

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

SCOTTS COMPANY

CIK: **825542** | IRS No.: **311199481** | State of Incorporation: **DE** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **000-19768** | Film No.: **94529134**
SIC: **2870** Agricultural chemicals

Mailing Address

14111 SCOTTSLAWN ROAD
MARYSVILLE OH 43041

Business Address

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MARYSVILLE OH 43041
5136440011

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

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

For the quarterly period ended April 2, 1994

OR

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

For the transition period from _____ to _____

Commission file number 0-19768

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

Delaware
31-199481
(State or other jurisdiction of (I.R.S. Employer
Identification No.)
incorporation or organization)

14111 Scottslawn Road
Marysville, Ohio 43041
(Address of principal executive offices)
(Zip Code)

(513) 644-0011

(Registrant's telephone number, including area code)

(No change)

(Former name, former address and former fiscal year, if changed
since last report.)

Indicate by check mark whether registrant (1) has filed all
reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months
(or for such shorter period that the registrant was required to
file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes X No

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

| | |
|--|-------------------------------|
| Class A | Outstanding at May 6, 1994 |
| Common Stock, voting, \$.01 par value | 18,667,064 |

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THE SCOTTS COMPANY AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

ASSETS
<CAPTION>

| | April 3 | April 2 | September 30 |
|---|----------|----------|--------------|
| | 1993 | 1994 | 1993 |
| <S> | <C> | <C> | <C> |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 2,999 | \$ 4,553 | \$ 2,323 |
| Accounts receivable, less allowances of \$2,638, \$2,784 and \$2,511, respectively | 141,053 | 200,763 | 60,848 |

| | | | |
|---|-----------|-----------|-----------|
| Inventories: | | | |
| Raw materials | 34,773 | 53,302 | 31,905 |
| Finished products | 60,695 | 75,530 | 44,749 |
| Total inventories | 95,468 | 128,832 | 76,654 |
| | | | |
| Other current assets | 3,595 | 7,195 | 3,917 |
| Total current assets | 243,115 | 341,343 | 143,742 |
| | | | |
| Property, plant and equipment, at cost: | | | |
| Land and land improvements | 19,320 | 22,608 | 19,817 |
| Buildings | 35,956 | 40,796 | 36,300 |
| Machinery and equipment | 80,052 | 109,675 | 87,250 |
| | | | |
| Furniture and fixtures | 6,165 | 6,192 | 5,952 |
| Construction in progress | 5,279 | 8,937 | 4,687 |
| | 146,772 | 188,208 | 154,006 |
| | | | |
| Less accumulated depreciation | 51,021 | 61,614 | 55,215 |
| Net property, plant and equipment | 95,751 | 126,594 | 98,791 |
| | | | |
| Intangible assets, net of accumulated amortization of \$19,664, \$23,196, and \$21,053, respectively | 21,790 | 25,108 | 19,972 |
| Deferred costs and other assets, net of accumulated amortization of \$7,234, \$8,562, and \$7,770, respectively | 19,564 | 22,256 | 17,745 |
| Excess of costs over underlying value of net assets acquired (goodwill), net of accumulated amortization of \$4,670, \$6,296, and \$5,123, respectively | 41,305 | 106,842 | 41,340 |
| Total Assets | \$421,525 | \$622,143 | \$321,590 |

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

</TABLE>

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<TABLE>

THE SCOTTS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands except share data)

LIABILITIES AND SHAREHOLDERS' EQUITY

<CAPTION>

| | April 3 | April 2 | September 30 |
|--|-----------|-----------|--------------|
| | 1993 | 1994 | 1993 |
| <S> | <C> | <C> | <C> |
| Current Liabilities: | | | |
| Revolving credit and bank line of credit | \$ 75,499 | \$ 98,000 | \$ 705 |
| Current portion of term debt | 5,251 | 20,417 | 5,444 |
| Accounts payable | 50,786 | 64,036 | 28,279 |
| Accrued liabilities | 17,223 | 26,311 | 9,135 |
| Accrued payroll and fringe benefits | 9,297 | 12,372 | 12,035 |
| Accrued taxes | 8,930 | 7,990 | 9,253 |
| Total current liabilities | 166,986 | 229,126 | 64,851 |

| | | | |
|---|---------|---------|---------|
| Long-term debt, less current portion | 96,955 | 211,171 | 87,080 |
| Postretirement benefits other than pensions | 25,586 | 26,710 | 26,646 |
| Total Liabilities | 289,527 | 467,007 | 178,577 |

Shareholders' Equity:

| | | | |
|---|------------|------------|-----------|
| Preferred Stock, \$.01 par value, authorized 10,000 shares; none issued | - | - | - |
| Class A Common Stock, voting, par value \$.01 per share; authorized 35,000,000 shares; issued 21,073,430, 21,081,959, and 21,073,430 shares, respectively | 211 | 211 | 211 |
| Class B Common Stock, non-voting, par value \$.01 per share; authorized 35,000,000 shares; none issued | - | - | - |
| Capital in excess of par value | 192,871 | 193,618 | 193,263 |
| Retained earnings (deficit) | (19,682) | 2,448 | (9,008) |
| Cumulative foreign currency translation adjustment | (47) | 300 | (12) |
| Treasury stock 2,414,895 shares at cost | (41,355) | (41,441) | (41,441) |
| | |) | |
| Total Shareholders' Equity | 131,998 | 155,136 | 143,013 |
| Total Liabilities and Shareholders' Equity | \$ 421,525 | \$ 622,143 | \$321,590 |

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

</TABLE>

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<TABLE>

THE SCOTTS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in thousands except share data)

<CAPTION>

| | Three Months Ended | | Six Months Ended | |
|----------------------------|--------------------|-----------------|------------------|-----------------|
| | April 3 1993 | April 2 1994 | April 3 1993 | April 2 1994 |
| Net sales | \$161,102 | \$207,424 | \$228,859 | \$275,750 |
| Cost of sales | 82,481 | 109,100 | 119,535 | 146,464 |
| Gross profit | 78,621 | 98,324 | 109,324 | 129,286 |
| Operating expenses: | | | | |
| Marketing | 25,407 | 32,990 | 37,346 | 45,911 |
| Distribution | 21,262 | 24,888 | 31,080 | 35,864 |
| General and administrative | 8,206 | 9,331 | 14,493 | 14,341 |
| Research and development | 2,052 | 2,934 | 3,604 | 4,938 |
| Total operating expenses | 56,927 | 70,143 | 86,523 | 101,054 |

| | | | | |
|---|------------|------------|------------|------------|
| Income from operations | 21,694 | 28,181 | 22,801 | 28,232 |
| Interest expense | 2,722 | 4,917 | 4,443 | 7,557 |
| Other expenses, net | 308 | 776 | 470 | 804 |
| Income before income tax provision and cumulative effect of accounting changes | 18,664 | 22,488 | 17,888 | 19,871 |
| Income tax provision | 7,817 | 9,475 | 7,512 | 8,415 |
| Income before cumulative effect of accounting changes (1) | 10,847 | 13,013 | 10,376 | 11,456 |
| Cumulative effect of changes in accounting for postretirement benefits, net of tax and income taxes (2) | - | - | (13,157) | - |
| Net income (loss) | \$ 10,847 | \$ 13,013 | \$ (2,781) | \$11,456 |
| Net income (loss) per common share (1) (2): | | | | |
| Income before cumulative effect of accounting changes | \$.54 | \$.69 | \$.50 | \$.61 |
| Cumulative effect of changes in accounting for postretirement benefits, net of tax and income taxes | - | - | (.63) | - |
| Net income (loss) | \$.54 | \$.69 | \$ (.13) | \$.61 |
| Weighted average number of common shares outstanding | 20,138,585 | 18,890,221 | 20,637,432 | 18,855,200 |

(1) Income before cumulative effect of accounting changes for the three and six month periods ended April 3, 1993 has been restated to reflect an ongoing net of tax charge of \$325 or \$.02 per share and \$787 or \$.04 per share, respectively, resulting from the adoption of SFAS No. 106 effective October 1, 1992.

(2) The net loss for the six month period ended April 3, 1993 has been restated to reflect the cumulative effect of changes in accounting for postretirement benefits (a net of tax change of \$14,932 or \$.71 per share) and income taxes (a benefit of \$1,775 or \$.08 per share).

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

</TABLE>

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<TABLE>

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

<CAPTION>

Six Months Ended
April 3 April 2

| | | |
|---|------------|-----------|
| | 1993 | 1994 |
| <S> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (2,781) | \$ 11,456 |
| Adjustment to reconcile net income (loss) to net cash | | |

| | | |
|--|----------|-----------|
| used in operating activities: | | |
| Depreciation and amortization | 8,758 | 10,777 |
| Cumulative effect of change in accounting | | |
| for postretirement benefits | 24,280 | - |
| Postretirement benefits | 1,296 | 64 |
| Deferred income taxes | (11,422) | - |
| Net increase in certain components of working capital | (88,601) | (120,160) |
| Net decrease in other assets and liabilities and other adjustments | 636 | 667 |
| Net cash used in operating activities | (67,834) | (97,196) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment in plant and equipment, net | (6,063) | (12,436) |
| Acquisition of Sierra, net of cash acquired | - | (118,986) |
| Acquisition of Republic, net of cash acquired | (16,366) | - |
| Net cash used in investing activities | (22,429) | (131,422) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings under term debt | 70,000 | 125,000 |
| Payments on term and other debt | (333) | (428) |
| Revolving lines of credit and bank line of credit, net | 64,688 | 106,295 |
| Issuance of Class A Common Stock | - | 160 |
| Deferred financing costs incurred | (618) | - |
| Purchase of Class A Common Stock | (41,355) | - |
| Net cash provided by financing activities | 92,382 | 231,027 |
| Effect of exchange rate changes on cash | - | (179) |
| Net increase in cash | 2,119 | 2,230 |
| Cash at beginning of period | 880 | 2,323 |
| Cash at end of period | \$ 2,999 | \$ 4,553 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Interest paid, net of amount capitalized | \$2,467 | \$ 3,005 |
| Income taxes paid | 6,256 | 9,164 |
| Detail of entities acquired: | | |
| Fair value of assets acquired | 23,799 | 144,501 |
| Liabilities assumed | (7,433) | (25,515) |
| Net cash paid for acquisition | 16,366 | 118,986 |

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

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</TABLE>

THE SCOTTS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Organization and Basis of Presentation

The Scotts Company ("Scotts") through its wholly-owned subsidiaries, The O. M. Scott & Sons Company ("OMS"), Hyponex Corporation ("Hyponex Corporation" ("Hyponex"), Republic Tool and Manufacturing Corp. ("Republic") and Scott-Sierra Horticultural Products Company (collectively, the Company"), is engaged in the manufacture and sale of lawn care and garden products. The Company's business is highly seasonal with approximately 70% of sales occurring in the second and third fiscal quarters. Substantially all of the assets currently held by Scotts consist of the capital stock of OMS and advances to OMS. The consolidated financial

statements include the financial statements of Scotts and OMS. All material intercompany transactions have been eliminated.

The consolidated balance sheets as at April 3, 1993 and April 2, 1994, the related consolidated statements of income for the three and six month periods ended April 3, 1993 and April 2, 1994 and the related consolidated statements of cash flows for the six month periods ended April 3, 1993 and April 2, 1994 are unaudited; however, in the opinion of management, such financial statements contain all adjustments necessary for the fair presentation of the Company's financial position and results of operations. Interim results reflect all normal recurring adjustments and are not necessarily indicative of results for a full year. The interim financial statements and notes are presented as specified by Regulation S-X of the Securities Exchange Act of 1934, and should be read in conjunction with the financial statements and accompanying notes in the Company's fiscal 1993 Annual Report on Form 10-K.

Income before cumulative effect of accounting changes for the three and six month periods ended April 3, 1993 has been restated to reflect an ongoing charge of \$325,000 or \$.02 per share and \$787,000 or \$.04 per share, respectively, resulting from the adoption of Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions." Similarly, the net loss for the six months ended April 3, 1993 has been restated to reflect the cumulative effect of the adoption of SFAS No. 106 (a net of tax charge of \$14,932,000 or \$.71 per share) and SFAS No. 109, "Accounting for Income Taxes" (a benefit of \$1,775,000 or \$.08 per share). The consolidated balance sheet as of April 3, 1993 and the related statement of cash flows for the six months then ended have also been restated to reflect the accounting changes.

2. Acquisition

Effective December 16, 1993, the Company completed the acquisition of Grace-Sierra Horticultural Products Company (all further references to Grace-Sierra, now known as Scott-Sierra Horticultural Products Company, will be made as "Sierra") for an aggregate purchase price of approximately \$123,100,000, including estimated transaction costs of \$3,100,000. Sierra is a leading international manufacturer and marketer of specialty fertilizers and related products for the nursery, greenhouse, golf course and consumer markets. Sierra manufactures controlled-release fertilizers in the United States and the Netherlands, as well as water-soluble fertilizers and specialty organics in the United States. Approximately one-quarter of Sierra's net sales are derived from European and other international markets; approximately one-quarter of Sierra's assets are internationally based. The purchase price was financed under an amendment to the Company's Credit Agreement, whereby term debt commitments available thereunder were increased to \$195,000,000.

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The acquisition was accounted for using the purchase method. Accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of purchase price over the estimated fair value of the net assets acquired ("goodwill") of approximately \$66,541,000 is being amortized on a straight line basis over 40 years. Sierra's results of operations have been included in the Consolidated Statements of Income from the acquisition date.

The following represents pro forma results of operations assuming the Sierra acquisition had occurred effective October 1, 1992 after giving effect to certain related

adjustments, including depreciation and amortization on tangible and intangible assets, and interest on acquisition debt.

<TABLE>
<CAPTION>

Six Months Ended
(in thousands, except per
share amounts)

| | April 3 1993 | April 2 1994 |
|--|-----------------|-----------------|
| <S> | <C> | <C> |
| Net sales | \$ 291,041 | \$ 296,576 |
| Income before cumulative effect of accounting changes | \$ 10,639 | \$ 11,349 |
| Net income (loss) | \$ (2,518) | 11,349 |
| Income per common share before cumulative effect of accounting changes | \$.52 | \$.60 |
| Net income (loss) per common share | \$ (.12) | \$.60 |

</TABLE>

The pro forma information provided does not purport to be indicative of actual results of operations if the Sierra acquisition had occurred as of October 1, 1992, and is not intended to be indicative of future results or trends.

3. Long-term Debt

On December 16, 1993, the Company entered into an amendment to its Credit Agreement to finance the Sierra acquisition. The amendment increased the term debt commitments available under the Credit Agreement to \$195,000,000. The Credit Agreement continues to provide a revolving credit commitment of \$150,000,000 through the scheduled maturity date of March 31, 1996. The Company's long-term debt consists of the following:

<TABLE>
<CAPTION>

| | April 2 1994 |
|--|----------------|
| <S> | <C> |
| Revolving credit loan and bank line of credit | \$ 128,000,000 |
| Term loan | 195,000,000 |
| Capital lease obligations and other | 6,588,000 |
| | 329,588,000 |
| Less current portions | 118,417,000 |
| | \$211,171,000 |

</TABLE>

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<TABLE>
<CAPTION>

Scheduled maturities of term debt are as follows:

| <S> | <C> |
|------------------------|--------------|
| Fiscal Year | |
| 1994 | \$ 5,000,000 |
| 1995 | 25,000,000 |
| 1996 | 27,500,000 |
| 1997 | 32,500,000 |
| 1998 | 30,000,000 |
| 1999 and thereafter | 75,000,000 |

</TABLE>

All other aspects of the Company's Credit Agreement remain substantially the same.

4. Income Taxes

The effective income tax rates used for the three and six month periods ended April 2, 1994 differ from the statutory federal rate principally due to state and local income tax expense, amortization of goodwill and amortization of prepaid pension costs.

5. Contingencies

The Company is involved in various lawsuits and claims that arise in the normal course of business. In the opinion of management, these claims individually and in the aggregate are not expected to result in a material adverse effect on the Company's financial position or results of operations, however, there can be no assurance that future quarterly or annual operating results will not be materially affected by final resolution of these matters. The following details the more significant of these matters.

The Company has been involved in studying a landfill to which it is believed some of the Company's solid waste had been hauled in the 1970's. In September 1991, the Company was named by the Ohio Environmental Protection Agency ("Ohio EPA") as a Potentially Responsible Party ("PRP") with respect to this landfill. Pursuant to a consent order with the Ohio EPA, the Company, together with four other PRP's identified to date, is investigating the extent of contamination at the landfill and developing a remediation program.

In July 1990, the Company was directed by the Army Corps of Engineers (the "Corps") to cease peat harvesting operations at its New Jersey facility. The Corps has alleged that the peat harvesting operations were in violation of the Clean Water Act ("CWA"). The United States Department of Justice has commenced a legal action to seek a permanent injunction against peat harvesting at this facility and to recover civil penalties under the CWA. This action had been suspended while the parties engaged in discussion to resolve the dispute. Those discussions have not resulted in a settlement and accordingly the action has been reinstated. The Company intends to defend the action vigorously but if the Corps' position is upheld the Company could be prohibited from further harvesting of peat at this location and penalties could be assessed against the Company. In the opinion of management, the outcome of this action will not have a material effect on the Company's financial position or results of operations. Furthermore, management believes the Company has sufficient raw material supplies available such that service to customers will not be adversely affected by continued closure of this peat harvesting operation.

Sierra is a potentially responsible party in connection with the Lorentz Barrel and Drum Superfund Site in California, as a result of its predecessor having shipped barrels to Lorentz for reconditioning or sale between 1967 and 1972. Although many other companies are participating in the remediation of this site, issues relating to the allocation of the costs have not yet been resolved. In addition, Sierra is a defendant in a private cost-recovery action relating to the Novak Sanitary Landfill, located near Allentown, Pennsylvania. By agreement with W. R. Grace-Conn., Sierra's liability is limited to a maximum of \$200,000 with respect to this site. The Company's management does not believe that the outcome of these

proceedings will in the aggregate have a material adverse effect on its financial condition or results of operations. In addition to being named as PRP's in the above noted situations, the Company is subject to potential fines in connection with certain EPA labeling violations under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). The fines for such violations are based upon formulas as

stated in FIFRA. As determined by these formulas the Company's maximum exposure for the violations is approximately \$810,000. The formulas allow for certain reductions of the fines based upon achievable levels of compliance. Based upon management's anticipated levels of compliance, they estimate the Company's ultimate liability to be \$200,000, which has been accrued in the financial statements.

6. Accounting Issues

In November 1992, the Financial Accounting Standards Board issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits," which changes the prevalent method of accounting for benefits provided after employment but before retirement. The Company is required to adopt SFAS No. 112 no later than the first quarter of fiscal 1995. Management is currently evaluating the provisions of SFAS No. 112 and, at this time, the effect of adopting SFAS No. 112 has not been determined.

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

Results of Operations

Three Months Ended April 2, 1994 versus Three Months Ended April 3, 1993

Net sales of \$207,424,000 increased by \$46,322,000 or approximately 28.8%. Net sales for the three months ended April 2, 1994 included \$39,145,000 of sales from Grace-Sierra Horticultural Products Company, now known as Scotts-Sierra Horticultural Products Company, ("Sierra") which was acquired by the Company on December 16, 1993. Sales for the period, before inclusion of Sierra sales, increased 4.5% to \$168,279,000 principally due to increased volume. March 1994 sales were particularly strong, increasing over 1993 sales by approximately 21.6% excluding Sierra sales. This was due to improved spring weather conditions in much of the country, also accounting for Consumer Business Group sales which increased 4.9% to \$151,508,000 for the quarter. Professional Business Group sales

decreased 2.0% to \$15,950,000 reflecting what Scotts management believes to be a continuing trend by golf course customers to order closer to spring usage. The Professional Business Group portion of the Company's business is gradually firming and Scotts management believes that there is momentum, going into the peak Professional selling season of August to November. Composting revenues of \$821,000 increased by \$480,000.

Cost of sales represented 52.6% of net sales compared with 51.2% last year. The increase was primarily due to a delay in the start-up of a new line of spreaders which caused a delay in product availability which had the effect of increasing costs for the spreaders sold. The increase was also caused, in part, by lower than expected margins due to the product mix of organic products sold during the period.

Operating expenses of \$70,143,000 increased by \$13,216,000 or approximately 23.2%. The increase was partly caused by the inclusion of Sierra operating expenses this year and partly by increased freight costs due to higher sales. Higher marketing expenses also accounted for part of the increase, reflecting the Company's increased spending for national advertising and promotion programs, such as sponsorship of the Tradition Golf Tournament and the agreement with Major League Baseball which allows the Company to display its trademark on signs, scoreboards and grounds crew uniforms at many ballparks. The increase was partly offset by reduced general and administrative expenses, exclusive of Sierra expenses, for the quarter.

Interest expense of \$4,917,000 increased by \$2,195,000 or approximately 80.6%, principally due to an increase in borrowing levels resulting from the acquisition of Sierra in December 1993.

Net income of \$13,013,000 increased by \$2,166,000 or approximately 20.0%. The increase was primarily attributable to increased operating income which was partly offset by higher interest expense this year.

Six Months Ended April 2, 1994 versus Six Months Ended April 3, 1993.

Net sales of \$275,750,000 increased by \$46,891,000 or approximately 20.5%. Net sales for the six months ended April 2, 1994 included \$44,025,000 of sales from Sierra. Sales for the period, before inclusion of Sierra sales, increased 1.3% to \$231,725,000. The increase reflected increased sales volume as improved weather arrived in the Company's key geographic areas late in the second fiscal quarter, which allowed the Company to overcome a sales decline in the first fiscal quarter. Consumer Business Group sales increased 2.6% to \$195,673,000. Professional Business Group sales of \$34,021,000 reflected an 8.7% decrease from the comparable period last year but also a marked improvement over the first fiscal quarter which suffered a decline of 14.0%. Composting revenues of \$2,031,000 increased by \$1,178,000.

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Cost of sales represented 53.1% of net sales compared with 52.2% last year, primarily due to a delay in the start-up of a new line of spreaders as well as lower than expected margins due to product mix of organic products sold.

Operating expenses of \$101,054,000 increased by \$14,531,000 or approximately 16.8%. The increase was partly caused by the inclusion of Sierra operating expenses this year and partly by increased freight costs due to higher sales for the period as well as more less-than-truckload shipments in the first fiscal quarter due to a delay in the availability of a new line of spreaders. The increase was also caused by increased spending for national advertising and promotion programs and was partly offset by decreased general and administrative expenses, exclusive of Sierra expenses, which were managed at a lower level this year.

Interest expense of \$7,557,000 increased by \$3,114,000 or approximately 70.1%. The increase was primarily attributable to

an increase in borrowing levels resulting from purchase of a block of Scotts' Class A Common Stock in February 1993 and the acquisition of Sierra in December 1993.

Income before the cumulative effect of accounting changes increased by \$1,080,000 to \$11,456,000. The increase was primarily attributable to increased operating income which was partly offset by higher interest expense and income taxes.

Net income of \$11,456,000 increased by \$14,237,000 from a loss of \$2,781,000 last year. The increase was primarily attributable to a prior period non-recurring charge of \$13,157,000 for the cumulative effect of changes in accounting for postretirement benefits, net of tax and income taxes as well as increased operating income partly offset by higher interest expense and taxes.

Financial Position as at April 2, 1994.

Capital expenditures for the fiscal year ending September 30, 1994 are expected to be approximately \$31,500,000 including capital expenditures of Sierra. The key capital project is a \$13,000,000 investment in a new production facility to increase capacity to meet demand for the Company's Poly-Sr controlled-release fertilizers. Capital expenditures will be financed with cash provided by operations and utilization of existing credit facilities.

Current assets of \$341,343,000 increased by \$197,601,000 compared with current assets at September 30, 1993 and by \$98,228,000 compared with current assets at April 3, 1993. The increase compared with September 30, 1993 is partly attributable to the seasonal nature of the Company's business, with inventory and accounts receivable levels being generally higher at the end of March relative to the end of September. The increase was also caused, in part, by inclusion of Sierra's current assets which amounted to \$56,377,000. The increase compared with April 3, 1993 was partly caused by inclusion of Sierra's current assets and also by a higher level of accounts receivable due to greatly increased sales volume in March this year (for which receivables had not yet been collected) and higher inventory levels which were primarily due to an planned increase in inventories of organic products prepacked in anticipation of the Spring selling season.

Total assets of \$622,143,000 increased by \$300,553,000 compared with September 30, 1993 and by \$200,618,000 compared with April 3, 1993. The increase compared with September 30 was partly due to the seasonality of the the Company's business and partly due to the inclusion of Sierra's total assets which amounted to \$156,050,000, including goodwill of \$66,541,000. The increase compared with April 3, 1993 is primarily due to inclusion of Sierra's total assets and also due, in part, to the increases in accounts receivable and inventory levels which are mentioned above.

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Total liabilities of \$467,007,000 increased by \$288,430,000 compared with total liabilities at September 30, 1993 and by \$177,480,000 compared with total liabilities at April 3, 1993. The increase compared with September 30, 1993 is partly caused by the seasonality of the the Company's business, which is reflected in higher levels of accounts payable and accrued liabilities. It is also caused by \$125,000,000 of term debt incurred in December 1993 to facilitate the acquisition of Sierra and by inclusion of Sierra's total liabilities which amounted to \$26,710,000. The increase compared with April 3, 1993 was primarily caused by the borrowings for the Sierra acquisition and by inclusion of Sierra's total liabilities.

Shareholders' equity of \$155,136,000 increased by \$12,123,000 compared with shareholders' equity on September 30, 1993, primarily due to \$11,456,000 of net income for the six months ended April 2, 1994. Shareholders' equity increased by

\$23,138,000 compared with April 3, 1993. This increase was primarily due to net income of \$22,127,000 for the twelve months ended April 2, 1994.

The primary sources of liquidity for the Company's operations are funds generated by operations and borrowings under the Company's Third Amended and Restated Credit Agreement ("Credit Agreement"). The Credit Agreement was amended in December 1993 to provide financing for and permit the acquisition of Sierra. As amended, the Credit Agreement provides a revolving credit commitment of \$150.0 million through March 31, 1996 and \$195.0 million of term debt with scheduled maturities commencing on April 30, 1994 and extending through September 30, 2000. The Credit Agreement contains financial covenants which, among other things, limit capital expenditures, require maintenance of Adjusted Operating Profit, Consolidated Net Worth and Interest Coverage (each as defined therein) and require the Company to reduce revolving credit borrowings to no more than \$30.0 million for 30 consecutive days each year.

The Company's business is highly seasonal which is reflected in working capital requirements. Working capital requirements are greatest from November through May, the peak production period, and are at their highest in March. Working capital needs are relatively low in the summer months.

In the opinion of Scotts management, cash flows from operations and capital resources will be sufficient to meet future debt service and working capital needs.

Accounting Issues

In November 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" ("SFAS 112"), which changes the prevalent method of accounting for benefits provided after employment but before retirement. The Company must adopt SFAS 112 no later than the first quarter of fiscal 1995. Management is currently evaluating the provisions of SFAS 112 and, at this time, the effect of adopting SFAS 112 has not been determined.

Contingencies

The Company is involved in various lawsuits and claims that arise in the normal course of business. In the opinion of management, these claims individually and in the aggregate are not expected to result in a material adverse effect on the Company's financial position or results of operations, however, there can be no assurance that future quarterly or annual operating results will not be materially affected by final resolution of these matters. The following details the more significant of these matters.

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The Company has been involved in studying a landfill to which it is believed some of the Company's solid waste had been hauled in the 1970's. In September 1991, the Company was named by the Ohio Environmental Protection Agency ("Ohio EPA") as a Potentially Responsible Party ("PRP") with respect to this landfill. Pursuant to a consent order with the Ohio EPA, the Company, together with four other PRP's identified to date, is investigating the extent of contamination at the landfill and developing a remediation program.

In July 1990, the Company was directed by the Army Corps of Engineers (the "Corps") to cease peat harvesting operations at its New Jersey facility. The Corps has alleged that the peat harvesting operations were in violation of the Clean Water Act ("CWA"). The United States Department of Justice has commenced a legal action to seek a permanent injunction against peat harvesting at this facility and to recover civil penalties under the CWA. This action had been suspended while the parties engaged in discussion to resolve the dispute. Those discussions

have not resulted in a settlement and accordingly the action has been reinstated. The Company intends to defend the action vigorously but if the Corps' position is upheld the Company could be prohibited from further harvesting of peat at this location and penalties could be assessed against the Company. In the opinion of management, the outcome of this action will not have a material effect on the Company's financial position or results of operations. Furthermore, management believes the Company has sufficient raw material supplies available such that service to customers will not be adversely affected by continued closure of this peat harvesting operation.

Sierra is a PRP in connection with the Lorentz Barrel and Drum Superfund Site in California, as a result of its predecessor having shipped barrels to Lorentz for reconditioning or sale between 1967 and 1972. Although many other companies are participating in the remediation of this site, issues relating to the allocation of the costs have not yet been resolved. In addition, Sierra is a defendant in a private cost-recovery action relating to the Novak Sanitary Landfill, located near Allentown, Pennsylvania. By agreement with W. R. Grace-Conn., Sierra's liability is limited to a maximum of \$200,000 with respect to this site. The Company's management does not believe that the outcome of these proceedings will in the aggregate have a material adverse effect on its financial condition or results of operations. In addition to being named as PRP's in the above noted situations, the Company is subject to potential fines in connection with certain EPA labeling violations under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). The fines for such violations are based upon formulas as stated in FIFRA. As determined by these formulas the Company's maximum exposure for the violations is approximately \$810,000. The formulas allow for certain reductions of the fines based upon achievable levels of compliance. Based upon management's anticipated levels of compliance, they estimate the Company's ultimate liability to be \$200,000, which has been accrued in the financial statements.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various lawsuits and claims that arise in the normal course of business. In the opinion of management, these claims individually and in the aggregate are not expected to result in a material adverse effect on the Company's financial position or results of operations, however, there can be no assurance that future quarterly or annual operating results will not be materially affected by final resolution of these matters. The following details the more significant of these matters.

The Company has been involved in studying a landfill to which it is believed some of the Company's solid waste had been hauled in the 1970's. In September 1991, the Company was named by the Ohio Environmental Protection Agency ("Ohio EPA") as a Potentially Responsible Party ("PRP") with respect to this landfill. Pursuant to a consent order with the Ohio EPA, the Company, together with four other PRP's identified to date, is investigating the extent of contamination at the landfill and developing a remediation program.

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of operations. Furthermore, management believes the Company has sufficient raw material supplies available such that service to customers will not be adversely affected by continued closure of this peat harvesting operation.

Sierra is a potentially responsible party in connection with the Lorentz Barrel and Drum Superfund Site in California, as a result of its predecessor having shipped barrels to Lorentz for reconditioning or sale between 1967 and 1972. Although many other companies are participating in the remediation of this site, issues relating to the allocation of the costs have not yet been resolved. In addition, Sierra is a defendant in a private cost-recovery action relating to the Novak Sanitary Landfill, located near Allentown, Pennsylvania. By agreement with W. R. Grace-Conn., Sierra's liability is limited to a maximum of \$200,000 with respect to this site. The Company's management does not believe that the outcome of these proceedings will in the aggregate have a material adverse effect on its financial condition or results of operations. In addition to being named as PRP's in the above noted situations, the Company is subject to potential fines in connection with certain EPA labeling violations under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). The fines for such violations are based upon formulas as stated in FIFRA. As determined by these formulas the Company's maximum exposure for the violations is approximately \$810,000. The formulas allow for certain reductions of the fines based upon achievable levels of compliance. Based upon management's anticipated levels of compliance, they estimate the Company's ultimate liability to be \$200,000, which has been accrued in the financial statements.

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

The Annual Meeting of Stockholders of The Scotts Company was held in Columbus, Ohio on March 8, 1994. The meeting was held for the purpose of electing a board of directors and ratifying the appointment of independent auditors.

The results of the vote of the stockholders for each of the proposals is as follows:

The proposal to elect nine directors to serve for the ensuing year:

<TABLE>
<CAPTION>

| <S> | Nominee <C> | Votes For <C> | Withheld <C> | Shares | |
|-----|--------------------|------------------|-----------------|------------------|--|
| | | | | Not Voted <C> | |
| | James B. Beard | 16,059,316 | 700 | 2,598,519 | |
| | John S. Chamberlin | 16,057,616 | 2,400 | 2,598,519 | |
| | Alberto Cribiore | 16,050,416 | 9,600 | 2,598,519 | |
| | Joseph P. Flannery | 16,058,216 | 1,800 | 2,598,519 | |
| | Theodore J. Host | 16,058,216 | 1,800 | 2,598,519 | |
| | Tadd C. Seitz | 16,059,016 | 1,000 | 2,598,519 | |
| | Donald A. Sherman | 16,059,516 | 500 | 2,598,519 | |
| | John M. Sullivan | 16,051,016 | 9,000 | 2,598,519 | |
| | L. Jack Van Fossen | 16,057,316 | 2,700 | 2,598,519 | |

</TABLE>

Each of the foregoing persons was elected as a director of the Company.

The proposal to ratify appointment of Coopers & Lybrand as independent auditors for fiscal year 1994:

<TABLE>

<CAPTION>

| | For | Against | Abstain | Shares Not Voted |
|-----|------------|---------|---------|------------------------|
| <S> | <C> | <C> | <C> | <C> |
| | 16,014,612 | 11,400 | 34,004 | 2,598,519 |

</TABLE>

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

(a) Exhibits.

11(a) Computation of Net Income Per Common Share

(b) Reports on Form 8-K.

On December 30, 1993, Scotts filed a Form 8-K to report the acquisition of Grace-Sierra Horticultural Products Company by The O. M. Scott & Sons Company. On February 28, 1994, Scotts filed a Form 8-K/A to include the financial statements specified by Rules 3-05 and 11-01 of Regulation S-X and Items 7(a) and 7(b) of Form 8-K.

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SIGNATURES

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

THE SCOTTS COMPANY

Date May 16, 1994 /s/ Paul D.
Yeager

Paul D. Yeager

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THE SCOTTS COMPANY

QUARTERLY REPORT ON FORM 10-Q FOR
FISCAL QUARTER ENDED APRIL 2, 1994

EXHIBIT INDEX

| Exhibit Page Number | Description |
|---------------------------|--|
| 11(a) 19 | Computation of Net Income Per Common Share |

<EX-11a>

Page 18

Exhibit 11a

<TABLE>

THE SCOTTS COMPANY
Computation of Net Income Per Common Share
(in thousands except share amounts)

<CAPTION>

| | For the Three Months Ended | | For the Six Months Ended | |
|---|-------------------------------|---------------------|-----------------------------|---------------------|
| | April 3, 1993 | April 2, 1994 | April 3, 1993 | April 2, 1994 |
| | <C> | <C> | <C> | <C> |
| Net income for computing net income per common share: | | | | |
| Income before cumulative effect of accounting changes | \$ 10,847 | \$ 13,013 | \$ 10,376 | \$ 11,456 |
| Cumulative effect of changes in accounting for postretirement benefits, net of tax and income taxes | - | - | (13,157) | - |
| Net income (loss) | \$ 10,847 | \$ 13,013 | (2,781) | 11,456 |

| | | | | |
|---|--------|--------|--------|--------|
| Net income per common share: | | | | |
| Income before cumulative effect of accounting changes | \$.54 | \$.69 | \$.50 | \$.61 |
| Cumulative effect of changes in accounting for postretirement benefits, net of tax and income taxes | - | - | (.63) | - |
| Net income (loss) | .54 | .69 | (.13) | .61 |

</TABLE>

<TABLE>

Computation of Weighted Average Number
of Common Shares Outstanding

<CAPTION>

| | For the Three Months Ended | | For the Six Months Ended | |
|--|-------------------------------|---------------------|-----------------------------|---------------------|
| | April 3, 1993 | April 2, 1994 | April 3, 1993 | April 2, 1994 |

| <S> | <C> | <C> | <C> | <C> |
|---|------------|------------|------------|------------|
| Weighted average common shares outstanding during the period | 20,038,475 | 18,659,472 | 20,564,344 | 18,658,999 |
| Effect of options outstanding based upon the Treasury Stock Method: | | | | |
| Performance shares | - | 102,484 | - | 84,961 |
| December 1992 - 300,000 at \$ 18.00 | 17,937 | 17,425 | 11,172 | 9,678 |
| November 1992 - 123,925 at \$ 16.25 | 15,790 | 21,540 | - | 18,184 |
| January 1992 - 136,364 at \$ 9.90 | 66,383 | 73,326 | 61,916 | 71,598 |
| June 1992 - 15,000 at \$ 16.25 | - | 2,245 | - | 1,896 |
| October 1993 - 129,950 at \$ 17.25 | - | 12,649 | - | 9,432 |
| March 1993 - 24,000 at \$ 18.25 | - | 1,080 | - | 452 |
| Weighted average common shares outstanding during the period for computing net income (loss) per common share | 20,138,585 | 18,890,221 | 20,637,432 | 18,855,200 |

Fully diluted weighted average shares outstanding were not materially different than primary weighted average shares outstanding for the periods presented.

</TABLE>