

SCOTTS MIRACLE-GRO CO

Form 10-Q

August 07, 2008

Table of Contents

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

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2008
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER: 1-13292
THE SCOTTS MIRACLE-GRO COMPANY
(Exact Name of Registrant as Specified in Its Charter)

OHIO
(State or other jurisdiction of incorporation or organization)

31-1414921
(I.R.S. Employer Identification No.)

**14111 SCOTTSLAWN ROAD,
MARYSVILLE, OHIO**
(Address of principal executive offices)

43041
(Zip Code)

(937) 644-0011
(Registrant's telephone number, including area code)

NO CHANGE

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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

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

THE SCOTTS MIRACLE-GRO COMPANY
INDEX

	PAGE NO.
<u>PART I. FINANCIAL INFORMATION:</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	
<u>Condensed, Consolidated Statements of Operations - Three and nine months ended June 28, 2008 and June 30, 2007</u>	3
<u>Condensed, Consolidated Statements of Cash Flows - Nine months ended June 28, 2008 and June 30, 2007</u>	4
<u>Condensed, Consolidated Balance Sheets June 28, 2008, June 30, 2007, and September 30, 2007</u>	5
<u>Notes to Condensed, Consolidated Financial Statements</u>	6
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	28
<u>Item 4.</u>	
<u>Controls and Procedures</u>	28
<u>PART II. OTHER INFORMATION:</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	29
<u>Item 1A.</u>	
<u>Risk Factors</u>	29
<u>Item 6.</u>	
<u>Exhibits</u>	30
<u>Signatures</u>	31
<u>Index to Exhibits</u>	32
<u>EX-10(C)</u>	
<u>EX-10(D)</u>	
<u>EX-31(A)</u>	
<u>EX-31(B)</u>	
<u>EX-32</u>	

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

See notes to condensed, consolidated financial statements

3

Table of Contents

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

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

Edgar Filing: SCOTTS MIRACLE-GRO CO - Form 10-Q

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

See notes to condensed, consolidated financial statements

Table of Contents

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

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

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

See notes to condensed, consolidated financial statements

5

Table of Contents

NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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

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

ORGANIZATION AND BASIS OF PRESENTATION

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

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

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

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

Table of Contents

PROMOTIONAL ALLOWANCES

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

ADVERTISING

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

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

STOCK-BASED COMPENSATION AWARDS

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

GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

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

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

INCOME TAXES

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

NET INCOME PER COMMON SHARE

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

out-of-the-money. The number of out-of-the-money stock options excluded at June 28, 2008 was 2.6 million. The number of options excluded at June 30, 2007 was immaterial.

7

Table of Contents

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

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

RECENT ACCOUNTING PRONOUNCEMENTS**FIN 48 Accounting For Uncertainty In Income Taxes - An Interpretation of FASB Statement No. 109**

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

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

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

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

Statement of Financial Accounting Standards No. 157 Fair Value Measurements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company will be required to adopt SFAS 157 no later than October 1, 2008, the beginning of its 2009 fiscal year. The

provisions of SFAS 157 should be applied prospectively to the beginning of the fiscal year in which SFAS 157 is initially applied, except with respect to certain financial instruments as defined by SFAS 157. The Company is in the process of evaluating the impact that the adoption of SFAS 157 will have on its financial statements.

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

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

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

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

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

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

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

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

for the fiscal year beginning October 1, 2010. The Company is in the process of evaluating the impact, if any, that the adoption of SFAS 161 will have on its financial statements.

Table of Contents**2. 2008 REGISTRATION AND PRODUCT RECALL MATTERS**

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

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

Currently, the Company expects costs related to the recalls and known registration issues to range from \$55 to \$60 million, exclusive of potential fines and/or penalties. No reserves have been established with respect to any potential civil or criminal fines or penalties at the state and/or federal level related to the product registration issues as the scope and magnitude of such amounts are not currently estimable. However, it is possible that such fines and/or penalties could be material and have an adverse effect on the Company's financial condition and results of operations. For the three and nine month periods ended June 28, 2008, the Company reversed sales associated with estimated returns of the recalled products, recorded an impairment estimate for affected inventory, and accrued other registration and recall-related costs. The following tables summarize the impact of the product registration and recall matters on the results of operations and accrued liabilities and inventory reserves:

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

Net income \$ (6.2) \$ (25.9)

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

Table of Contents

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

3. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES

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

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

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

FISCAL 2008

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

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

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

Table of Contents**FISCAL 2007**

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

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

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

4. RECAPITALIZATION

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

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

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

The Company's interest expense will be significantly higher subsequent to the recapitalization as a result of the borrowings incurred to fund the cash returned to shareholders. The following pro forma financial information has been compiled as if the Company had completed the recapitalization transactions as of October 1, 2006 for fiscal 2007.

Borrowing rates in effect as of March 30, 2007 were used to compute pro forma interest expense. As the recapitalization involved a share repurchase, pro forma diluted common shares are also provided. No pro forma adjustments are necessary for the three and nine month periods ended June 28, 2008 and the three month period ended June 30, 2007 as the recapitalization transactions were consummated prior to the start of those periods.

Table of Contents

	PRO FORMA FINANCIAL INFORMATION NINE MONTHS ENDED JUNE 30, 2007 (IN MILLIONS EXCEPT PER SHARE DATA)	
Income before income taxes, as reported	\$	238.4
Add back reported interest expense		52.3
Add back costs related to refinancing		18.3
Deduct pro forma interest expense		(75.9)
Pro forma income before income taxes		233.1
Pro forma income taxes		82.8
Pro forma net income	\$	150.3
Pro forma basic net income per common share	\$	2.38
Pro forma diluted net income per common share	\$	2.31
Reported interest expense	\$	52.3
Incremental interest on recapitalization borrowings		21.8
Credit facilities interest rate differential		1.5
Incremental amortization of credit facilities fees		0.3
Pro forma interest expense	\$	75.9
Pro forma effective tax rate		35.5%
		PRO FORMA SHARES NINE MONTHS ENDED JUNE 30, 2007 (IN MILLIONS)
Weighted-average common shares outstanding during the period		65.6
Incremental full period impact of repurchased common shares		(2.4)
Pro forma basic common shares		63.2
		67.5

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

5. DETAIL OF INVENTORIES, NET

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

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

Table of Contents**6. MARKETING AGREEMENT**

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

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

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

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

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

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

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

Table of Contents

7. DEBT

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

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

In connection with the recapitalization transactions discussed in Note 4, Recapitalization, Scotts Miracle-Gro and certain of its subsidiaries entered into the following loan facilities totaling up to \$2.15 billion in the aggregate: (a) a senior secured five-year term loan in the principal amount of \$560 million and (b) a senior secured five-year revolving loan facility in the aggregate principal amount of up to \$1.59 billion. Under the terms of the loan facilities, the Company may request an additional \$200 million in revolving credit and/or term credit commitments, subject to approval from the lenders. Borrowings may be made in various currencies including U.S. dollars, Euros, British pounds sterling, Australian dollars and Canadian dollars. The \$2.15 billion senior secured credit facilities replaced the Company's former \$1.05 billion senior credit facility. The Company also retired all of the 6 5/8% senior subordinated notes under the terms of a tender offer, at an aggregate cost of \$209.6 million including an early redemption premium. Amortization payments on the term loan portion of the credit facilities began on September 30, 2007 and will continue quarterly through 2012. As of June 28, 2008, the cumulative total amortization payments on the term loan were \$5.6 million, reducing the balance of the Company's term loans and effectively reducing the size of the credit facilities. As of June 28, 2008, there was \$1,081.6 million of availability under the revolving loan facility. Under the revolving loan facility, the Company has the ability to issue letter of credit commitments up to \$65.0 million. At June 28, 2008, the Company had letters of credit in the amount of \$25.0 million outstanding. At June 28, 2008, the Company had outstanding interest rate swaps with major financial institutions that effectively converted a portion of variable-rate debt denominated in the Euro, British pound and U.S. dollar to a fixed rate. The swap agreements have a total U.S. dollar equivalent notional amount of \$724.9 million at June 28, 2008. The term, expiration date and rates of these swaps are as follows:

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

Table of Contents

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

8. COMPREHENSIVE INCOME

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

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

9. RETIREMENT AND RETIREE MEDICAL PLANS COST INFORMATION

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

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

10. STOCK-BASED COMPENSATION AWARDS

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

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

Total share-based awards 1,114,734 2,216,546

Aggregate fair value at grant dates (in millions) \$ 18.7 \$ 22.3

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007	JUNE 28, 2008	JUNE 30, 2007
Share-based compensation	\$ 2.0	\$ 3.6	\$ 9.2	\$ 13.6
Tax benefit recognized	0.8	1.3	3.5	4.8
	16			

Table of Contents**11. INCOME TAXES**

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

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

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

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

12. CONTINGENCIES

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

Product Registrations

On April 10, 2008, the Company learned of a criminal investigation into certain of its product registrations which is being led by the U.S. Environmental Protection Agency (USEPA) and the U.S. Department of Justice (USDOJ), with assistance from the Ohio Department of Agriculture. To date, the evidence indicates that one of the Company's employees, since terminated, apparently deliberately circumvented Company policies and USEPA regulations by failing to obtain valid registrations for products and/or causing invalid product registration forms to be submitted to regulators. The sale of products which lack valid registrations is a violation of federal and state law. The Company has engaged outside firms to conduct a forensic investigation into its existing product registrations and to review its product registration compliance processes and procedures. The Company's investigation has resulted in the

identification of additional registration issues that have been disclosed to the USEPA (see Note 2, 2008 Registration And Product Recall Matters). In addition, as previously disclosed, the Company has agreed with the USEPA on a Compliance Review Plan for conducting an independent review of the Company's pesticide product registration records. This independent review is currently under way and, given the extensive nature of the review, appears likely to result in the identification of additional product registration issues. Currently, the Company expects costs related to the recalls and known registration issues to range from \$55 to \$60 million, exclusive of potential fines and/or penalties.

Table of Contents

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

Environmental Matters

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

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

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

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

Other

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

Table of Contents

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

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

13. ACQUISITIONS

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

14. SEGMENT INFORMATION

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

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

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

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

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

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

Table of Contents

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007	JUNE 28, 2008	JUNE 30, 2007
	(IN MILLIONS)		(IN MILLIONS)	
Net sales:				
Global Consumer	\$ 935.3	\$ 875.4	\$ 1,922.7	\$ 1,872.3
Global Professional	98.7	75.0	260.6	208.5
Scotts LawnService®	87.4	84.6	158.1	144.1
Corporate & Other	54.9	63.6	121.0	138.6
Segment total	1,176.3	1,098.6	2,462.4	2,363.5
Roundup® amortization	(0.2)	(0.2)	(0.6)	(0.6)
Product registrations/recalls	(5.2)		(24.2)	
Consolidated	\$ 1,170.9	\$ 1,098.4	\$ 2,437.6	\$ 2,362.9
Operating income (loss):				
Global Consumer	\$ 207.9	\$ 211.0	\$ 349.1	\$ 375.6
Global Professional	11.9	10.6	34.6	29.6
Scotts LawnService®	20.6	21.5	(9.4)	(11.6)
Corporate & Other	(9.0)	(11.6)	(59.5)	(72.5)
Segment total	231.4	231.5	314.8	321.1
Roundup® amortization	(0.2)	(0.2)	(0.6)	(0.6)
Other amortization	(4.3)	(4.2)	(12.1)	(11.5)
Product registrations/recalls	(10.2)		(41.0)	
Impairment of assets	(123.3)		(123.3)	
Consolidated	\$ 93.4	\$ 227.1	\$ 137.8	\$ 309.0
		JUNE 28, 2008	JUNE 30, 2007	SEPTEMBER 30, 2007
		(IN MILLIONS)		
Total assets:				
Global Consumer		\$ 2,038.8	\$ 1,902.2	\$ 1,551.9
Global Professional		302.7	285.6	308.0
Scotts LawnService®		188.4	175.4	189.2
Corporate & Other		204.0	255.7	228.1
Consolidated		\$ 2,733.9	\$ 2,618.9	\$ 2,277.2

Segment operating income or loss represents earnings before amortization of intangible assets, interest and taxes, since this is the measure of profitability used by management. Accordingly, the Corporate & Other operating loss for

the three and nine month periods ended June 28, 2008 and June 30, 2007 includes unallocated corporate general and administrative expenses, and certain other income/expense items not allocated to the business segments. Total assets reported for the Company's operating segments include the intangible assets for the acquired businesses within those segments. Corporate & Other assets primarily include deferred financing and debt issuance costs, corporate intangible assets, deferred tax assets and Smith & Hawken® assets.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****OVERVIEW**

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

Executive summary

Results of operations

Segment results

Liquidity and capital resources

Executive Summary

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

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

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

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

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

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

of working capital and capital expenditures.

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

Table of Contents

which we repurchased 2.0 million common shares for \$87.9 million during fiscal 2006. Most recently, in December 2006, the Company announced a recapitalization plan to return \$750 million to the Company's shareholders. This plan expanded and accelerated the previously announced five-year \$500 million share repurchase program (which was canceled). Pursuant to the recapitalization plan, in February 2007, the Company repurchased 4.5 million of the Company's common shares for an aggregate purchase price of \$245.5 million (\$54.50 per share) and paid a special one-time cash dividend of \$8.00 per share (\$508 million in the aggregate) in early March 2007.

In order to fund this recapitalization, the Company entered into credit facilities aggregating \$2.15 billion and terminated its prior credit facility. Reference should be made to Note 7 to the accompanying condensed, consolidated financial statements for further information as to the credit facilities and the repayment and termination of the prior credit facility and the 6 5/8% senior subordinated notes.

The actions described above reflect management's confidence in the continued growth of the Company coupled with strong and consistent cash flows that can support the higher levels of debt incurred to finance these actions. Even with an increase in borrowings, we believe we will maintain the capacity to pursue targeted, strategic acquisitions that leverage our core competencies.

2008 PRODUCT REGISTRATION AND RECALL MATTERS

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

In April 2008, the Company, in cooperation with an investigation by the U.S. Environmental Protection Agency (USEPA), announced a recall of certain consumer lawn and garden products and one Scotts LawnService® (SLS) product. These products contain active ingredients that require USEPA registrations before they can be marketed to consumers or used by SLS. On April 10, 2008, the Company learned of a criminal investigation into certain of its product registrations which is being led by the USEPA and the U.S. Department of Justice (USDOJ), with assistance from the Ohio Department of Agriculture. Since April, the Company has cooperated with the USEPA in conducting an internal investigation of its pesticide product registrations which has resulted in the identification of additional registration issues that have been disclosed to the USEPA. As previously disclosed, one of the issues identified by the Company resulted in the issuance by the USEPA of a stop sale order for the products in question, including Ortho® Home Defense Max® Perimeter & Indoor Insect Killer, a pest control product that is a significant component of the Ortho® portfolio of products. However, as also previously reported, shortly after issuing the stop sale order, the USEPA permitted the Company to continue to sell the Home Defense Max® products pursuant to USEPA instructions. In addition, as previously disclosed, the Company has agreed with the USEPA on a Compliance Review Plan for conducting an independent review of the Company's pesticide product registration records. This independent review is currently under way and, given the extensive nature of the review, appears likely to result in the identification of additional product registration issues.

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

As a result of these registration and recall matters, the Company has reversed sales associated with estimated returns of these products, recorded an impairment estimate for affected inventory, and recorded other registration and recall-related costs. The cumulative impact of these adjustments reduced income from operations by \$10.2 million and

\$41.0 million for the three and nine months ended June 28, 2008. Currently, the Company expects costs related to the recalls and known registration issues to range from \$55 to \$60 million, exclusive of potential fines and/or penalties. Scotts Miracle-Gro is committed to providing its customers and consumers with products of superior quality and value to enhance their lawns, gardens and overall outdoor living environments. We believe consumers have come to trust our brands based on the superior quality and value they deliver, and that trust is highly valued. We are also committed to conducting business with the highest degree of ethical standards and in adherence to the law. We are disappointed in these recent occurrences and are working diligently to address the issues, including, as described above, retaining independent firms to conduct examinations of existing

Table of Contents

product registrations and to recommend enhancements to the Company's product registration compliance and control processes. However, these events may nevertheless have a negative impact on future demand for the Company's products.

RESULTS OF OPERATIONS

The following table sets forth the components of income and expense as a percentage of net sales for the three and nine-month periods ended June 28, 2008 and June 30, 2007:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008 (UNAUDITED)	JUNE 30, 2007 (UNAUDITED)	JUNE 28, 2008 (UNAUDITED)	JUNE 30, 2007 (UNAUDITED)
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	63.8	61.5	65.5	64.2
Cost of sales - product registrations/recalls			0.9	
Gross profit	36.2	38.5	33.6	35.8
Operating expenses:				
Selling, general and administrative	17.7	18.1	23.0	23.0
SG&A - product registrations/recalls	0.5		0.3	
Impairment, restructuring & other charges	10.5		5.0	
Other income, net	(0.5)	(0.3)	(0.4)	(0.3)
Income from operations	8.0	20.7	5.7	13.1
Costs related to refinancing				0.8
Interest expense	1.9	2.4	2.7	2.2
Income before income taxes	6.1	18.3	3.0	10.1
Income taxes	4.2	6.5	2.0	3.6
Net income	1.9%	11.8%	1.0%	6.5%

Net sales for the third quarter and first nine months of fiscal 2008 grew 6.6% and 3.2%, respectively, versus the comparable periods of fiscal 2007. Foreign exchange rates favorably impacted sales growth rates for the third quarter and first nine months by 200 basis points and 240 basis points, respectively. Excluding the impact of foreign exchange rates and product registration and recall matters, sales for the third quarter and first nine months increased 5.1% and 1.8%, respectively. In our Global Consumer segment, third quarter net sales increased 5.2%, excluding the impact of foreign exchange rates and product registration and recall matters, driven by pricing and the recovery of sales in April following the slow start to the lawn and garden season driven by challenging weather conditions in March. Excluding the impact of foreign exchange rates and product registration and recall matters, year-to-date sales in our Global Consumer segment increased 0.7% driven by pricing offset by volume declines driven by current macroeconomic conditions. Excluding foreign exchange rates, Global Professional sales increased 22.3% and 16.4% for the third quarter and first nine months, respectively, driven largely by strong demand for its proprietary technology and pricing actions taken periodically throughout the year. Scotts LawnService® sales increased 3.2% for the quarter, driven by acquisitions growth and pricing, which offset lower volume driven by higher cancellation rates resulting from macroeconomic pressure. Year-to-date, Scotts LawnService® sales increased 9.4% driven by acquisition growth, pricing, and the shifting of late season lawn treatments to the first quarter of fiscal 2008. Corporate and other sales, primarily Smith & Hawken®, decreased 13.6% and 12.7% for the third quarter and first nine months, respectively, driven by decreases across all channels of its business.

Edgar Filing: SCOTTS MIRACLE-GRO CO - Form 10-Q

As a percentage of net sales, gross profit was 36.2% of net sales in the third quarter of fiscal 2008 compared to 38.5% in the third quarter of fiscal 2007. For the first nine months of fiscal 2008, our gross profit percentage declined to 33.6% from 35.8% in the comparable period of fiscal 2007. Most of the fiscal 2008 margin decrease was driven by increased commodity costs. Additionally, product registration and recall matters unfavorably impacted gross profit rates for the third quarter and first nine months by 20 basis points and 100 basis points, respectively.

Selling, General and Administrative (SG&A):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007	JUNE 28, 2008	JUNE 30, 2007
	(IN MILLIONS) (UNAUDITED)		(IN MILLIONS) (UNAUDITED)	
Advertising	\$ 59.3	\$ 61.7	\$ 123.8	\$ 125.4
Other selling, general and administrative	143.3	133.3	423.7	407.5
Amortization of intangibles	4.3	4.2	12.1	11.5
	\$ 206.9	\$ 199.2	\$ 559.6	\$ 544.4

Table of Contents

SG&A expenses increased 3.9% in the third quarter and 2.8% for the first nine months of fiscal 2008. Excluding foreign exchange rates, impairment and product registration and recall costs, SG&A expenses for the third quarter increased 1.5% and for the first nine months of fiscal 2008 increased 0.5% as the Company has maintained strong controls on spending. Advertising expense has decreased by 3.9% and 1.3% for the third quarter and first nine months, respectively. The Company has increased its investments in sales force, R&D, and marketing costs on a quarter and year-to-date basis. On a full year basis, we expect SG&A to be up 4 to 5 percent.

The Company has recorded \$10.2 million of product registration and recall related costs during the third quarter of fiscal 2008, comprised of \$4.6 million of gross profit and \$5.6 million of SG&A. For the first nine months of fiscal 2008, the Company has recorded \$41.0 million of product registration and recall related costs, comprised of \$34.2 million of gross profit and \$6.8 million of SG&A.

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

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

Interest expense for the third quarter decreased by 15.6%, from \$26.2 million in fiscal 2007 to \$22.1 million in fiscal 2008. Average borrowings decreased \$27.2 million during the third quarter of fiscal 2008 as compared to the same period of the prior year. Additionally, weighted average interest rates decreased by 91 basis points. Interest expense for the first nine months of fiscal 2008 increased by 23.5%, from \$52.3 million in fiscal 2007 to \$64.6 million in fiscal 2008. The increase in interest expense for the year-to-date period is primarily attributable to an increase in borrowings in the first nine months of fiscal 2008 resulting from the recapitalization transactions that were consummated during the second quarter of fiscal 2007. We also recorded \$18.3 million in costs related to the refinancing undertaken to facilitate the recapitalization transactions in fiscal 2007.

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

Diluted weighted-average common shares used in the diluted net income per common share calculation decreased from 65.4 million for the third quarter and 67.5 million for the nine months ended June 30, 2007 to 65.3 million for the third quarter and 65.5 million for the nine months ended June 28, 2008. The decreases for the third quarter and nine months are attributable to the 4.5 million common shares repurchased as part of the recapitalization consummated during the second quarter of fiscal 2007, weighted for the period outstanding and offset by common shares issued upon the exercise of share-based awards and the vesting of restricted stock. Diluted weighted-average

common shares included 0.7 million and 1.1 million equivalent shares for the third quarter and year-to-date periods in fiscal 2008 to reflect the effect of the assumed conversion of dilutive stock options and restricted stock awards. Equivalent common shares used in fiscal 2007 were 1.8 million for the third quarter and 1.9 million for the year-to-date period. The decrease in diluted average common shares in fiscal 2008 was the result of the lower average market rate for our stock driving more outstanding stock options out-of-the-money.

Table of Contents**SEGMENT RESULTS**

The Company is divided into the following segments: Global Consumer, Global Professional, Scotts LawnService®, and Corporate & Other. These segments differ from those used in the prior year due to the realignment of the North America and International segments into the Global Consumer and Global Professional segments. The Corporate & Other segment consists of Smith & Hawken® and corporate general and administrative expenses. The prior year amounts have been reclassified to conform to the fiscal 2008 segments. Segment performance is evaluated based on several factors, including income from operations before amortization, and impairment, restructuring and other charges, which is a non-GAAP measure. Management uses this measure of operating profit to gauge segment performance because we believe this measure is the most indicative of performance trends and the overall earnings potential of each segment.

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

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

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

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

The following table sets forth net sales by segment:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007	JUNE 28, 2008	JUNE 30, 2007
	(IN MILLIONS) (UNAUDITED)		(IN MILLIONS) (UNAUDITED)	
Global Consumer	\$ 935.3	\$ 875.4	\$ 1,922.7	\$ 1,872.3
Global Professional	98.7	75.0	260.6	208.5
Scotts LawnService®	87.4	84.6	158.1	144.1
Corporate & Other	54.9	63.6	121.0	138.6
Segment total	1,176.3	1,098.6	2,462.4	2,363.5
Roundup® amortization	(0.2)	(0.2)	(0.6)	(0.6)
Product registrations/recalls	(5.2)		(24.2)	
Consolidated	\$ 1,170.9	\$ 1,098.4	\$ 2,437.6	\$ 2,362.9

The following table sets forth operating income (loss) by segment:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2008	JUNE 30, 2007	JUNE 28, 2008	JUNE 30, 2007
	(IN MILLIONS) (UNAUDITED)		(IN MILLIONS) (UNAUDITED)	
Global Consumer	\$ 207.9	\$ 211.0	\$ 349.1	\$ 375.6
Global Professional	11.9	10.6	34.6	29.6
Scotts LawnService®	20.6	21.5	(9.4)	(11.6)
Corporate & Other	(9.0)	(11.6)	(59.5)	(72.5)
Segment total	231.4	231.5	314.8	321.1
Roundup® amortization	(0.2)	(0.2)	(0.6)	(0.6)
Other amortization	(4.3)	(4.2)	(12.1)	(11.5)
Product registrations/recalls	(10.2)		(41.0)	
Impairment of assets	(123.3)		(123.3)	
Consolidated	\$ 93.4	\$ 227.1	\$ 137.8	\$ 309.0

Table of Contents**Global Consumer**

Excluding the impact of product registration and recall matters, Global Consumer segment net sales were \$935.3 million in the third quarter and \$1.92 billion for the first nine months of fiscal 2008, an increase of 6.8% and 2.7% from the third quarter and first nine months of fiscal 2007, respectively. The impact of pricing increased sales by 3.6% for the third quarter and 4.0% for the first nine months of fiscal 2008, while the impact of foreign exchange rate changes increased sales by 1.7% and 2.0% for the third quarter and first nine months, respectively. Excluding the impact of price increases and foreign exchange movements, net sales increased by 1.5% from the third quarter of fiscal 2007 and decreased 3.3% from the first nine months of fiscal 2007. Within Global Consumer, North America consumer sales, excluding the impact of foreign exchange rate changes and product registration and recall matters, increased 6.0% and 0.7% for the third quarter and first nine months, respectively, compared to the respective increases in North American point-of-sale purchases of 7.9% and 1.6% for the third quarter and first nine months. Point-of-sale purchases of our gardening products, comprised of growing media and plant foods, increased by 4.3% and 1.2% for the third quarter and first nine months as consumer purchases of our premium, value-added growing media products increased. Lawns product consumer purchases, made up of fertilizers, grass seed, and durables, increased by 16.7% in the third quarter largely driven by favorable weather in April and June. Year-to-date, lawns product consumer purchases have increased 2.0% as consumers have migrated to lower price point products. Ortho® consumer purchases decreased by 2.4% and 5.2% for the third quarter and first nine months of fiscal 2008, respectively. Excluding foreign exchange rates, International consumer business sales were relatively flat for both the third quarter and year-to-date, as growth in France and Central Europe, driven by improved marketing programs and new products, has been offset by decreased net sales in the UK where the economic environment is more challenged and competition has been more aggressive.

The Global Consumer segment operating income decreased by \$3.1 million and \$26.5 million in the third quarter and first nine months of fiscal 2008, respectively. The decrease in operating income was driven by a decrease in gross margin rates of 190 basis points and 120 basis points for the third quarter and first nine months of fiscal 2008 excluding the impact of product registration and recall matters. The decrease in gross margin rates is primarily the result of higher commodity costs. SG&A spending, including media advertising, increased 2.9% for the third quarter and 3.4% for the year-to-date period excluding the impact of foreign exchange rates primarily related to higher selling and R&D costs.

Global Professional

Global Professional segment net sales increased \$23.7 million, or 31.6%, in the third quarter, and \$52.1 million, or 25.0%, for the first nine months of fiscal 2008. Excluding the effect of exchange rates, net sales increased by 22.3% and 16.4% for the third quarter and first nine months, respectively. Demand for our proprietary technology drove the sales growth, along with pricing actions which increased sales by 8.9% for the third quarter and 4.4% for the first nine months of fiscal 2008.

Primarily due to the strong growth in net sales, partially offset by increased commodity costs, the Global Professional segment operating income increased by \$1.3 million and \$5.0 million in the third quarter and first nine months of fiscal 2008, respectively.

Scotts LawnService®

Compared to the same periods in the prior fiscal year, Scotts LawnService® revenues increased 3.3% to \$87.4 million in the third quarter of fiscal 2008 and 9.7% to \$158.1 million in the first nine months of fiscal 2008. The increase for the third quarter is attributable to acquisition growth of 3.3% and pricing of 3.2%, offset by macroeconomic pressures that have reduced customer count. The increase for the year-to-date period is attributable to acquisition growth of 4.5%, pricing of 2.6%, and the shifting of late season lawn treatments to the first quarter of fiscal 2008 that contributed to organic growth of 2.3%.

The Scotts LawnService® segment operating income decreased by \$0.9 million in the third quarter driven by increased costs, including commodities. The Scotts LawnService® segment operating loss decreased by \$2.2 million in the first nine months of fiscal 2008 driven by the increase in revenues and gross profit, partially offset by an increase in SG&A spending.

Corporate & Other

Net sales for the Corporate & Other segment, which pertain primarily to Smith & Hawken®, decreased \$8.7 million, or 13.7%, for the third quarter and \$17.6 million, or 12.7%, year-to-date. These sales decreases were across all channels of Smith & Hawken®. Additionally, the first half of fiscal 2007 benefited from initial start-up activity with Starbucks®.

The operating loss for Corporate & Other decreased by \$2.6 million in the third quarter and \$13.0 million for the first nine months of fiscal 2008. The decreases in operating loss for the third quarter and year-to-date were driven by lower net Corporate spending.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

Cash used in operating activities was \$39.5 million for the nine months ended June 28, 2008 compared to cash provided of \$62.2 million for the comparable period in fiscal 2007. The decreased level of operating cash flows in fiscal 2008 versus the prior year is due to increased sales in June 2008 compared to June 2007, resulting in higher accounts receivable at June 28, 2008, as well as increased inventory levels caused by the increased commodity costs. Cash used in investing activities was \$34.8 million and \$43.8 million for the nine months ended June 28, 2008 and June 30, 2007, respectively. There was no acquisition activity in the first nine months of fiscal 2008 compared to the \$6.5 million in acquisitions relating to our Scotts LawnService® business in the first nine months of fiscal 2007.

Capital spending on property, plant and equipment done in the normal course of business was fairly consistent, with \$35.8 million spent during the first nine months of fiscal 2008 compared to the \$37.8 million spent in the first nine months of fiscal 2007.

Financing activities provided cash of \$169.4 million and used cash of \$0.4 million for the nine months ended June 28, 2008 and June 30, 2007, respectively. The increase in cash provided by financing activities for the first nine months of fiscal 2008 is largely due to timing, in part as payments on outstanding loans have been made subsequent to the June 28, 2008 balance sheet date.

Our recapitalization plan that was consummated during the second quarter of fiscal 2007 returned \$750 million to shareholders. In addition, we repurchased all of our 6 5/8% senior subordinated notes in an aggregate principal amount of \$200 million. These actions were financed by replacing, effective February 7, 2007, our prior Revolving Credit Agreement with new senior secured \$2.15 billion multicurrency credit facilities that provide for revolving credit and term loans through February 7, 2012.

On April 11, 2007, the Company entered into a one-year Master Accounts Receivable Purchase Agreement (the Original MARP Agreement). On April 9, 2008, the Company terminated the Original MARP Agreement and entered into a new Master Accounts Receivable Purchase Agreement (the New MARP Agreement) with a stated termination date of April 8, 2009, or such later date as may be extended by mutual agreement of the Company and its lenders. The terms of the New MARP Agreement are substantially the same as the Original MARP Agreement. The New MARP Agreement was entered into as it provides an interest rate savings of 40 basis points as compared to borrowing under our senior secured credit facilities. The New MARP Agreement provides for the sale, on a revolving basis, of accounts receivable generated by specified account debtors, with seasonally adjusted monthly aggregate limits ranging from \$10 million to \$300 million. The New MARP Agreement also provides for specified account debtor sublimit amounts, which provide limits on the amount of receivables owed by individual account debtors that can be sold to the banks. Borrowings under the MARP Agreement at June 28, 2008 were \$260.2 million.

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

CURRENCY	NOTIONAL AMOUNT IN USD (IN MILLIONS)	TERM	EXPIRATION DATE	FIXED RATE
British pound	\$ 57.4	3 years	11/17/2008	4.76%
Euro dollar	67.5	3 years	11/17/2008	2.98%
U.S. dollar	200.0	2 years	3/31/2009	4.90%
U.S. dollar	200.0	3 years	3/31/2010	4.89%

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

Our primary sources of liquidity are cash generated by operations and borrowings under our credit facilities. As of June 28, 2008, there was \$1,081.6 million of availability under our credit facilities and we were in compliance with all debt covenants. Our credit facilities contain, among other obligations, an affirmative covenant regarding the Company's leverage ratio, calculated as indebtedness relative to our earnings before taxes, depreciation and amortization. Under the terms of the credit facilities, the permissible leverage ratio is scheduled to decrease on September 30, 2008 to 4.25. While management continues to monitor its compliance with the leverage ratio and other covenants contained in the credit facilities, based upon the Company's current operating assumptions, the Company expects to remain in compliance with the permissible leverage ratio for the remainder of our fiscal 2008. Should management's view on compliance with this or other covenants change, the Company believes that it would be able to seek and receive an appropriate waiver or amendment from its banking group.

We are party to various pending judicial and administrative proceedings arising in the ordinary course of business. These include, among others, proceedings based on accidents or product liability claims and alleged violations of environmental laws. We have

Table of Contents

reviewed our pending environmental and legal proceedings, including the probable outcomes, reasonably anticipated costs and expenses, reviewed the availability and limits of our insurance coverage and have established what we believe to be appropriate reserves. Other than the proceedings surrounding the product registration issues, which are separately addressed, we do not believe that any liabilities that may result from pending judicial and administrative proceedings are reasonably likely to have a material adverse effect on our liquidity, financial condition 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.

In our opinion, cash flows from operations and capital resources will be sufficient to meet debt service and working capital needs during fiscal 2008 and thereafter for the foreseeable future. However, we cannot ensure that our business will generate sufficient cash flow from operations or that future borrowings will be available under our credit facilities in amounts sufficient to pay indebtedness or fund other liquidity needs. Actual results of operations will depend on numerous factors, many of which are beyond our control.

ENVIRONMENTAL MATTERS

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking actions aimed at ensuring compliance with, such laws and regulations. We are involved in several legal actions with various governmental agencies related to environmental matters. While it is difficult to quantify the potential financial impact of actions involving environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established reserves, should not have a material adverse effect on our financial position. However, there can be no assurance that the resolution of these matters will not materially affect our future quarterly or annual results of operations, financial condition or cash flows. Additional information on environmental matters affecting us is provided in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007 under ITEM 1. BUSINESS Environmental and Regulatory Considerations, ITEM 1. BUSINESS Regulatory Actions and ITEM 3. LEGAL PROCEEDINGS.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preceding discussion and analysis of the consolidated results of operations and financial position should be read in conjunction with our condensed, consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Our Annual Report on Form 10-K for the fiscal year ended September 30, 2007 includes additional information about the Company, our operations, our financial position, our critical accounting policies and accounting estimates, and should be read in conjunction with this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks have not changed significantly from those disclosed in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

ITEM 4. CONTROLS AND PROCEDURES

With the participation of the Scotts Miracle-Gro's principal executive officer and principal financial officer, Scotts Miracle-Gro management has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, Scotts Miracle-Gro's principal executive officer and principal financial officer have concluded that:

- (A) information required to be disclosed by Scotts Miracle-Gro in this Quarterly Report on Form 10-Q and the other reports that Scotts Miracle-Gro files or submits under the Exchange Act would be accumulated and communicated to its management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;
- (B) information required to be disclosed by Scotts Miracle-Gro in this Quarterly Report on Form 10-Q and the other reports that Scotts Miracle-Gro files or submits under the Exchange Act would be recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms; and

(C) Scotts Miracle-Gro's disclosure controls and procedures are effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

Table of Contents

In addition, there were no changes in Scotts Miracle-Gro's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during its third fiscal quarter ended June 28, 2008, that have materially affected, or are reasonably likely to materially affect, Scotts Miracle-Gro's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In April 2008, the Company, in cooperation with an investigation by the U.S. Environmental Protection Agency (USEPA), announced a recall of certain consumer lawn and garden products and a Scotts LawnService® (SLS) product. These products contain active ingredients that require USEPA registrations before they can be marketed to consumers or used by SLS. An investigation led by the USEPA, with the U.S. Department of Justice (the USDOJ), revealed that valid registrations for these products either had not been obtained or that the products were not properly labeled. To date, the evidence indicates that an employee of the Company, since terminated, apparently deliberately circumvented Company policies and USEPA regulations by failing to obtain valid registrations for the products and/or causing invalid product registration forms to be submitted to regulators. Since April, the Company has cooperated with the USEPA in conducting an internal investigation of its pesticide product registrations which has resulted in the identification of additional registration issues that have been disclosed to the USEPA. As previously disclosed, one of the issues identified by the Company resulted in the issuance by the USEPA of a stop sale order for the products in question, including Ortho® Home Defense Max® Perimeter & Indoor Insect Killer, a pest control product that is a significant component of the Ortho® portfolio of products. However, as also previously reported, shortly after issuing the stop sale order, the USEPA permitted the Company to continue to sell the Home Defense Max® products pursuant to USEPA instructions. In addition, as previously disclosed, the Company has agreed with the USEPA on a Compliance Review Plan for conducting an independent review of the Company's pesticide product registration records. This independent review is currently under way and, given the extensive nature of the review, appears likely to result in the identification of additional product registration issues. There can be no assurance that the ultimate outcome of the investigation will not result in further action, whether administrative, civil or criminal, by the USEPA, USDOJ or state regulatory agencies against the Company. Such actions may include the imposition of regulatory fines and/or penalties against the Company, and there can be no assurance that any such fines and/or penalties, in addition to the costs the Company has already incurred and expects to incur in connection with the product registrations/recalls and related investigation, will not have a material and adverse effect on the Company's financial condition and results of operations.

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

Other than as discussed in the preceding paragraphs, pending material legal proceedings have not changed significantly since the first quarter of fiscal 2008.

ITEM 1A. RISK FACTORS

Cautionary Statement on Forward-Looking Statements

We have made and will make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in this Quarterly Report on Form 10-Q and in other contexts relating to future growth and profitability targets and strategies designed to increase total shareholder value. Forward-looking statements also include, but are not limited to, information regarding our future economic and financial condition, the plans and objectives of our management and our assumptions regarding our performance and these plans and objectives.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could

cause actual results to differ materially from those discussed in the forward-looking statements. We desire to take advantage of the safe harbor provisions of that Act.

Some forward-looking statements that we make in this Quarterly Report on Form 10-Q and in other contexts represent challenging goals for the Company, and the achievement of these goals is subject to a variety of risks and assumptions and numerous factors beyond our control. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by those cautionary statements. Important factors that could cause actual results to differ materially from the forward-looking statements we make are included in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year

Table of Contents

ended September 30, 2007. Updates to our risk factors as a result of our 2008 product recalls and the related governmental investigation are discussed below.

Costs associated with product recalls and the corresponding governmental investigation could materially and adversely affect our financial condition and operating results.

In April 2008, we learned of a criminal investigation which is being led by the U.S. Environmental Protection Agency (USEPA) and the U.S. Department of Justice (USDOJ), with assistance from the Ohio Department of Agriculture, related to the status of the registrations of these products, some of which had entered commerce and some of which had not. During the same time period, we announced that an employee, since terminated, apparently deliberately circumvented our policies, causing unregistered or not properly labelled products to be marketed and sold. As a result of the investigation, we recalled, or are in the process of recalling, certain consumer lawn and garden products and one Scotts LawnService® product.

In connection with the registration investigation and product recalls, we have recorded, and in the future may record, charges and costs, based on our most recent estimates, of retailer inventory returns, consumer returns and replacement costs, associated legal and professional fees and costs associated with advertising and administration of the registration investigation and product recalls. Because these current and expected future charges are based on estimates, they may increase as a result of numerous factors, many of which are beyond our control, including the amount of products that may be returned by consumers and retailers, the number and type of legal or regulatory proceedings relating to these product recalls and regulatory or judicial orders or decrees that may require us to take certain actions in connection with product recalls or to pay civil or criminal fines and/or penalties at the state and/or federal level.

The costs associated with these product recalls and any potential fines and/or penalties, both those which we have estimated to date and any amounts in excess of our current estimates, could have a material and adverse effect on our financial condition and results of operations, and could affect our compliance with certain covenants contained in the Company s credit facilities.

In addition, there can be no assurance that the ultimate outcome of the investigation will not result in further action against us, whether administrative, civil or criminal by the USEPA, USDOJ or state regulatory agencies, and any such action, in addition to the costs we have incurred and will continue to incur in connection therewith, could materially and adversely affect us or our financial condition and results of operations.

Product recalls and the corresponding governmental investigation may harm our reputation and acceptance of our products by our retail customers and consumers, which may materially and adversely affect our business operations, decrease sales and increase costs.

The product recalls we announced in April 2008, together with the corresponding governmental investigation by the USEPA and USDOJ, have resulted in coverage critical of us in the press and media. While we believe that these recalls are the result of the misguided actions of a former employee who misled us and that we have acted promptly, responsibly and in the public interest, these product recalls may harm our reputation and the acceptance of our products by consumers and our retailer customers. Our retailer customers may be less willing to purchase our products or to provide marketing support for those products, such as shelf space, promotions, and advertising or may impose additional requirements that would adversely affect our business operations, decrease sales and increase costs.

ITEM 6. EXHIBITS

See Index to Exhibits at page 32 for a list of the exhibits included herewith.

Table of Contents

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 MIRACLE-GRO COMPANY

Date: August 7, 2008

/s/ DAVID C. EVANS

David C. Evans
Executive Vice President and Chief Financial
Officer
(Principal Financial and Principal Accounting
Officer)
(Duly Authorized Officer)

31

Table of Contents**INDEX TO EXHIBITS**

Exhibit No.	Description	Location
10(a)	Termination and Release, dated as of April 9, 2008, by and among The Scotts Company LLC, The Scotts Miracle-Gro Company and LaSalle Bank National Association	Incorporated herein by reference to Exhibit 10.1 to The Scotts Miracle-Gro Company's Current Report on Form 8-K dated and filed on April 15, 2008 (File No. 1-13292)
10(b)	Master Accounts Receivable Purchase Agreement, dated as of April 9, 2008, among The Scotts Company LLC as seller, The Scotts Miracle-Gro Company as guarantor and Bank of America, N.A. as purchaser	Incorporated herein by reference to Exhibit 10.2 to The Scotts Miracle-Gro Company's Current Report on Form 8-K dated and filed on April 15, 2008. (File No 1-13292)
10(c)	The Scotts Miracle-Gro Company Supplemental Incentive Plan for the fiscal year ending September 30, 2008	*
10(d)	Employment Agreement for Vincent C. Brockman, made, entered into and effective as of June 1, 2008, between The Scotts Company LLC and Vincent C. Brockman	*
31(a)	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	*
31(b)	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)	*
32	Section 1350 Certification (Principal Executive Officer and Principal Financial Officer)	*

* Filed herewith