date (the "Closing Date") for the sale of the Property to Lessee shall be on a date mutually agreeable to the parties, but in no event later than ninety (90) days after Lessor's receipt of the Option Notice (or the Lessee's receipt of the Lessor's Notice, in the event the purchase is pursuant to Section 12 hereof). Payment of the purchase price and the delivery of the deed (the "Closing") shall be made at the office of Kirkland & Ellis in Chicago, Illinois, or at such other place as the parties may agree. At the request of either party, the Closing shall be effected through a deed and money escrow, the cost of which escrow shall be borne equally by Lessor and Lessee. The Purchase Price shall be payable to Lessor on the Closing

Date in cash or by certified or cashier's check, together with delivery of evidence of part purchase money indebtedness, if applicable, upon delivery of the deed to Lessee and performance of Lessor's other obligations as set forth herein.

(ii) The conveyance of the Property shall be made by recordable limited or special warranty deed to Lessee (or its designee) and other documentation necessary to transfer good and marketable fee simple title to the Property to Lessee, subject only to (A) the lien of current general real estate taxes and special assessments not then due and payable; (B) any acts or doings caused or suffered by Lessee; (C) private, public and utility easements and roads and highways, if any; (D) covenants, conditions and restrictions of record; and (E) existing leases and tenancies ("Permitted Title Exceptions").

(iii) Lessor shall deliver or cause to be delivered to Lessee, not later than thirty (30) days prior to the Closing, as evidence of Lessor's title to the Property, a commitment for an ALTA Form B owner's title insurance policy (with extended coverage over all general exceptions) in the aggregate amount of the Purchase Price as provided hereunder and an ALTA/ACSM-Class A survey showing no encroachments by or from the Land onto any adjacent property, no encroachments onto the Land by any adjacent property and no violation of any recorded building lines, restrictions or easements affecting the Property. Such survey shall be dated no more than thirty (30) days prior to the date of Closing and shall be certified to Lessee's lender, Lessee and Lessee's lender, or designee, if any. Such title commitment shall be issued by Chicago Title Insurance Company, shall name Lessee or its designee as the proposed insured and show title to the Property in Lessor, subject only to (a) the Permitted Title Exceptions, and (b) other title exceptions pertaining to liens or encumbrances of a definite or ascertainable amount which may be removed at Closing by the payment of money, but not to exceed the cash portion of the Purchase Price otherwise payable to Lessor at Closing, and which Lessor shall so remove or cause to be removed, concurrently with the Closing, any mortgage and any other related security instrument.

(iv) The payment of all prorations, transfer taxes, title insurance charges, escrow fees, recording fees and other expenses, fees and charges shall be made by the party from whom such payment is due in accordance

with statutory requirements or in accordance with the custom at the time of the Closing for sales of other properties similar to the Property.

(v) If Lessor refuses to enter into the contract within the time required therefor, and provided Lessee has validly executed its option to purchase in full compliance with the terms hereof, Lessee shall be entitled to all remedies available at law or in equity with respect to Lessor's refusal to enter into the contract, including, without limitation, damages and specific performance.

(vi) In the event the Closing shall not occur prior to the expiration of the Term ("Termination Date"), Lessee shall abide by all the terms and conditions of this Lease, including the obligation to pay rent from the Termination Date through the Closing Date, provided that Lessee shall not be required to pay rent if the Closing Date is delayed due to the fault of Lessor, or its employees, agents or contractors.

(d) Notwithstanding anything to the contrary herein, Lessee shall not have the option granted pursuant to this Section 13 with respect to any Sale Parcel provided Lessee receives Lessor's Notice with respect to such Sale Parcel prior to or at the same time Lessor receives an Option Notice.

14. Surrender of Property. Immediately upon the expiration or earlier termination of this Lease, Lessee shall surrender possession of the Property to the then current owner of the Property, excepting that Lessee shall be permitted to care for, harvest and remove any crops then-growing on the Property.

15. Default. The failure by Lessee to observe or perform any covenant, condition or provision of this Lease to be observed or performed by Lessee, where such failure continues for a period of thirty (30) days after written notice from Lessor to Lessee shall constitute a default under this Lease by Lessee. If a default occurs, Lessor shall have the right to take possession Premises or relet the Premises.

16. Waiver and Modification. This Lease may be amended or supplemented only by a written instrument signed by the parties hereto.

17. Severability. In the event any provision of this Lease shall be held by any court of competent jurisdiction to be illegal, invalid or unenforceable for any reason, the remaining provisions of this Lease shall nonetheless remain in full force and effect.

18. Construction of Lease. The paragraph headings in this Lease have been inserted for convenience only, and shall not be considered or referred to in resolving questions of interpretation or construction. In determining the meaning of, or resolving any ambiguity with respect to, any provision of this Lease, such provision shall be interpreted without construing such provision in favor of or against the party responsible for drafting this document.

19. Further Assurances. Lessee and Lessor shall, at their own expense, execute, acknowledge and deliver all instruments and documents and take all actions as may reasonably be required in order to carry out the intent of, and the transactions contemplated by, this Lease.

20. Attorneys' Fees. In any action or proceeding by either party to enforce this Lease or any provisions thereof, the prevailing party shall be entitled to all costs and reasonable attorneys', paralegals' and other professionals' fees. Any and all attorneys' fees to which Lessee is entitled under this Lease shall include attorneys' fees for in-house counsel.

21. Notices. Any notice to be given to either party by the other shall be in writing and deemed served on the date of delivery if hand delivered to the person to whom notice is to be given, and on the third (3rd) day after mailing if sent by certified mail, with postage prepaid and return receipt requested, and addressed as follows:

"Lessor" Blooming Farm, Inc.
3150 SE Minter Bridge Rd.
Hillsboro, Oregon 97123
Attn: Chief Financial Officer

"Lessee" Hines Nurseries
12621 Jeffrey Road
Irvine, California 92620
Attn: Chief Financial Officer

With a copy to: Kirkland & Ellis
200 E. Randolph Drive
Chicago, Illinois 60601
Attn: Michael H. Kerr

22. Binding Effect. The provisions of this Lease shall benefit and bind the heirs, successors, executors, administrators and assigns of all parties to this lease.

23. Time. Time is of the essence of this Lease.

24. Entire Agreement. This Lease constitutes the entire agreement between the parties pertaining to the lease of the Premises, and supersedes all prior and contemporaneous agreements, representations, and understandings of the parties with regard thereto. No supplement, modification or amendment of this Lease shall be binding unless executed in writing by all of the parties hereto.

25. Relationship Limited. It is expressly understood and agreed that the relationship of Lessor and Lessee is one of Lessor and Lessee and not one of partnership or joint venture, and that Lessor shall not become responsible for any debt or obligation contracted or incurred by Lessee nor shall Lessee become responsible for any debt or obligation contracted or incurred by Lessor.

26. Authority. Each party represents and warrants to the other that (i) such party has the requisite legal capacity and authority to enter into and fully perform each and all of their obligations under this Lease and (ii) this Lease does not in any way violate any covenant, contract, agreement, instrument or understanding by which such party is bound.

27. Recordation. The parties agree that Lessee may, during the term of this Lease, record a memorandum of this Lease.

IN WITNESS WHEREOF, the parties hereto have executed this lease as of the year and day first written above.

"Lessee"	"Lessor"
HINES NURSERIES	BLOOMING FARM, INC.
By /s/ Paul R. Wood	By /s/ Thomas R. Reusche
Paul R. Wood Secretary	Thomas R. Reusche Secretary

EXHIBIT 23.1

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-58561) of Hines Horticulture, Inc. of our report dated February 22, 1999 appearing on page F-1 of this Form 10-K.

PRICEWATERHOUSECOOPERS LLP

Newport Beach, California
March 25, 1999

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