SCOTTS MIRACLE-GRO CO
Form 10-K
November 25, 2008

Table of Contents

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

FORM 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-13292

The Scotts Miracle-Gro Company

(Exact name of registrant as specified in its charter)

Ohio	**31-1414921**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
14111 Scottslawn Road, Marysville, Ohio	43041
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: 937-644-0011

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Shares, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes **þ** No **o**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes **o** No **þ**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. **þ**

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.

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

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

The aggregate market value of Common Shares (the only common equity of the registrant) held by non-affiliates of the registrant computed by reference to the price at which Common Shares were last sold as of the last business day of the registrant s most recently completed second fiscal quarter (March 28, 2008) was approximately $1,410,465,487.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: The number of Common Shares of the registrant outstanding as of November 21, 2008 was 65,373,940.

DOCUMENT INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement for Registrant s 2009 Annual Meeting of Shareholders to be held January 22, 2009, are incorporated by reference into Part III hereof.

Table of Contents

PART I

ITEM 1. BUSINESS

Company Description

The Scotts Miracle-Gro Company, an Ohio corporation (Scotts Miracle-Gro and, together with its subsidiaries, the Company), traces its roots to two businesses launched by entrepreneurs. In 1868, Civil War veteran O.M. Scott started a seed business in Marysville, Ohio, based on the conviction that farmers shall have clean, weed-free fields. Beginning in 1907, The Scotts Company expanded its reach by selling grass seed to consumers and eventually exited the agricultural market. By 1988 through innovation and acquisition The Scotts Company had become a leading marketer of lawn fertilizer, grass seed and growing media products within the United States.

Separately, Horace Hagedorn and his partner Otto Stern launched Stern s Miracle-Gro Products, Inc. in 1951 in New York. Their easy-to-use plant food quickly revolutionized the gardening category. Through innovative marketing, Miracle-Gro® eventually became the leading plant food product in the gardening industry. In 1995, The Scotts Company and Stern s Miracle-Gro Products, Inc. merged, marking the start of a significant evolution for the Company.

In the late 1990 s, the Company launched both a geographic and a category expansion. It acquired companies with industry-leading brands in France, Germany and the United Kingdom. In fiscal 1999, the Company acquired the Ortho® brand in the United States and exclusive rights for the marketing and distribution of consumer Roundup®* brand products within the United States and other specified countries, thereby adding industry-leading weed, insect and disease control products to its portfolio. The Company expanded into the lawn care service industry with the launch of Scotts LawnService® in 1998. Since fiscal 2001, the Company has invested nearly $125 million in acquisitions of local and regional lawn care businesses to provide a platform for rapid expansion throughout the United States. Most recently, the Company entered the North American wild bird food category in fiscal 2006 with the acquisition of Gutwein & Co., Inc. (Gutwein) and its Morning Song® brand of bird food.

As the Company celebrates more than 100 years of selling products to consumers, we own the leading brands in nearly every category of the lawn and garden industry. A list of some of our North American leading consumer brands is as follows:

Category	Brands
Lawns	Scotts®; Turf Builder®
Gardens	Miracle-Gro®; Osmocote®; LiquaFeed®; Organic Choice®
Growing Media	Miracle-Gro®; Scotts®; Hyponex®; Earthgro®; SuperSoil®
Grass Seed	Scotts®; Turf Builder®
Controls	Ortho®; Home Defense Max®; Weed-B-Gon Max®; Roundup®*
Outdoor Living	Smith & Hawken®
Wild Bird Food	Morning Song®; Scotts Songbird Selections®

In addition, we have the following significant brands in Europe: Miracle-Gro® plant fertilizers, Weedol® and Pathclear® herbicides, EverGreen® lawn fertilizers and Levington® growing media in the United Kingdom; KB® and Fertiligène® in France; Celaflor®, Nexa Lotte® and Substral® in Germany and Austria; and ASEF®, KB® and Substral® in Belgium, the Netherlands and Luxembourg. Roundup® is also a significant brand in the United Kingdom, France, Germany and other European markets.

Business Segments

For fiscal 2008, the Company divided its businesses into the following segments:

Global Consumer;

Global Professional;

* Roundup® is a registered trademark of Monsanto Technology LLC, a company affiliated with Monsanto Company.

Table of Contents

Scotts LawnService®; and

Corporate & Other.

These segments were changed entering fiscal 2008 and differ from the segments used in the prior year due to the realignment of the North America and International segments into the Global Consumer and Global Professional segments. This division of reportable segments is consistent with how the segments report to and are managed by senior management of the Company. Financial information about these current segments for the three years ended September 30, 2008 is presented in NOTE 21. SEGMENT INFORMATION to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Global Consumer

In our Global Consumer segment, the Company manufactures and markets products that provide easy, reliable and effective assistance to homeowners who seek beautiful, weed and pest-free lawns, gardens and indoor plants. These products incorporate many of the latest technologies available. The Global Consumer segment sells products in the following categories:

Lawns: A complete line of granular lawn fertilizer and combination products, including fertilizer and crabgrass control, weed control or pest control, is sold under the Scotts® and Turf Builder® brand names. The Turf Builder® line of products in the United States is designed to make it easy for do-it-yourself consumers to select and properly apply the right product in the right quantity for their lawns. A similar range of products is available in the United Kingdom under the EverGreen® brand.

Gardens: A complete line of plant foods is marketed under the Miracle-Gro® brand name. In fiscal 2006, we introduced Miracle-Gro® LiquaFeed®, an innovative product that allows consumers to easily feed and water their outdoor plants simultaneously. The Miracle-Gro® brand is marketed primarily in North America and the United Kingdom, although it has been introduced into other Western European markets in recent years. In addition to our high-quality granular and liquid water-soluble plant foods, we have continuous-release plant foods for extended feeding and convenience, which we market under the Osmocote® brand as well as the Shake n Feed® sub-brand. The Company also markets an extensive line of plant food products under the Substral® brand name in Germany, Austria, the Nordic countries and throughout Eastern Europe, and under the Fertiligéne® brand name in France.

Growing Media: A complete line of growing media products for indoor and outdoor uses is marketed under the Miracle-Gro®, Scotts®, Hyponex®, Earthgro® and SuperSoil® brand names in the United States, as well as other labels. These products include potting mix, garden soils, seeding soil, topsoil, manures, sphagnum peat and decorative barks and mulches. The addition of the Miracle-Gro® and Scotts® brand names plus plant food to higher quality potting mixes, garden soils and seeding soil has turned previously low-margin commodity products into value-added category leaders. The introduction of the Moisture Control®, Organic Choice® and Nature Scapes® line extensions has provided further innovation and differentiation of our products in the marketplace. This same strategy is being employed in Europe, where the Miracle-Gro® brand, as well as the Levington®, Fertiligène®, KB® and Substral® brands, are being used to market growing media products.

Grass Seed: We offer a broad line of grass seed products for consumers. Our leading grass seed products are sold under the Scotts® Pure Premium®, Classic®, Turf Builder® and PatchMaster® brand names in the consumer market.

Controls: A broad line of weed control, indoor and outdoor pest control and plant disease control products is marketed under the Ortho® brand name in the United States. Ortho® products are available in aerosol, ready-to-use liquid, concentrated, granular and dust forms. Ortho® control products include Weed-B-Gon MAX®, Bug-B-Gon MAX®, Home Defense MAX®, Ortho MAX®, GroundClear®, RosePride®, and Orthene® Fire Ant Killer. In Europe, the Company markets an extensive line of control products under a variety of brand names, including Weedol®, Pathclear®, KB®, Fertiligéne®, Celaflor® and Nexa Lotte®.

In fiscal 1999, the Company entered into a long-term marketing agreement with Monsanto Company (Monsanto) and became Monsanto s exclusive agent for the marketing and distribution of Roundup® non-selective herbicide products in the consumer lawn and garden market within the United States and other specified countries, including Australia, Austria, Belgium, Canada, France, Germany, the Netherlands and the United Kingdom. (See the Roundup® Marketing Agreement discussion later in this Item 1 for a more detailed explanation of the Company s agreement with Monsanto.)

3

Table of Contents

Wild Bird Food: In November 2005, the Company acquired Gutwein and its Morning Song® brand of products. Morning Song® products are sold at leading mass retailers, grocery, pet and general merchandise stores. The Company launched a Scotts® branded line of wild bird food in fiscal 2007, with premium blends and innovative packaging.

Other Consumer Products: The Company also manufactures and markets several lines of high-quality lawn spreaders under the Scotts® brand name - Deluxe EdgeGuard® spreaders, AccuGreen® drop spreaders and Handy Green®II handheld spreaders. We sell a line of hose-end applicators for water-soluble plant foods such as Miracle-Gro® products, and lines of applicators under the Ortho® and Dial N Spray® trademarks for the diluted application of control products sold in the concentrated form.

The Global Consumer segment also includes our Canadian consumer operations. In Canada, we believe we are the leading marketer of branded consumer lawn and garden products. We sell a full range of lawn and garden fertilizer, control products, grass seed, spreaders, and value-added growing media products under the Scotts®, Turf Builder®, EcoSense®, Miracle-Gro®, Ortho®, Killex® and Roundup® brands.

Global Professional

The Global Professional business sells professional products to commercial nurseries, greenhouses and specialty crop growers primarily in North America, Europe, the Middle East, Africa, Latin America, Australia, New Zealand and throughout the Far East. Our professional products include a broad line of sophisticated controlled-release fertilizers, water-soluble fertilizers, plant protection products, wetting agents, growing media and grass seed that are sold under brand names that include Osmocote®, Sierrablen Plus®, Peters Professional®, Peters Excel®, Agroblen®, Agrocote®, Rout®, OH2®, Scotts® Professional Seed, Scotts® Turfseed™ and Scotts® Landmark™.

Scotts LawnService®

The Scotts LawnService® segment provides residential lawn care, lawn aeration, tree and shrub care and external pest control services in the United States. As of September 30, 2008, Scotts LawnService® had 81 company-operated locations serving 46 metropolitan markets and 76 independent franchises primarily operating in secondary markets.

Corporate & Other

The Corporate & Other segment includes Smith & Hawken®, a leading brand in the outdoor living and gardening lifestyle category. Smith & Hawken® products, which include high-end outdoor furniture, pottery, garden tools, gardening containers and live goods, are sold in the United States through its 57 retail stores, catalog and Internet sales, and other trade and wholesale relationships. While the Company maintains a bias for divesting the business, current market conditions are not advantageous. As a result, the Company is now simultaneously pursuing other options.

Competitive Marketplace

Our major customers include home 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. Each of our segments participates in markets that are highly competitive and many of our competitors sell their products at prices lower than ours. The Company attributes its market leadership and continued success in the lawn and garden category to our industry-leading brands, innovative products, award-winning advertising, supply chain excellence, highly effective field sales and merchandising organization and the strength of our relationships with major retailers in our product categories.

In the North American Global Consumer do-it-yourself lawn and garden and pest control markets, we compete primarily against private label products as well as branded products. Private label products are those sold under a retailer-owned label or a supplier-owned label, which are sold exclusively at a specific retail chain. Recently, the Company s largest North American competitor, Spectrum Brands, announced it would cease competing in the lawn fertilizer, grass seed and growing media categories. As a result, some of our retail partners have approached us regarding the possibility of providing private label solutions for them in these product categories. We believe such an opportunity, if executed, could be beneficial to both the Company and our retail partners.

Table of Contents

The Company continues to compete with Spectrum Brands in other lawn and garden categories. We also compete with Bayer AG, Central Garden & Pet Company, Enforcer Products, Inc., Green Light Company and Lebanon Seaboard Corporation. In addition, we face competition from regional competitors who compete primarily on the basis of price for commodity growing media business.

Internationally, we face strong competition in the consumer do-it-yourself lawn and garden market, particularly in Europe. Our competitors in the European Union include Bayer AG, Compo GmbH, a subsidiary of K&S Aktiengesellschaft (which owns the Compo®, Sem® and Algoflash® brands), Westland Horticulture and a variety of local companies.

In the North American Global Professional horticulture markets, we face a broad range of competition from numerous companies such as Agrium, Inc., Haifa Chemicals Ltd., Chisso Asahi Fertilizer Co. Ltd., Syngenta AG and Bayer AG. Some of these competitors have significant financial resources and research departments.

The international Global Professional horticulture markets in which we compete are also very competitive, particularly the markets for controlled-release and water-soluble fertilizer products. We have numerous U.S. and European competitors in these international markets, including Pursell Industries, Inc., Compo GmbH, a subsidiary of K&S Aktiengesellschaft, Norsk Hydro ASA, Haifa Chemicals Ltd. and Kemira Oyj.

We have the second largest market share position in the fragmented U.S. do-it-for-me lawn care service market. We compete against TruGreen-ChemLawn®, a division of ServiceMaster, which has the leading market share in the U.S. lawn care service market and has a substantially larger share of this market than Scotts LawnService®, as well as numerous regional and local lawn care services operations.

Significant Customers

Approximately 75% of our worldwide net sales in fiscal 2008 were made by our Global Consumer segment. Within the Global Consumer segment, approximately 28% of our net sales in fiscal 2008 were made to Home Depot, 18% to Lowe s and 18% to Walmart. We face strong competition for the business of these significant customers. The loss of any of these customers or a substantial decrease in the volume or profitability of our business with any of these customers could have a material adverse effect on our earnings and cash flows.

Competitive Strengths

Strong Brands

The Company considers its industry-leading brands to be its single largest competitive advantage, though hardly its only advantage. The Company believes it has the leading market share in every major U.S. category in which its Global Consumer business competes. The Company also owns many of the leading brands in the European marketplace.

The Company has helped to build awareness of its brands through consistently investing in advertising and marketing. As a result, consumer awareness of the Company s key brands especially in the United States rivals that of nearly any other consumer products company. The strength of the Scotts® brand, in particular, has been a critical aspect of the success of Scotts LawnService®.

Trademarks, Patents and Licenses

The Company considers its brands, patents and licenses all to be key competitive advantages. We pursue a vigorous brand protection strategy consisting of registration and maintenance of key trademarks and proactive monitoring and enforcement activities to protect against infringement. The Scotts®, Miracle-Gro®, Ortho®, Scotts LawnService®, Smith & Hawken®, Osmocote®, Hyponex® and Earthgro® brand names and logos, as well as a number of product trademarks, including Turf Builder®, Organic Choice®, Home Defense Max® and Weed-B-Gon Max®, are federally and/or internationally registered and are considered material to our business.

As of September 30, 2008, we held 95 issued patents in the United States covering fertilizer, chemical and growing media compositions and processes; grass varieties; and mechanical dispensing devices such as applicators, spreaders and sprayers. Similar patents have also been issued or are pending internationally, bringing our total worldwide patent portfolio to 406 patents and applications.

The issued patents provide protection generally extending to 20 years from the date of filing, subject to the payment of applicable governmental maintenance and annuity fees. Accordingly, many of our patents will extend well into the next decade.

In addition, we continue to file new patent applications each year covering new, commercially significant developments conceived by our research and development associates. Currently, we have 205 pending patent applications worldwide, including 35 pending U.S. applications. We also hold exclusive and non-exclusive patent licenses and supply arrangements, permitting the use and sale of additional patented fertilizers, pesticides and mechanical devices.

During fiscal 2008, we were granted four U.S. and 21 foreign national patents, including patents for the design of an improved spraying device and for various hybrid varieties of turfgrass. We continue to extend patent coverage of our core technologies nationally and in our Canadian, European, Asia/Pacific and South American markets.

No significant U.S. or foreign patents expired in fiscal 2008.

Supply Chain and Sales Force

Because the Company sells a substantial majority of its products to a small number of retail customers, it is critical to maintain strong relationships with these partners. We believe our supply chain and sales force are major competitive advantages that have allowed us to build unrivaled relationships with our key retail partners.

Major investments in technology have allowed the Company s supply chain to be a more efficient supplier to its key retail accounts. The Company considers its order fill rate which measures the accuracy of shipments to be an important measure of customer service. In fiscal 2008, the Company achieved a global order fill rate of 99.0 percent. Additionally, the supply chain has helped the Company to improve its inventory turns over the past several years, as well as those of its retail partners. The Company has made substantial investments to lower the cost structure of its supply chain operations in Europe while simultaneously improving customer service levels.

The Company s U.S. sales force is another major competitive advantage. By increasing the size of the sales force over several years, the Company has taken a more proactive role in helping our retail partners merchandise the lawn and garden department and maximize the productivity of this space. In addition to working closely with retailers, our nearly 2,000 person full-time and seasonal U.S. in-store sales force also provides the Company with an opportunity to interact face-to-face with consumers at-the-shelf. By helping consumers answer their lawn and garden questions, we believe we can drive higher sales of our products.

Innovation

The Company views its commitment to innovation as a competitive advantage. Consequently, we continually invest in research and development and consumer research to improve and develop existing and new products, manufacturing processes and packaging and delivery systems. Spending on research and development was $44.7 million, $38.8 million and $35.1 million in fiscal 2008, 2007 and 2006, including product registration costs of $9.8 million, $9.3 million and $8.2 million, respectively. The Company s long-standing commitment to innovation is evidenced by a worldwide portfolio of patents. In addition to the benefits of our own research and development, we actively seek ways to leverage the research and development activities of our suppliers.

Our research and development worldwide headquarters is located at the Dwight G. Scott Research Center in Marysville, Ohio. We also have research and development facilities in the United Kingdom, France, the Netherlands and Sydney, Australia, as well as several research field stations located throughout the United States. In these combined locations, the Company employs approximately 30 PhD scientists.

The Company s biotechnology program is evidence of its commitment to responsible research and to developing more effective and easier-to-use products that are preferred by consumers and are better for the environment. As part of this program, the Company is currently employing technology already proven in agriculture to develop new turf varieties that could one day require less maintenance, less water and fewer chemical inputs to resist insects, weeds and disease.

Table of Contents

Roundup® Marketing Agreement

The Company is Monsanto s exclusive agent for the marketing and distribution of consumer Roundup® products (with additional rights to new products containing glyphosate or other similar non-selective herbicides) in the consumer lawn and garden market within the United States and other specified countries, including Australia, Austria, Belgium, Canada, France, Germany, the Netherlands and the United Kingdom. Under the terms of the Amended and Restated Exclusive Agency and Marketing Agreement (the Marketing Agreement) between us and Monsanto, we and Monsanto are jointly responsible for developing global consumer and trade marketing programs for consumer Roundup®. We have assumed responsibility for sales support, merchandising, distribution and logistics for consumer Roundup®. Monsanto continues to own the consumer Roundup® business and provides significant oversight of its brand. In addition, Monsanto continues to own and operate the agricultural Roundup® business.

We are compensated under the Marketing Agreement based on the success of the consumer Roundup® business in the markets covered by the Marketing Agreement. We receive a graduated commission to the extent that the earnings before interest and taxes of the consumer Roundup® business in the included markets exceed specified thresholds. Regardless of these earnings, we are required to make an annual contribution payment against the overall expenses of the consumer Roundup® business. The minimum annual contribution payment is $20 million until 2018 or the earlier termination of the Marketing Agreement.

The gross commission earned under the Marketing Agreement, the contribution payments to Monsanto and the amortization of the initial marketing fee paid to Monsanto are included in the calculation of net sales in the Company s Consolidated Statements of Operations. For fiscal 2008, 2007 and 2006, the net amount earned under the Marketing Agreement was $44.3 million, $41.9 million and $39.9 million, respectively. For further details, see NOTE 7. MARKETING AGREEMENT to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

The Marketing Agreement has no definite term except as it relates to the European Union countries (the EU term). The EU term had previously been extended through September 30, 2008 and, on March 28, 2008, the parties agreed to further extend the EU term through September 30, 2011, with up to two additional automatic renewal periods of two years each, subject to non-renewal only upon the occurrence of certain performance defaults.

The Marketing Agreement provides Monsanto with the right to terminate the Marketing Agreement upon an event of default (as defined in the Marketing Agreement) by the Company, 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 due to an event of default by the Company, Monsanto is required to pay a termination fee to the Company that varies by program year. The termination fee is calculated as a percentage of the value of the Roundup® business exceeding a certain threshold, but in no event will the termination fee be less than $16 million. If Monsanto were to terminate the Marketing Agreement due to an event of default by the Company, however, the Company would not be entitled to any termination fee, and it would lose all, or a substantial 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.

Monsanto has agreed to provide us with notice of any proposed sale of the consumer Roundup® business, allow us to participate in the sale process and negotiate in good faith with us with respect to any such proposed sale. In the event we acquire the consumer Roundup® business in such a sale, we would receive as a credit against the purchase price the amount of the termination fee that would have been paid to us if Monsanto had exercised its right to terminate the

Marketing Agreement in connection with a sale to another party. If Monsanto decides to sell the consumer Roundup® business to another party, we must let Monsanto know whether we intend to terminate the Marketing Agreement and forfeit any right to a termination fee or whether we will agree to continue to perform under the Marketing Agreement on behalf of the purchaser.

Table of Contents

Strategic Initiatives

Our strategic plan is focused on leveraging our key competitive advantages in a way that fuels growth, reduces costs, distances us from the competition and drives shareholder value. We are currently involved in several initiatives designed to meet this criteria:

Even in a difficult economy, we continue to expand upon our strategy of strengthening our relationship with the consumer. This will allow us to leverage the cornerstone of our business our brands and drive higher usage of our products. Our strategy is to raise household penetration of our products, as well as the frequency with which existing consumers use our products. We believe this can be accomplished by pursuing an advertising strategy that increasingly relies on regional radio advertising, as well as a national approach on television.

We also continue to execute a strategy focused on better understanding the needs and attitudes of our consumers. We have historically demonstrated the ability to use customer feedback to develop improved products and packaging that drives increased consumer demand.

In 2008, these strategies helped us succeed with new products such as Roundup® Pump `N Go® in the United States, as well as a full line of natural and organic lawn and garden products in Europe. In 2009, insights gained from consumers will be critical as we navigate a challenging economic environment. Our research will help us more effectively communicate to consumers that our products cost more because they are worth more.

Our strategic plan is heavily focused on driving innovation, which we believe is necessary to achieve higher sales and profits. In recent years, new products have been critical to our success. Our strategy is focused on continuing to leverage what we consider an unmatched commitment to innovation. This takes into account three strategic imperatives: all new products must be simple, sustainable and significant.

Simple means that products must be easy for the consumer to buy, easy to use and easy to store. In addition, they should reduce the amount of time it takes to accomplish a task and should give the consumer improved results. Being sustainable means products must be designed with consumer safety and environmental impacts in mind. Significant products should have strong margin potential, generate possible cost savings, present a global opportunity and be proprietary whenever possible.

We believe this strategy will result in the successful launch of several new products in 2009, including Turf Builder® Water Smart™ Grass Seed and EZ Seed™ Grass Seed. The former includes a full line of premium grass seed products that provide consumers high-performance seed wrapped in a super-absorbent coating. The patented coating allows every seed to absorb up to 40% more water than ordinary seed. As a result, the seed needs to be watered less frequently, which enables consumers to more easily succeed in growing a healthy lawn. EZ Seed™ is a seed mix which includes premium grass seed, fertilizer and a proprietary growing material. Our proprietary technology absorbs water, expanding to surround the seed in a moist protective layer. The protective layer continues to care for the seed, infusing it with water and nutrients, so it builds strong roots that survive tough conditions.

Our strategic plan also continues to focus on further assisting our retail partners in order to improve their sales and the productivity of the lawn and garden department. We believe this strategy makes us a more critical component to their success and helps to ensure our continued growth.

In 2009, we will employ more merchandisers and expert product counselors and significantly increase the number of hours we spend in the stores of our major retail partners. We are rebalancing our sales force in a cost neutral way that allows us to spend more time helping our retailers and consumers and less time on administrative activities.

We believe this strategy will provide a more flexible cost structure that helps maximize the return on our investment and allows us to better meet the needs and timing of local markets. It also allows us to quickly deploy more labor in those regions where business is particularly strong and reduce spending in regions where sales may be lower than expected due to poor weather, economic concerns or other factors.

> Our strategy will continue to transform our U.S. supply chain into a more regional model. We believe this effort can result in cost savings of $50 million annually and reduce inventories by more than $100 million.

Today, the majority of our lawn fertilizer products in the United States are shipped from our plant in Marysville, Ohio to one of 11 warehouses across the country. From those warehouses, the fertilizer products are then shipped along with controls, plant food, grass seed and durable products directly to home center stores. These products are often shipped on less-than-full trucks, making their distribution less efficient than we would like.

Meanwhile, growing media products are shipped direct-to-store through a network of 26 manufacturing facilities. Because these shipments go shorter distances on full trucks, they are more efficient.

Our strategy for a future model which is being rolled out in the Southeastern United States in 2009 allows fertilizer products to be shipped into these growing media facilities, instead of to warehouses. From there, the fertilizer and growing media products are co-distributed directly to the stores. Once deployed across the entire country, nearly all fertilizer products for home center customers will be shipped through these growing media facilities, significantly improving our product distribution efficiency.

Within five years, it is anticipated that up to half of our third-party warehouse square footage could be eliminated. With fertilizer and growing media products shipping together to home center retailers, most of the remaining cased goods would be shipped from the warehouses to our retail partners distribution centers on fully-loaded trucks.

These strategic efforts not only present a significant economic benefit to the Company, but our retail partners will benefit as well, through more frequent store replenishment, improved inventory turns and reduced order lead times. As such, we believe our partners can maximize their retail point-of-sale opportunities without compromising the customer service rates they have come to expect.

Strengthening our Global Consumer Business Internationally

We continue to believe in the long-term growth potential of our Global Consumer business internationally. In order to maximize shareholder value in this business, we have sharpened our focus by: (i) reducing costs in the business to improve profitability and to allow for marketing investments; (ii) aligning the organization by category rather than by geography to better leverage our knowledge of the marketplace and the consumer; and (iii) better leveraging the Company s innovation competencies. We have implemented a global supply chain to provide our smaller, international market segments with the benefits of the larger Company, such as lower packaging costs and the ability to source products from any Company-owned plant globally. The first steps of the organizational realignment have taken place, and as part of a broader corporate initiative, they will continue to evolve in fiscal 2009 and beyond. Finally, we are combining global scale with locally tailored products to streamline our technology platform in the international Global Consumer business. As an example, when the Company introduced LiquaFeed® Plant Food to a variety of European countries in fiscal 2008, each label carried the same design and branding while the claims and instructions were displayed in the local language. At the same time, the European business doubled sales of natural products in fiscal 2008 by launching Naturen® sub-branded products as a locally driven effort.

Expanding Scotts LawnService®

The number of homeowners who want to maintain their lawns and gardens but do not want to do it themselves represents a significant portion of the total lawn and garden market. We recognize that our portfolio of well-known brands provides us with a unique ability to extend our business into lawn and garden services and that the strength of our brands provides us with a competitive advantage in acquiring new customers. We have spent the past several years developing our Scotts LawnService® business model and the business has grown significantly, from revenues of

$41.2 million in fiscal 2001 to revenues of $247.4 million in fiscal 2008. This growth has come from geographic expansion, acquisitions and organic growth fueled by our direct marketing programs. Although acquisition activity was negligible in fiscal 2008 and $22.5 million in fiscal 2007, we anticipate continuing to make selective acquisitions in fiscal 2009 and beyond. We will also continue to invest in the Scotts LawnService®

business infrastructure in order to continually improve customer service throughout the organization and leverage economies of scale as we continue to grow.

Seasonality and Backlog

Our business is highly seasonal, with 70% to 75% of our annual net sales occurring in our combined second and third fiscal quarters. Our annual sales are further concentrated in our second and third fiscal quarters by retailers who increasingly rely on our ability to deliver products in season when consumers buy our products, thereby reducing their inventories.

We anticipate significant orders for the upcoming spring season will start to be received late in the winter and continue through the spring season. Historically, substantially all orders are received and shipped within the same fiscal year with minimal carryover of open orders at the end of the fiscal year.

Raw Materials

We purchase raw materials for our products from various sources that we presently consider to be adequate to supply the needs of each of our segments and our business as a whole. We are subject to market risk from fluctuating prices of certain raw materials, including urea, resins, fuel, grass seed and wild bird food components. Our objectives surrounding the procurement of these materials are to ensure continuous supply and to minimize costs. We seek to achieve these objectives through negotiation of contracts with favorable terms directly with vendors. When appropriate, we will procure a certain percentage of our needs in advance of the season to secure pre-determined prices. We also hedge certain commodities to improve predictability and control costs.

Manufacturing and Distribution

We manufacture products for our Global Consumer business in North America at our facilities in Marysville, Ohio, Fort Madison, Iowa, Albany, Oregon and Temecula, California, as well as at a number of third-party contract packer facilities in the United States and Canada. In addition, the Company manufactures growing media products in 27 regional facilities located throughout North America. We also own five production facilities for our wild bird food operations in Indiana, South Dakota, South Carolina and Texas. The primary distribution centers for our Global Consumer business in North America are managed by the Company and strategically placed across the United States.

We manufacture the non-growing media products for our Global Consumer business internationally at our facilities in Howden, the United Kingdom and Bourth, France. We also utilize a number of third-party contract packers. The primary distribution centers for our Global Consumer business internationally are located in the United Kingdom, France and Germany and are managed by a logistics provider.

The growing media products for our international Global Consumer business are produced at our facilities in Hatfield and Sutton Bridge, both in the United Kingdom, and Hautmont, France, and at a number of third-party contract packer facilities. These growing media products are generally shipped direct without passing through a distribution center.

We also manufacture horticultural products for our Global Professional business at a leased fertilizer manufacturing facility in Charleston, South Carolina and a Company-owned site in Heerlen, the Netherlands. The remaining products for our Global Professional businesses are produced at other Company-owned facilities and subcontractors in the United States and Europe.

The majority of shipments to customers are made via common carriers or through distributors in the United States and through a network of public warehouses and distributors in Europe. We are subject to market risk from fluctuating market prices of diesel fuel, which our common carriers pass on to the Company in the form of fuel surcharges. When appropriate, the Company will hedge a portion of these indirect fuel costs to improve predictability and control costs.

Employees

As of September 30, 2008, we employed 5,303 full-time employees in the United States and an additional 1,075 full-time employees located outside the United States. During peak sales and production periods, we utilize seasonal and temporary labor.

Table of Contents

None of our U.S.-based employees are members of a union. Approximately 35 of our full-time U.K.-based employees are members of the Transport and General Workers Union and have full collective bargaining rights. An undisclosed number of our full-time employees at our office in Ecully, France are members of the Confederation Francaise Democratique du Travail and Confederation Generale du Travail, participation in which is confidential under French law. In addition, a number of union and non-union full-time employees are members of works councils at three sites in Bourth, Hautmont and Ecully, France, and a number of non-union employees are members of works councils in Ingelheim, Germany. In the Waardenburg office and in the Heerlen Plant in the Netherlands, approximately 10 employees are members of a workers union, but we are not responsible for collective bargaining negotiations with this union. In the Netherlands, we are governed by the Works Councils Act with respect to the union. Works councils represent employees on labor and employment matters and manage social benefits.

We believe we have good relationships with our employees in the United States, and both unionized and non-unionized international employees.

Regulatory Considerations

Local, state, federal and foreign laws and regulations affect the sale of our products in several ways.

In the United States, all products containing pesticides must comply with the Federal Insecticide, Fungicide, and Rodenticide Act of 1947, as amended (FIFRA), and be registered with the U.S. Environmental Protection Agency (the U.S. EPA) (and similar state agencies) before they can be sold or distributed. The inability to obtain or maintain such compliance, or the cancellation of any such registration, could have an adverse effect on our business, the severity of which would depend on the products involved, whether another product could be substituted and whether our competitors were similarly affected. We attempt to anticipate regulatory developments and maintain registrations of, and access to, substitute active ingredients, but there can be no assurance that we will continue to be able to avoid or minimize these risks.

Fertilizer and growing media products are subject to state and foreign labeling regulations. Our manufacturing operations are subject to waste, water and air quality permitting and other regulatory requirements of federal and state agencies. The Company s wild bird food business is subject to regulation by the U.S. Food and Drug Administration and our grass seed products are regulated by the Federal Seed Act and various state regulations.

Pursuant to the Food Quality Protection Act, the U.S. EPA is evaluating the cumulative risks from dietary and non-dietary exposures to pesticides. The pesticides in our products are typically manufactured by independent third parties and as a result of the U.S. EPA s continuing risk assessment, a decision by the U.S. EPA or the third party registrant may restrict our access to the pesticides. We cannot predict the outcome or the severity of the effect of these continuing evaluations.

The use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may include requirements that only certified or professional users apply the product or that certain products be used only on certain types of locations (such as not for use on sod farms or golf courses), may require users to post notices on properties to which products have been or will be applied, may require notification to individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients. We believe we are operating in substantial compliance with, or taking action aimed at ensuring compliance with, these laws and regulations.

State, federal and foreign authorities generally require growing media facilities to obtain permits (sometimes on an annual basis) in order to harvest peat and to discharge storm water run-off or water pumped from peat deposits. The permits typically specify the condition in which the property must be left after the peat is fully harvested, with the residual use typically being natural wetland habitats combined with open water areas. We are generally required by these permits to limit our harvesting and to restore the property consistent with the intended residual use. In some locations, these facilities have been required to create water retention ponds to control the sediment content of discharged water.

Table of Contents

FIFRA Compliance, the Corresponding Governmental Investigation and Related Matters

In April 2008, the Company learned that a former associate apparently deliberately circumvented the Company s policies and U.S. EPA regulations under FIFRA by failing to obtain valid registrations for products and/or causing invalid product registration forms to be submitted to regulators. Since that time, we have been cooperating with the U.S. EPA in its civil investigation into pesticide product registration issues involving the Company and with the U.S. EPA and the U.S. Department of Justice (the U.S. DOJ) in a related criminal investigation. In late April of 2008, in connection with the U.S. EPA s investigation, the Company was required to conduct a consumer-level recall of certain consumer lawn and garden products and a Scotts LawnService® product. Subsequently, the Company and the U.S. EPA agreed upon a Compliance Review Plan for conducting a comprehensive, independent review of our product registration records. Pursuant to the Compliance Review Plan, an independent third-party firm, Quality Associates Incorporated (QAI), has been reviewing all of the Company s U.S. pesticide product registration records, some of which are historical in nature and no longer support sales of our products. The Company has identified approximately 132 of the registrations under review as relating to products for which there was sales activity in the period generally representing the Company s 2008 fiscal year (Active Registrations). These Active Registrations supported products which accounted for approximately $680 million of the Company s net sales in the period. The U.S. EPA investigation and QAI review process identified several issues affecting Active Registrations which resulted in the issuance of a number of Stop Sale, Use or Removal Orders by the U.S. EPA and caused the Company to temporarily suspend sales and shipments of affected products. In addition, as the QAI review process or our internal review has identified a FIFRA registration issue or a potential FIFRA registration issue (some of which appear unrelated to the former associate), we have endeavored to stop selling or distributing the affected products until the issue could be resolved with the U.S. EPA.

To date, QAI has completed a review of the registration records for substantially all of the Company s Active Registrations. Based on such review, and with the cooperation and prompt attention of the U.S. EPA, the Company believes it has restored the ability to sell and distribute products representing over 90% of the sales associated with Active Registrations; and we are hopeful that we will be able to satisfactorily resolve most, if not all, of the remaining issues prior to the start of the 2009 lawn and garden season. The QAI review process is expected to continue with a focus on reviewing advertising and related promotional support of our registered pesticide products. For more information with respect to additional risks and uncertainties the Company may face in connection with the ongoing investigation and for a discussion of the related costs and expenses, see NOTE 2. PRODUCT REGISTRATION AND RECALL MATTERS to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

On September 26, 2008, the Company, doing business as Scotts LawnService®, was named as a defendant in a purported class action filed in the U.S. District Court for the Eastern District of Michigan relating to certain pesticide products. In the suit, Mark Baumkel, on behalf of himself and the purported classes, seeks an unspecified amount of damages, plus costs and attorney fees, for alleged claims involving breach of contract, unjust enrichment and violation of the Michigan consumer protection act. Given the preliminary stages of the proceedings, no reserves have been booked at this time, and the Company intends to vigorously contest the plaintiff s assertions.

In addition, in fiscal 2008 the Company conducted a voluntary recall of most of its wild bird food products due to a formulation issue. The wild bird food products had been treated with pest control additives to avoid insect infestation, especially at retail stores. While the pest control additives had been labeled for use on certain stored grains that can be processed for human and/or animal consumption, they were not labeled for use on wild bird food products. This voluntary recall was completed prior to the end of fiscal 2008.

Other Regulatory Matters

In 1997, the Ohio Environmental Protection Agency (the Ohio EPA) initiated an enforcement action against us with respect to alleged surface water violations and inadequate wastewater treatment capabilities at our Marysville, Ohio facility and sought 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 that date back to the early operations of the Marysville facility, which we had already been assessing and, in some cases, remediating, on a voluntary basis. We

12

Table of Contents

are remediating the Marysville site under the terms of a judicial consent order under the oversight of the Ohio EPA.

We completed negotiations with the Philadelphia District of the U.S. Army Corps of Engineers regarding the terms of site remediation and the resolution of the Corps civil penalty demand in connection with our prior peat harvesting operations at our Lafayette, New Jersey facility. A final consent decree was entered into on October 18, 2004 that required us to perform five years of wetland monitoring, and the completion of additional actions if after five years, the monitoring indicates the wetlands have not developed satisfactorily.

At September 30, 2008, $3.8 million was accrued for these non-FIFRA compliance-related environmental actions, the majority of which is for site remediation. Most of the costs accrued as of September 30, 2008 are expected to be paid in fiscal 2009; however, payments could be made for a period thereafter. During fiscal 2008, 2007 and 2006, we expensed approximately $1.4 million, $1.5 million, and $2.4 million for non-FIFRA compliance-related environmental matters. There were no material capital expenditures during the last three fiscal years related to environmental or regulatory matters.

General Information

The Company maintains a website at http://investor.scotts.com (this uniform resource locator, or URL, is an inactive textual reference only and is not intended to incorporate our website into this Annual Report on Form 10-K). We file reports with the Securities and Exchange Commission (the SEC) and make available, free of charge, on or through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as our proxy and information statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Financial Information About Geographic Areas

For certain information concerning our international revenues and long-lived assets, see NOTE 21. SEGMENT INFORMATION to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

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 Annual Report on Form 10-K, in our 2008 Annual Report to Shareholders (our 2008 Annual Report) 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 our 2008 Annual Report, in this Annual Report on Form 10-K and in other contexts represent challenging goals for our Company, the achievement of which is subject to a variety of risks and assumptions and numerous factors beyond our control. Important factors that could cause actual results to differ materially from the forward-looking statements we make are described below. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by the following cautionary statements. Updates to our risk factors as a result of our 2008 product recalls and the related governmental investigation are included below.

FIFRA Compliance, the Corresponding Governmental Investigation and Related Matters

Our products that contain pesticides must comply with FIFRA and be registered with the U.S. EPA (and similar state agencies) before they can be sold or distributed. In April 2008, we became aware that a former associate apparently deliberately circumvented Company policies and U.S. EPA regulations under FIFRA by failing to obtain valid registrations for products and/or causing invalid product registration forms to be submitted to regulators. Since that time, we have been cooperating with the U.S. EPA in its civil investigation into pesticide product registration issues involving the Company and with the U.S. EPA and the U.S. DOJ in a related criminal investigation.

In connection with the registration investigation and FIFRA compliance review process, 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, costs to rework existing products, inventory write-downs, associated legal and professional fees and costs associated with administration of the registration investigation and compliance review process. 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 the registration investigation and FIFRA compliance review process and regulatory or judicial orders or decrees that may require us to take certain actions in connection with the registration investigation and FIFRA compliance review process or to pay civil or criminal fines and/or penalties at the state and/or federal level.

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 U.S. EPA, U.S. DOJ, state regulatory agencies or private litigants, and any such action, in addition to the costs we have incurred and would continue to incur in connection therewith, could materially and adversely affect our financial condition, results of operations and cash flows. In particular, a significant fine, penalty or judgment assessed against us could result in a charge to earnings or an increase in debt which materially affects our ability to remain in compliance with the financial covenants of our credit facilities, potentially causing us to have to seek an amendment or waiver from our lending group. While we believe we have good relationships with our banking group, given the adverse conditions currently present in the global credit markets, we can provide no assurance that such a request would be likely to result in a modified or replacement credit facility on reasonable terms, if at all.

Product recalls, our inability to ship, sell or transport affected products and the on-going 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. Moreover, the FIFRA compliance issues we have disclosed throughout fiscal 2008, together with the corresponding governmental investigation by the U.S. EPA and U.S. DOJ, have resulted in coverage critical of us in the press and media. While we believe that these compliance issues are primarily the result of the misguided actions of a former associate who misled us, some of the issues identified appear unrelated to the former associate. And although we believe we have acted promptly, responsibly and in the public interest, these compliance issues may nevertheless 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 could materially and adversely affect our business operations, decrease sales and increase costs.

On September 26, 2008, the Company, doing business as Scotts LawnService®, was named as a defendant in a purported class action filed in the U.S. District Court for the Eastern District of Michigan relating to certain pesticide products. In the suit, Mark Baumkel, on behalf of himself and the purported classes, seeks an unspecified amount of damages, plus costs and attorney fees, for alleged claims involving breach of contract, unjust enrichment and violation of the Michigan consumer protection act. Given the preliminary stages of the proceedings, no reserves have been booked at this time, and the Company intends to vigorously contest the plaintiff s assertions.

Commodity Cost Pressures

Our ability to manage our cost structure can be adversely affected by movements in commodity and other raw material prices, such as those experienced in both fiscal 2008 and 2007. Market conditions may limit the Company s ability to raise selling prices to offset increases in our input and distribution costs. The uniqueness of our technologies can limit our ability to locate or utilize alternative inputs for certain products. For certain inputs, new sources of supply may have to be qualified under regulatory standards, which can require additional investment and delay bringing a product to market.

Competition

Each of our segments participates in markets that are highly competitive. Many of our competitors sell their products at prices lower than ours. The most price sensitive segment of our category may be more likely to trade down to lower price point products in a more challenging economic environment. We compete primarily on the basis of product innovation, product quality, product performance, value, brand strength, supply chain competency, field sales support and advertising. Some of our competitors have significant financial resources. The strong competition that we face in all of our markets may prevent us from achieving our revenue goals, which may have a material adverse affect on our financial condition, results of operations and cash flows.

The Regulatory Environment

Local, state, federal and foreign laws and regulations relating to environmental matters affect us in several ways. In the United States, all products containing pesticides must comply with FIFRA and be registered with the U.S. EPA (and similar state agencies) before they can be sold or distributed. The inability to obtain or maintain such compliance, or the cancellation of any registration, could have an adverse effect on our business, the severity of which would depend on the products involved, whether another product could be substituted and whether our competitors were similarly affected. We attempt to anticipate regulatory developments and maintain registrations of, and access to, substitute active ingredients, but there can be no assurance that we will continue to be able to avoid or minimize these risks. In the EU, the European Parliament is considering the adoption of certain regulations, the effect of which would substantially restrict or eliminate our ability to market and sell certain of our pesticide products. If these regulations were to be adopted in their current form in the EU, the resulting impact on our consumer and professional European controls businesses could be materially adversely impacted. In addition, there are provincially-driven regulations pending across Canada that, depending on the timing and scope of final issuance, could substantially restrict or eliminate our ability to market and sell certain of our consumer pesticide products there.

Under the Food Quality Protection Act, enacted by the U.S. Congress in 1996, food-use pesticides are evaluated to determine whether there is reasonable certainty that no harm will result from the cumulative effects of pesticide exposures. Under this Act, the U.S. EPA is evaluating the cumulative risks from dietary and non-dietary exposures to pesticides. The pesticides in our products, certain of which may be used on crops processed into various food products, are typically manufactured by independent third parties and continue to be evaluated by the U.S. EPA as part of this exposure risk assessment. The U.S. EPA or the third party registrant may decide that a pesticide we use in our products will be limited or made unavailable to us. For example, in December 2000, the U.S. EPA reached agreement with various parties, including manufacturers of the active ingredient diazinon, regarding a phased withdrawal from retailers by December 2004 of residential uses of products containing diazinon, which was also used in our lawn and garden products. We cannot predict the outcome or the severity of the effect of continuing evaluations.

In addition, the use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may include requirements that only certified or professional users apply the product or that certain products be used only on certain types of locations, may require users to post notices on properties to which products have been or will be applied, may require notification to individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients. Even if we are able to comply with all such regulations and obtain all necessary registrations, we cannot provide assurance that our products, particularly pesticide products, will not cause injury to the environment or to people under all circumstances. The costs of compliance, remediation or products liability have adversely affected operating results in the past and could materially adversely affect future quarterly or annual operating results.

Perceptions that the products we produce and market are not safe could adversely affect us and contribute to the risk we will be subjected to legal action. We manufacture and market a number of complex chemical products, such as fertilizers, certain growing media, herbicides and pesticides. On occasion, allegations are made that some of our products have failed to perform up to expectations or have caused damage or injury to individuals or property. Based on reports of contamination at a third party supplier s vermiculite mine, the public may perceive that some of our products manufactured in the past using vermiculite are or may be contaminated. Public perception that our products are not safe, whether justified or not, could impair our reputation, involve us in litigation, damage our brand names and have a material adverse affect on our business.

The harvesting of peat for our growing media business has come under increasing regulatory and environmental scrutiny. In the United States, state regulations frequently require us to limit our harvesting and to restore the property to an agreed-upon condition. In some locations, we have been required to create water retention ponds to control the sediment content of discharged water. In the United Kingdom, our peat extraction efforts are also the subject of legislation.

In addition to the regulations already described, local, state, federal and foreign agencies regulate the disposal, handling and storage of waste, air and water discharges from our facilities.

The adequacy of our current non-FIFRA compliance related environmental reserves and future provisions is based on our operating in substantial compliance with applicable environmental and public health laws and regulations and several significant assumptions:

- that we have identified all of the significant sites that must be remediated;
- that there are no significant conditions of potential contamination that are unknown to us; and
- that with respect to the agreed judicial consent order in Ohio relating to the remediation of the Marysville site, the potentially contaminated soil can be remediated in place rather than having to be removed and only specific stream segments will require remediation as opposed to the entire stream.

If there is a significant change in the facts and circumstances surrounding these assumptions or if we are found not to be in substantial compliance with applicable environmental and public health laws and regulations, it could have a material adverse impact on future environmental capital expenditures and other environmental expenses and our results of operations, financial position and cash flows.

Manufacturing

We use a combination of internal and outsourced facilities to manufacture our products. We are subject to the inherent risks in such activities, including product quality, safety, licensing requirements and other regulatory issues, environmental events, loss or impairment of key manufacturing sites, disruptions in logistics, labor disputes and industrial accidents. Furthermore, we are subject to natural disasters and other factors over which the Company has no control.

Customer Concentration

Global Consumer net sales represented approximately 75% of our worldwide net sales in fiscal 2008. Our top three North American retail customers together accounted for 64% of our Global Consumer segment fiscal 2008 net sales and 34% of our outstanding accounts receivable as of September 30, 2008. Home Depot, Lowe s and Walmart represented approximately 28%, 18% and 18%, respectively, of our fiscal 2008 Global Consumer net sales. The loss of, or reduction in orders from, Home Depot, Lowe s, Walmart or any other significant customer could have a material adverse effect on our business and our financial results, as could customer disputes regarding shipments, fees, merchandise condition or related matters. Our inability to collect accounts receivable from any of these customers could also have a material adverse affect on our financial condition and results of operations.

We do not have long-term sales agreements with, or other contractual assurances as to future sales to, any of our major retail customers. In addition, continued consolidation in the retail industry has resulted in an increasingly concentrated retail base. To the extent such concentration continues to occur, our net sales and income from operations may be increasingly sensitive to deterioration in the financial condition of, or other adverse developments involving our relationship with, one or more of our customers.

Weather and Seasonality

Weather conditions in North America and Europe can have a significant impact on the timing of sales in the spring selling season and overall annual sales. An abnormally wet and/or cold spring throughout North America or Europe could adversely affect both fertilizer and pesticide sales and, therefore, our financial results. Because our products are used primarily in the spring and summer, our business is highly seasonal. For the past three fiscal years, 70% to 75% of our annual net sales have occurred in the second and third fiscal quarters combined. Our working capital needs and borrowings typically peak during the initial weeks of our third fiscal quarter because we are incurring expenditures in preparation for the spring selling season, while the majority of our revenue collections occur later in our third fiscal quarter. If cash on hand is insufficient to pay our obligations as they come due, including interest payments or operating expenses, at a time when we are unable to draw on our credit facilities, this seasonality could have a material adverse effect on our ability to conduct our business. Adverse weather conditions could heighten this risk.

Debt

We have a significant amount of debt that could adversely affect our financial health and prevent us from fulfilling our obligations. Our substantial indebtedness could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations under outstanding indebtedness;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of cash flows from operating activities to payments on our indebtedness, which would reduce the cash flows available to fund working capital, capital expenditures, advertising, research and development efforts and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit our ability to borrow additional funds; and
- expose us to risks inherent in interest rate fluctuations because some of our borrowings are at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

Our ability to make payments and to refinance our indebtedness, to fund planned capital expenditures and acquisitions and to pay dividends will depend on our ability to generate cash in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot provide assurance that our business will generate sufficient cash flow from operating activities or that future borrowings will be available to us under our credit facilities in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before maturity. We cannot be sure that we would be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Our credit facilities contain restrictive covenants and cross default provisions that require us to maintain specified financial ratios. Our ability to satisfy those financial ratios can be affected by events beyond our control, and we cannot be assured we will satisfy those ratios. A breach of any of these financial ratio covenants or other covenants could result in a default. Upon the occurrence of an event of default, the lenders could elect to declare the applicable outstanding indebtedness due immediately and payable and terminate all commitments to extend further credit. We cannot be sure that our lenders would waive a default or that we could pay the indebtedness in full if it were accelerated.

Foreign Operations and Currency Exposures

We currently operate manufacturing, sales and service facilities outside of the United States, particularly in Canada, France, the United Kingdom, Germany and the Netherlands. In fiscal 2008, international net sales, including Canada, accounted for approximately 24% of our total net sales. Accordingly, we are subject to risks associated with operating in foreign countries, including:

- fluctuations in currency exchange rates;

limitations on the remittance of dividends and other payments by foreign subsidiaries;

additional costs of compliance with local regulations; and

historically, in certain countries, higher rates of inflation than in the United States.

In addition, our operations outside the United States are subject to the risk of new and different legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations and potentially adverse tax consequences. The costs related to our international and Canadian operations could adversely affect our operations and financial results in the future.

Acquisitions

We make strategic acquisitions from time to time, including the June 2006 acquisition of certain assets of Landmark Seed Company, the May 2006 acquisition of certain assets of Turf-Seed, Inc., the November 2005 acquisition of Gutwein (Morning Song®), the October 2005 acquisition of Rod McLellan Company and the October 2004 acquisition of Smith & Hawken®. Acquisitions have inherent risks, such as obtaining necessary regulatory approvals, retaining key personnel, integration of the acquired business and achievement of planned synergies and projections. We have approximately $745 million of goodwill and intangible assets as of September 30, 2008. Uncertainty regarding the future performance of the acquired businesses could also result in future impairment charges related to the associated goodwill and intangible assets, such as the impairment charges recorded in fiscal 2006, 2007 and 2008.

Significant Agreement

If we were to commit a serious default under the Marketing Agreement with Monsanto for consumer Roundup® products, Monsanto may have the right to terminate the Marketing Agreement. If Monsanto were to terminate the Marketing Agreement for cause, we would not be entitled to any termination fee, and we would lose all, or a substantial 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 us 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.

Equity Ownership Concentration

Hagedorn Partnership, L.P. beneficially owned approximately 31% of our outstanding common shares as of November 21, 2008, and has sufficient voting power to significantly influence the election of directors and the approval of other actions requiring the approval of our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company owns or leases, as appropriate, numerous facilities throughout the world to support each of its respective business segments.

Global Consumer We own manufacturing and distribution and research and development facilities in Marysville, Ohio, research facilities in Apopka, Florida and Gervais, Oregon, and a production facility in Fort Madison, Iowa. We lease a spreader and other durable components manufacturing facility in Temecula, California. In addition, we operate 27 growing media facilities in North America 22 of which are owned by the Company and five of which are leased. Most of our growing media facilities include production lines, warehouses, offices and field processing areas. We own five production facilities for our wild bird food operations in Indiana, South Dakota, South Carolina and Texas. Further, we own a manufacturing facility in Sutton Bridge, the United Kingdom, a blending and bagging facility for growing media in Hautmont, France and a plant in Bourth, France that we use for formulating, blending and packaging plant protection products for the consumer market. We lease most of our general office space, including business development sales offices in Atlanta, Georgia, Mooresville, North Carolina, Rolling Meadows, Illinois and Bentonville, Arkansas; the headquarters for our Canadian subsidiary in Mississauga, Ontario; the headquarters for our U.K. business in Godalming (Surrey), the United Kingdom; the headquarters for our international business (which also serves as our local French operations office) in Ecully (Lyon), France; a business office in Ingelheim, Germany; a business office in Salzburg, Austria; and a sales office in Saint Niklaas, Belgium.

Global Professional We lease a controlled-release fertilizer manufacturing facility in Charleston, South Carolina, a corporate office in Waardenburg, the Netherlands and a sales office in Bramford, the United Kingdom, where we also have some supply chain services. Further, we lease sales offices in Nordhorn, Germany, Paris, France, Budapest, Hungary, Tarragona, Spain and Nairobi, Kenya, where we also lease warehouse space.

Global Consumer and Global Professional In addition to the above, the Company owns or leases a number of properties that we use for both the Global Consumer and Global Professional segments of our business. We own manufacturing facilities in Howden (East Yorkshire) and Hatfield (South Yorkshire), both in the United Kingdom. Our site in Heerlen, the Netherlands includes a research facility, a distribution center and a manufacturing site for coated fertilizers for the consumer and professional markets (we own the land and the building for the manufacturing facility, but lease the distribution center building). We lease land for peat extraction in Manchester, England (Irlam Moss), Gretna, England (Solway Moss) and Dumfriesshire, Scotland (Nutberry Moss and Creca Moss), and we also lease land to stockpile harvested peat in South Lanarkshire, Scotland (Douglas Water). We own peat extraction facilities in Dumfriesshire, Scotland (Nutberry Moss), North Lanarkshire, England (Fannyside Muir), Stirlingshire, Scotland (Letham) and on two properties in South Lanarkshire, Scotland (Douglas Water & Carnwath). We own a grass seed production facility in Albany, Oregon. We lease a research and development facility in Morance, France and we own a research and development facility in Levington, the United Kingdom. We lease sales offices in Treviso, Italy and Warsaw, Poland, and we lease our Australian corporate office, located in Baulkan Hills (New South Wales), Australia.

Scotts LawnService® We conduct company-owned Scotts LawnService® operations from 81 leased facilities, primarily located in industrial office parks, serving 46 metropolitan markets across the United States.

Corporate & Other Our corporate headquarters are located in Marysville, Ohio. Including our Global Consumer manufacturing and distribution facilities and our research and development facilities, we own or lease approximately 750 acres in Marysville. Smith & Hawken® operates 57 retail stores in the United States, which are all leased facilities, and leases its main headquarters in Novato, California.

The Company also leases warehouse space throughout North America and continental Europe as needed.

We believe that our facilities are adequate to serve their intended purposes and that our property leasing arrangements are satisfactory.

ITEM 3. LEGAL PROCEEDINGS

As noted in the discussion in ITEM 1. BUSINESS Regulatory Considerations, ITEM 1. BUSINESS FIFRA Compliance, the Corresponding Governmental Investigation and Related Matters and ITEM 1. BUSINESS Other Regulatory Matters, we are involved in several pending environmental and regulatory matters. We believe that our assessment of contingencies is reasonable and that related reserves, in the aggregate, are adequate; however, there can be no assurance that the final resolution of these matters will not have a material adverse affect on our results of operations, financial position and cash flows.

Pending significant legal proceedings are as follows:

FIFRA Compliance, the Corresponding Governmental Investigation and Related Matters

The Company s products that contain pesticides must comply with the Federal Insecticide, Fungicide, and Rodenticide Act of 1947, as amended (FIFRA), and be registered with the U.S. Environmental Protection Agency (U.S. EPA) (and similar state agencies) before they can be sold or distributed. In April 2008, the Company became aware that a former associate apparently deliberately circumvented the Company s policies and U.S. EPA regulations under FIFRA by failing to obtain valid registrations for products and/or causing invalid product registration forms to be submitted to regulators. Since that time, the Company has been cooperating with the U.S. EPA in its civil investigation into product registration issues involving the Company and with the U.S. EPA and the U.S. DOJ in a related criminal investigation. In late April of 2008, in connection with the U.S. EPA s investigation, the Company was required to conduct a consumer-level recall of certain consumer lawn and garden products and a Scotts LawnService® product. Subsequently, the Company and the U.S. EPA agreed upon a Compliance Review Plan for conducting a comprehensive, independent review of the Company s product registration records. Pursuant to the Compliance Review Plan, an independent third party firm, Quality Associates Incorporated (QAI), has been reviewing all of the Company s U.S. pesticide product registration records. The U.S. EPA investigation and QAI review process have resulted in the issuance of a number of Stop Sale, Use or Removal Orders by the U.S. EPA that resulted in the Company s temporarily being unable to ship or sell several products. In addition, as the QAI review process or the Company s internal review has indicated a FIFRA registration issue or a potential FIFRA registration issue (some of which appear unrelated to the former associate), the Company has endeavored to stop shipping or selling the affected products until the issue could be resolved with the U.S. EPA.

The U.S. EPA investigation or the compliance review process may result in future state or federal action or private rights of action with respect to additional product registration issues. Until such investigation and compliance review process is complete, the Company cannot fully quantify the extent of additional issues. While the Company continues to evaluate the financial impact of the registration and recall matters, the Company currently expects total fiscal year 2008 and 2009 costs related to the recalls and known registration issues to be limited to approximately $65 million, exclusive of potential fines, penalties and/or judgments, of which approximately $51.1 million was incurred during fiscal 2008. No reserves have been established with respect to any potential fines, penalties and/or judgments 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, penalties and/or judgments could be material and have an adverse effect on the Company s financial condition, results of operations and cash flows.

On September 26, 2008, the Company, doing business as Scotts LawnService®, was named as a defendant in a purported class action filed in the U.S. District Court for the Eastern District of Michigan relating to certain pesticide products. In the suit, Mark Baumkel, on behalf of himself and the purported classes, seeks an unspecified amount of damages, plus costs and attorney fees, for alleged claims involving breach of contract, unjust enrichment and violation of the Michigan consumer protection act. Given the preliminary stages of the proceedings, no reserves have been booked at this time, and the Company intends to vigorously contest the plaintiff s assertions.

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. The 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 and believes that Geiger s claims are without merit. While no accrual has been established related to this matter, the Company cannot predict the ultimate outcome with certainty. 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. The Company is proceeding to collect that judgment.

The Scotts Company LLC v. Liberty Mutual Insurance Company

On October 25, 2006, The Scotts Company LLC (Scotts LLC), as successor to The Scotts Company (Scotts), the public company predecessor of Scotts Miracle-Gro, sued Liberty Mutual Insurance Company (Liberty Mutual) in the U.S. District Court for the Southern District of Ohio. In the suit, Scotts LLC sought damages and the rescission of a 2000 agreement between Scotts and Liberty Mutual that purports to be a complete buyout by Scotts of any insurance policies that Liberty Mutual might have issued to Scotts (the 2000 Agreement).

Table of Contents

As alleged in Scotts LLC s complaint, in 1998, Scotts tendered certain claims to Liberty Mutual, one of its primary-layer insurers, in connection with costs incurred by Scotts for environmental liabilities. Scotts believed that it had coverage from Liberty Mutual for at least 10 years beginning in 1958, but could only locate a single policy from 1967. Liberty Mutual responded to Scotts tender by stating that, after conducting an internal search, Liberty Mutual did not have sufficient evidence to establish that it had ever insured Scotts before 1967. Based on Liberty Mutual s representations and Scotts inability to locate any additional Liberty Mutual policies in Scotts own files, Scotts eventually entered into the 2000 Agreement. According to the complaint, in Fall 2006, Scotts discovered evidence confirming that, contrary to its representations during the negotiations leading to the 2000 Agreement, Liberty Mutual provided liability insurance to Scotts beginning in at least 1958 and, in fact, paid claims to third parties on Scotts behalf during that period.

The complaint seeks rescission of the 2000 Agreement and seeks damages based on Liberty Mutual s breach of fiduciary duty, fraud, breach of the implied covenant of good faith and fair dealing and bad faith denial of coverage. Scotts LLC intends to prosecute these claims vigorously. Liberty Mutual has filed an answer that denies the complaint s allegations and has moved for summary judgment against Scotts LLC s claims. The Court has not set a trial date.

Other

The Company has been named as 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 seek damages from the Company alone. The Company believes that the claims against it are without merit and is vigorously defending against 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 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 and 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.

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 calendar year 2003, the Company and James Hagedorn, individually and as Chairman of the Board and 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.

We are involved in other lawsuits and claims which arise in the normal course of our business. In our opinion, these claims individually and in the aggregate are not expected to result in a material adverse effect on our results of operations, financial position and cash flows.

Table of Contents

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

There were no matters submitted to a vote of the security holders of Scotts Miracle-Gro during the fourth quarter of fiscal 2008.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Scotts Miracle-Gro, their positions and, as of November 21, 2008, their ages and years with Scotts Miracle-Gro (and its predecessors) are set forth below.

Name	Age	Position(s) Held	Years with Company
James Hagedorn	53	Chief Executive Officer and Chairman of the Board	21
Mark R. Baker	51	President and Chief Operating Officer	<1
Michael P. Kelty, Ph.D.	58	Executive Vice President	26
David C. Evans	45	Executive Vice President and Chief Financial Officer	15
Michael C. Lukemire	50	Executive Vice President, Global Technologies and Operations	13
Denise S. Stump	54	Executive Vice President, Global Human Resources	8
Barry W. Sanders	44	Executive Vice President, North American Business	7
Claude L. Lopez	47	Executive Vice President, International and Chief Marketing Officer	7
Vincent C. Brockman	45	Executive Vice President, General Counsel and Corporate Secretary	6

Executive officers serve at the discretion of the Board of Directors of Scotts Miracle-Gro and pursuant to employment agreements or other arrangements.

The business experience of each of the individuals listed above during at least the past five years is as follows:

Mr. Hagedorn was named Chairman of the Board of Scotts in January 2003 and named Chief Executive Officer of Scotts in May 2001. He served as President of Scotts Miracle-Gro (or its predecessor) from November 2006 until October 2008 and from May 2001 until December 2005. Mr. Hagedorn serves on the Company s Board of Directors, a position he has held since 1995. He also serves as a director for Farms For City Kids Foundation, Inc., Nurse Family Partnership, The CDC Foundation, Embry-Riddle Aeronautical University, North Shore University Hospital (New York), Scotts Miracle-Gro Foundation and the Intrepid Sea-Air-Space Museum, all charitable organizations.
Mr. Hagedorn is the brother of Katherine Hagedorn Littlefield, a director of Scotts Miracle-Gro.

Mr. Baker was named President and Chief Operating Officer of Scotts Miracle-Gro in October 2008, and continues to serve on the Company s Board of Directors, a role he has held since 2004. From September 2002 until October 2008, Mr. Baker served as Chief Executive Officer of Gander Mountain Company, an outdoor retailer specializing in hunting, fishing and camping gear. He served as President of Gander Mountain Company from February 2004 until

October 2008 and as a director of Gander Mountain Company from April 2004 until October 2008.

Dr. Kelty was named Executive Vice President of Scotts Miracle-Gro in October 2008. He served as Vice Chairman and Executive Vice President of Scotts Miracle-Gro (or its predecessor) from May 2001 until his retirement in November 2005. After his retirement, Dr. Kelty served as an hourly consultant to the Company at various times, most recently beginning in October 2007.

Mr. Evans was named Executive Vice President and Chief Financial Officer of Scotts Miracle-Gro on September 14, 2006. From October 2005 to September 2006, he served as Senior Vice President, Finance and Global Shared Services of Scotts LLC. From March 2005 to September 2005, he served as Senior Vice President, North America of Scotts LLC, and from October 2003 to March 2005, he served in

Table of Contents

the same capacity for Scotts. From June 2001 to September 2003, he served as Vice President, Finance, North America Sales of Scotts.

Mr. Lukemire was named Executive Vice President, Global Technologies and Operations of Scotts Miracle-Gro in June 2008. From August 2007 until June 2008, Mr. Lukemire served as Senior Vice President, Global Technologies and Operations of Scotts LLC. From March 2005 until August 2007, he served as Senior Vice President, Global Supply Chain of Scotts LLC, and from October 2003 to March 2005, he served in the same capacity for Scotts.

Ms. Stump was named Executive Vice President, Global Human Resources of Scotts in February 2003. She was named Senior Vice President, Global Human Resources of Scotts in October 2002. From July 2001 until October 2002, Ms. Stump served as Vice President, Human Resources North America of Scotts. From September 2000 until July 2001, Ms. Stump served as Vice President, Human Resources Technology and Operations of Scotts.

Mr. Sanders was named Executive Vice President, North America of Scotts Miracle-Gro in September 2007. From January 25, 2005 until September 2007, he served as Executive Vice President of Global Technologies and Operations of Scotts Miracle-Gro (or its predecessor), and was responsible for the Company s supply chain and information systems as well as research and development efforts. He previously led the North American and global supply chain organizations as well as the North American sales force. In 2005, he ran the Smith & Hawken® business on an interim basis. Prior to joining the Company in 2001, he was a partner with CapGemini/Ernst & Young.

Mr. Lopez was named Executive Vice President, International and Chief Marketing Officer of Scotts Miracle-Gro in October 2007. Mr. Lopez leads marketing for all global consumer-facing business. He also has leadership responsibility for the Company s Global Professional and Pro Seed businesses. He served as Senior Vice President, International and Chief Marketing Officer of the Company from September 2007 until October 2007. From December 2004 until September 2007, Mr. Lopez served as Senior Vice President, International of the Company. From the time Mr. Lopez joined the Company in 2001 until December 2004, he served as general manager of the Company s French business.

Mr. Brockman was named Executive Vice President, General Counsel and Corporate Secretary of Scotts Miracle-Gro in January 2008. From February 2007 until January 2008, he served as Senior Vice President, Chief Ethics and Compliance Officer and Chief Administrative Officer of Scotts LLC. He served as Chief Administrative Officer of Scotts LLC from 2006 until February 2007. From March 2005 until February 2007, he served as Chief Ethics and Compliance Officer of Scotts LLC, and from 2004 until March 2005, he served in the same capacity for Scotts. He served as Vice President and Assistant General Counsel of Scotts from 2002 until 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common shares of The Scotts Miracle-Gro Company (Scotts Miracle-Gro and, together with its subsidiaries, the Company) trade on the New York Stock Exchange under the symbol SMG. The quarterly high and low sale prices, which have not been adjusted for the special one-time cash dividend of $8.00 per share described below, for the fiscal years ended September 30, 2008 and 2007 were as follows:

	Sale Prices	
	High	Low
FISCAL 2008		
First quarter	$ 46.90	$ 33.50
Second quarter	$ 40.65	$ 30.51
Third quarter	$ 36.76	$ 17.79
Fourth quarter	$ 30.17	$ 16.12
FISCAL 2007		
First quarter	$ 54.72	$ 44.02
Second quarter	$ 57.45	$ 40.57
Third quarter	$ 47.30	$ 42.80
Fourth quarter	$ 49.69	$ 40.60

On June 22, 2005, the Company announced that its Board of Directors had approved the establishment of a quarterly cash dividend. The $0.50 per share (adjusted for the 2-for-1 stock split distributed November 9, 2005) annual dividend has been paid in quarterly increments since the fourth quarter of fiscal 2005. In addition, the Company paid a special one-time cash dividend of $8.00 per share on March 5, 2007. The payment of future dividends, if any, on the common shares will be determined by the Board of Directors of Scotts Miracle-Gro in light of conditions then existing, including the Company s earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. Future dividend payments are currently restricted to $55 million annually under our existing credit facilities. See discussion regarding the recapitalization plan executed in the second quarter of fiscal 2007 in ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Executive Summary. See NOTE 11. DEBT to the Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion regarding the restrictions on dividend payments.

As of November 21, 2008, there were approximately 29,000 shareholders, including holders of record and our estimate of beneficial holders.

The following table shows the purchases of common shares of Scotts Miracle-Gro (Common Shares) made by or on behalf of Scotts Miracle-Gro or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each of the three fiscal months in the quarter ended September 30, 2008:

Total Number of

Period	Total Number of Common Shares Purchased(1)	Average Price Paid per Common Share		Common Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Common Shares That May Yet Be Purchased Under the Plans or Programs
June 29 through July 26, 2008	798	$	19.02	0	Not applicable
July 27 through August 23, 2008	0		Not applicable	Not applicable	Not applicable
August 24 through September 30, 2008	825	$	25.63	0	Not applicable
Total	1,623	$	22.98	0	Not applicable

Table of Contents

(1) Amounts in this column represent Common Shares purchased by the trustee of the rabbi trust established by the Company as permitted pursuant to the terms of The Scotts Company LLC Executive Retirement Plan (the ERP). The ERP is an unfunded, non-qualified deferred compensation plan which, among other things, provides eligible employees the opportunity to defer compensation above specified statutory limits applicable to The Scotts Company LLC Retirement Savings Plan and with respect to any Executive Incentive Pay (as defined in the ERP) awarded to such eligible employees. Pursuant to the terms of the ERP, each eligible employee has the right to elect an investment fund, including a fund consisting of Common Shares (the Scotts Miracle-Gro Common Stock Fund), against which amounts allocated to such employee s account under the ERP will be benchmarked (all ERP accounts are bookkeeping accounts only and do not represent a claim against specific assets of the Company). Amounts allocated to employee accounts under the ERP represent deferred compensation obligations of the Company. The Company established the rabbi trust in order to assist the Company in discharging such deferred compensation obligations. When an eligible employee elects to benchmark some or all of the amounts allocated to such employee s account against the Scotts Miracle-Gro Common Stock Fund, the trustee of the rabbi trust purchases the number of Common Shares equivalent to the amount so benchmarked. All Common Shares purchased by the trustee are purchased on the open market and are held in the rabbi trust until such time as they are distributed pursuant to the terms of the ERP. All assets of the rabbi trust, including any Common Shares purchased by the trustee, remain, at all times, assets of the Company, subject to the claims of its creditors. The terms of the ERP do not provide for a specified limit on the number of Common Shares that may be purchased by the trustee of the rabbi trust.

None of the Common Shares purchased during the three fiscal months in the quarter ended September 30, 2008 were purchased pursuant to a publicly announced plan or program.

Recent Sales of Unregistered Securities

The Company has determined that, during a period between August 6, 2008 and October 16, 2008, the trustee of The Scotts Company LLC Retirement Savings Plan (the RSP) allocated to certain RSP participants accounts a total of 84,701 Common Shares that were not registered in accordance with the Securities Act of 1933, as amended (the Securities Act). The RSP is a qualified defined contribution plan that enables participants to defer some portion of their current compensation for later distribution pursuant to the terms of the RSP and to direct that such deferrals and other contributions made on such participants behalves be invested in one or more investment funds administered pursuant to the terms of the RSP, including the Scotts Miracle-Gro Common Stock Fund. The Securities Act requires Scotts Miracle-Gro to register Common Shares for use in connection with the RSP prior to such Common Shares being allocated to the accounts of those RSP participants who elect to invest some or all of their deferral and other contribution amounts in the Scotts Miracle-Gro Common Stock Fund.

To satisfy obligations under the RSP with respect to amounts invested in the Scotts Miracle-Gro Common Stock Fund, the trustee of the RSP purchases previously issued Common Shares on the open market. Although Common Shares purchased on the open market were registered with the Securities and Exchange Commission (the SEC) in accordance with the Securities Act at the time they were originally issued, such registration was effective only with respect to the original issuance of the Common Shares, and, unless an exemption from the registration requirements of the Securities Act is available, the purchased Common Shares must again be registered under the Securities Act before they can be allocated to participant accounts under the RSP. While Scotts Miracle-Gro had previously filed two Registration Statements on Form S-8 with the SEC in order to register Common Shares for use in connection with the RSP, the trustee of the RSP had allocated all available registered Common Shares to RSP participant accounts by August 6, 2008. Accordingly, Common Shares allocated to RSP participant accounts between August 6, 2008 and October 16, 2008 were not registered in accordance with the Securities Act. On October 16, 2008, Scotts Miracle-Gro filed a third Registration Statement on Form S-8 with the SEC in order to register an additional 2,500,000 Common

Shares for use in connection with the RSP, and all Common Shares allocated to the RSP participant accounts after that date were registered.

Because the Common Shares allocated to RSP participant accounts between August 6, 2008 and October 16, 2008 were not registered, those RSP participants to whose accounts Common Shares were allocated during that period may have a right to rescind purchases made on their behalf through the RSP. Given an average daily closing price of $24.50 per Common Share during the period at issue, and a

Table of Contents

closing price of $26.38 per Common Share on November 21, 2008, the Company does not intend to make a rescission offer to participants in the RSP.

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Summary(1)
For the fiscal year ended September 30,
(in millions, except per share amounts)

	2008	2007	2006(2)	2005(2)	2004
OPERATING RESULTS(3):					
Net sales	$ 2,981.8	$ 2,871.8	$ 2,697.1	$ 2,369.3	$ 2,106.5
Gross profit	939.6	1,004.5	955.9	860.4	792.4
Income from operations	98.0	277.1	252.5	200.9	252.8
Income (loss) from continuing operations (net of tax)	(10.9)	113.4	132.7	100.4	100.5
Net income (loss)	(10.9)	113.4	132.7	100.6	100.9
Depreciation and amortization	70.3	67.5	67.0	67.2	57.7
FINANCIAL POSITION:					
Working capital	$ 366.8	$ 412.7	$ 445.8	$ 301.6	$ 396.7
Current ratio	1.5	1.7	1.9	1.6	1.9
Property, plant and equipment, net	344.1	365.9	367.6	337.0	328.0
Total assets	2,156.3	2,277.2	2,217.6	2,018.9	2,047.8
Total debt to total book capitalization(4)	69.6%	70.0%	30.8%	27.7%	41.9%
Total debt	999.5	1,117.8	481.2	393.5	630.6
Total shareholders equity	436.7	479.3	1,081.7	1,026.2	874.6
CASH FLOWS:					
Cash flows from operating activities	$ 200.9	$ 246.6	$ 182.4	$ 226.7	$ 214.2
Investments in property, plant and equipment	56.1	54.0	57.0	40.4	35.1
Investments in intellectual property	4.1				
Investments in acquisitions, including seller note payments	2.7	21.4	122.9	84.6	20.5
PER SHARE DATA:					
Basic earnings (loss) per common share	$ (0.17)	$ 1.74	$ 1.97	$ 1.51	$ 1.56
Diluted earnings (loss) per common share	(0.17)	1.69	1.91	1.47	1.52
Total cash dividends paid	32.5	543.6	33.5	8.6	
Dividends per share(5)(6)	0.50	8.50	0.50	0.125	
Stock price at year-end(6)	23.64	42.75	44.49	43.97	32.08
Stock price range High(6)	46.90	57.45	50.47	43.97	34.28

Stock price range	Low(6)	16.12	40.57	37.22	30.95	27.63
OTHER:						
Adjusted EBITDA(7)		$ 318.4	$ 382.6	$ 385.9	$ 291.5	$ 310.5
Interest coverage (Adjusted EBITDA/interest expense)(7)		3.9	5.4	9.7	7.0	6.4
Weighted average common shares outstanding		64.5	65.2	67.5	66.8	64.7
Common shares and dilutive potential common shares used in diluted EPS calculation		64.5	67.0	69.4	68.6	66.6

(1) All common share and per share information presented in the above five-year summary have been adjusted to reflect the 2-for-1 stock split of the common shares which was distributed on November 9, 2005 to shareholders of record on November 2, 2005.

(2) Fiscal 2006 includes Rod McLellan Company, Gutwein & Co., Inc. and certain brands and assets acquired from Turf-Seed, Inc. and Landmark Seed Company from the dates of acquisition. Fiscal 2005 includes Smith & Hawken® from the October 2, 2004 date of acquisition. See further discussion of acquisitions in NOTE 8. ACQUISITIONS to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

(3) Operating results include the following items segregated by lines affected as set forth on the Consolidated Statements of Operations included with the Consolidated Financial Statements included in this Annual Report on Form 10-K.

	For the Fiscal Year Ended September 30,				
	2008	2007	2006	2005	2004
Net sales includes the following relating to the Roundup® Marketing Agreement:					
Net commission income, excluding the deferred contribution charge	$ 44.3	$ 41.9	$ 39.9	$ 40.4	$ 28.5
Reimbursements associated with the Roundup® Marketing Agreement	58.0	47.7	37.6	40.7	40.1
Deferred contribution charge				(45.7)	
Cost of sales includes:					
Costs associated with the Roundup® Marketing Agreement	58.0	47.7	37.6	40.7	40.1
Impairment, restructuring, and other charges (income)	15.1		0.1	(0.3)	0.6
Product registration and recall matters	27.2				
Selling, general and administrative includes:					
Restructuring and other charges		2.7	9.3	9.8	9.1
Impairment charges	121.7	35.3	66.4	23.4	
Product registration and recall matters	12.7				
Interest expense includes:					
Costs related to refinancings		18.3		1.3	45.5

(4) The total debt to total book capitalization percentage is calculated by dividing total debt by total debt plus shareholders equity.

(5) The Company began paying a quarterly dividend of 12.5 cents per share in the fourth quarter of fiscal 2005.

(6) The Company paid a special one-time cash dividend of $8.00 per share on March 5, 2007. Stock prices have not been adjusted for this special one-time cash dividend.

(7) Given our significant borrowings, we view our credit facilities as material to our ability to fund operations, particularly in light of our seasonality. Please refer to ITEM 1A. RISK FACTORS Debt in this Annual Report on Form 10-K for a more complete discussion of the risks associated with the Company s debt and our credit facilities and related covenants. Our ability to generate cash flows sufficient to cover our debt service costs is essential to our ability to maintain our borrowing capacity. We believe that Adjusted EBITDA provides additional information for determining our ability to meet debt service requirements. The presentation of Adjusted EBITDA herein is intended to be consistent with the calculation of that measure as required by our

borrowing arrangements, and used to calculate a leverage ratio (maximum of 4.25 at September 30, 2008) and an interest coverage ratio (minimum of 3.25 for the year ended September 30, 2008). The Company s leverage ratio was 3.97 at September 30, 2008 and our interest coverage ratio was 3.87 for the year ended September 30, 2008.

In accordance with the terms of our credit facilities, Adjusted EBITDA is defined as net income before interest, taxes, depreciation and amortization, as well as certain other items such as the impact of discontinued operations, the cumulative effect of changes in accounting, costs associated with debt refinancings, and other non-recurring, non-cash items effecting net income. Adjusted EBITDA does not represent and should not be considered as an alternative to net income or cash flow from operations as determined by accounting principles generally accepted in the United States, and Adjusted EBITDA does not necessarily indicate whether cash flow will be sufficient to meet cash requirements.

Table of Contents

Interest coverage is calculated as Adjusted EBITDA divided by interest expense excluding costs related to refinancings.

A numeric reconciliation of net income (loss) to Adjusted EBITDA is as follows:

	2008	2007	2006	2005	2004
Net income (loss)	$ (10.9)	$ 113.4	$ 132.7	$ 100.6	$ 100.9
Interest	82.2	70.7	39.6	41.5	48.8
Income taxes	26.7	74.7	80.2	57.7	58.0
Deprecation and amortization	70.3	67.5	67.0	67.2	57.7
Loss on impairment and other charges	136.8	38.0	66.4	23.4	
Product registration and recall matters, non-cash portion	13.3				
Costs related to refinancings		18.3		1.3	45.5
Discontinued operations				(0.2)	(0.4)
Adjusted EBITDA	$ 318.4	$ 382.6	$ 385.9	$ 291.5	$ 310.5

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

The purpose of this discussion is to provide an understanding of the financial condition and results of operations of The Scotts Miracle-Gro Company (Scotts Miracle-Gro) and its subsidiaries (collectively the Company), by focusing on changes in certain key measures from year-to-year. Management s Discussion and Analysis (MD&A) is divided into the following sections:

- Executive summary
- Results of operations
- Management s outlook
- Liquidity and capital resources
- Critical accounting policies and estimates

Executive Summary

We are dedicated to delivering strong, consistent financial results and outstanding shareholder returns by providing products of superior quality and value in order to enhance consumers 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 were 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 advertising and marketing investments in the future, 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 of Net Sales by Quarter		
	2008	2007	2006
First Quarter	10.4%	9.5%	9.3%
Second Quarter	32.1%	34.6%	33.6%
Third Quarter	39.3%	38.2%	38.9%
Fourth Quarter	18.2%	17.7%	18.2%

Due to the nature of our lawn and garden business, significant portions of our products ship to our retail customers during the second and third fiscal quarters. Our annual sales are further concentrated in the second and third fiscal quarters by retailers who increasingly rely on our ability to deliver products in season when consumers buy our products, thereby reducing their inventories.

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, product mix and foreign exchange movements), 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, which management believes are not indicative of the ongoing earnings capabilities of our businesses. 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, the Company 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, the Company launched a five-year, $500 million share repurchase program pursuant to which we repurchased 2.0 million common shares for an aggregate purchase price of $87.9 million during fiscal 2006. 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 totaling $2.15 billion and terminated its prior credit facility. Please refer to NOTE 11. DEBT to the Consolidated Financial Statements included in this Annual Report on Form 10-K for further information as to the credit facilities and the repayment and termination of the Company s prior credit facility and the Company s 65/8% senior subordinated notes.

Product Registration and Recall Matters

In April 2008, the Company learned that a former associate apparently deliberately circumvented the Company s policies and U.S. Environmental Protection Agency (U.S. EPA) regulations under the Federal Insecticide, Fungicide, and Rodenticide Act of 1947, as amended (FIFRA), by failing to obtain valid registrations for products and/or causing invalid product registration forms to be submitted to regulators. Since that time, the Company has been cooperating with the U.S. EPA in its civil investigation into pesticide product registration issues involving the Company and with the U.S. EPA and the U.S. Department of Justice (the U.S. DOJ) in a related criminal investigation. In late April of 2008, in connection with the U.S. EPA s investigation, the Company was required to conduct a consumer-level recall of certain consumer lawn and garden products and a Scotts LawnService® product. Subsequently, the Company and the U.S. EPA agreed upon a Compliance Review Plan for conducting a comprehensive, independent review of the Company s product registration records. Pursuant to the Compliance Review Plan, an independent third-party firm, Quality Associates Incorporated (QAI), has been reviewing all of the Company s U.S. pesticide product registration records, some of which are historical in nature and no longer support sales of the Company s products. The Company has identified approximately 132 of the registrations under review as relating to products for which there was sales activity in the period generally representing the Company s 2008 fiscal year (Active Registrations). These Active Registrations supported products which accounted for approximately $680 million of the Company s net sales in the period. The U.S. EPA investigation and QAI review process identified several issues affecting Active Registrations which resulted in the issuance of a number of Stop Sale, Use or Removal Orders by the U.S. EPA and caused the Company to temporarily suspend sales and shipments of affected products. In addition, as the QAI review process or the Company s internal review has identified a FIFRA registration issue or a potential FIFRA registration issue (some of which appear unrelated to the former associate), the Company has endeavored to stop selling or distributing the affected products until the issue could be resolved with the U.S. EPA.

To date, QAI has completed a review of the registration records for substantially all of the Company s Active Registrations. Based on such review, and with the cooperation and prompt attention of the U.S. EPA, the Company believes it has restored the ability to sell and distribute products representing over 90% of the sales associated with Active Registrations; and the Company is hopeful that it will be able to satisfactorily resolve most, if not all, of the remaining issues prior to the start of the 2009 lawn and garden season. The QAI review process is expected to continue with a focus on reviewing advertising and related promotional support of our registered pesticide products.

While the Company believes it has made substantial progress toward completing the FIFRA compliance review process, the process continues and 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 and/or penalties or private rights of action 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 September 30, 2008. However, it is possible that such fines, penalties and/or judgments could be material and have an adverse effect on the Company s financial condition, results of operations and cash flows.

On September 26, 2008, the Company, doing business as Scotts LawnService®, was named as a defendant in a purported class action filed in the U.S. District Court for the Eastern District of Michigan relating to certain pesticide products. In the suit, Mark Baumkel, on behalf of himself and the purported classes, seeks an unspecified amount of damages, plus costs and attorney fees, for alleged claims involving breach of contract, unjust enrichment and violation of the Michigan consumer protection act. Given the preliminary stages of the proceedings, no reserves have been booked at this time, and the Company intends to vigorously contest the plaintiff s assertions.

In addition, in fiscal 2008 the Company conducted a voluntary recall of most of its wild bird food products due to a formulation issue. The wild bird food products had been treated with pest control additives to avoid insect infestation, especially at retail stores. While the pest control additives had been labeled for use on certain stored grains that can be processed for human and/or animal consumption, they were not labeled for use on wild bird food products. This voluntary recall was completed prior to the end of fiscal 2008.

As a result of these registration and recall matters, the Company has reversed sales associated with estimated returns of affected 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 $51.1 million for the fiscal year ended September 30, 2008. While the Company continues to evaluate the financial impact of the registration and recall matters, the Company currently expects total fiscal year 2008 and 2009 costs related to the recalls and known registration issues to be limited to approximately $65 million, exclusive of potential fines, penalties and/or judgments.

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. While we are disappointed in these recent events, we believe we have made significant progress in addressing the issues and restoring customer and consumer confidence in our products.

Table of Contents

Results of Operations

The following table sets forth the components of income and expense as a percentage of net sales for the three years ended September 30, 2008:

	2008	2007	2006
Net sales	100.0%	100.0%	100.0%
Cost of sales	67.1	65.0	64.6
Cost of sales impairment, restructuring and other charges	0.5		
Cost of sales product registration and recall matters	0.9		
Gross profit	31.5	35.0	35.4
Operating expenses:			
Selling, general and administrative	24.1	24.4	23.6
SG&A impairment, restructuring and other charges	4.1	1.4	2.8
SG&A product registration and recall matters	0.4		
Other income, net	(0.4)	(0.4)	(0.4)
Income from operations	3.3	9.6	9.4
Costs related to refinancings		0.6	
Interest expense	2.8	2.5	1.5
Income before income taxes	0.5	6.5	7.9
Income taxes	0.9	2.6	3.0
Net income (loss)	(0.4)%	3.9%	4.9%

Net Sales

Consolidated net sales for fiscal 2008 increased 3.8% to $2.98 billion from $2.87 billion in fiscal 2007, while for fiscal 2007, net sales increased 6.3% to $2.87 billion from $2.70 billion in fiscal 2006. Significantly impacting the rate of sales growth in both years were the following items:

	2008	2007
Net sales growth	3.8%	6.3%
Acquisitions	(0.3)	(1.3)
Foreign exchange rates	(2.0)	(1.6)
Product recall matters returns	0.8	
Adjusted net sales growth	2.3%	3.4%

Excluding the impact of pricing, Global Consumer adjusted net sales declined by 2.5% for the year. We believe this was a result of a number of factors, including the overall economic climate in the United States, as well as unfavorable early spring weather conditions. Adjusted net sales in our Global Professional segment grew 9.3% excluding the impact of pricing, driven by strong demand for the proprietary technology used in that segment. Despite a reduction in customer count, Scotts LawnService® experienced adjusted net sales growth of 1.2%, excluding the impact of pricing. Corporate & Other adjusted net sales decreased 13.8%, primarily driven by declines across all channels of the Smith & Hawken® business.

The adjusted net sales increase of 3.4% in fiscal 2007 was reflective of the weather related challenges in the largest part of our business, the Global Consumer segment. Extreme cold and wet weather in April 2007 discouraged consumer usage during this key retail selling period, and these lost opportunities were not recovered as the weather improved later in the spring. While we saw strong growth in the gardening category, in our Scotts LawnService® business, and our in Global Professional segment, the adverse impact of weather on the important lawns business in North America overshadowed these successes.

Table of Contents

Gross Profit

As a percentage of net sales, gross profit was 31.5% of net sales for fiscal 2008 compared to 35.0% for fiscal 2007. The decrease in gross profit margin percentage was primarily driven by increased commodity costs, which unfavorably impacted all operating segments. Product registration and recall matters and impairment charges unfavorably impacted gross profit rates for fiscal 2008 by 90 basis points and 50 basis points, respectively.

As a percentage of net sales, gross profit was 35.0% of net sales for fiscal 2007 compared to 35.4% for fiscal 2006. This decline in gross profit was driven primarily by the Global Consumer segment, due almost entirely to unfavorable product mix. Strong net sales growth in the lower margin wild bird food and growing media businesses, coupled with a net sales decline in our higher margin lawns business, were the drivers behind this decrease. Offsetting this decline were gross profit improvements in our Scotts LawnService®, Smith & Hawken® and the Global Professional businesses.

Selling, General and Administrative Expenses (in millions)

	2008	2007	2006
Advertising	$ 142.4	$ 150.9	$ 137.3
Advertising as a percentage of net sales	4.8%	5.3%	5.1%
Other SG&A	$ 547.1	$ 519.2	$ 468.7
Stock-based compensation	12.5	15.5	15.7
Amortization of intangibles	15.6	15.3	15.2
	$ 717.6	$ 700.9	$ 636.9

Advertising expenses in fiscal 2008 were $142.4 million, a decrease of $8.5 million or 5.6% from fiscal 2007. Fiscal 2007 advertising expenses were $150.9 million, an increase of $13.6 million or 9.9% from fiscal 2006. On a percentage of net sales basis, advertising expenses were 4.8% of net sales in fiscal 2008, 5.3% in fiscal 2007 and 5.1% in fiscal 2006. The fiscal 2008 decrease as a percent of net sales was principally the result of a shift from media to consumer promotions and other trade expense, the costs of which are netted against sales rather than classified as SG&A. The fiscal 2007 increase as a percent of net sales was due to an effort to drive consumer interest and reinvigorate the lawns category following weak net sales performance in April 2007.

In fiscal 2008, other SG&A spending increased $27.9 million or 5.4% from fiscal 2007. The Company s increased investments were focused principally within the sales force, research and development and marketing areas ($14.2 million). The increase from fiscal 2007 to fiscal 2008 was largely driven by increased investments within the North America portion of the Global Consumer segment. The adverse impact of foreign exchange rates on spending outside of the United States represented the majority of the remaining increase ($11.3 million). In fiscal 2007, other SG&A spending increased $50.5 million or 10.8% from fiscal 2006. An increase in Scotts LawnService® infrastructure ($20.4 million), the adverse effect of foreign exchange rates on spending outside the United States ($11.3 million), and a nonrecurring benefit in fiscal 2006 ($10.1 million) for an insurance recovery relating to past legal costs incurred in our defense of lawsuits regarding our use of vermiculite were the primarily drivers behind the increase from fiscal 2006 to fiscal 2007.

The majority of our stock-based awards vest over three years, with the associated expense recognized ratably over the vesting period. The decrease in stock-based compensation expense in fiscal 2008 as compared to fiscal 2007 was primarily attributable to a change in the Board of Directors equity compensation plan effective in February 2008, which resulted in the majority of associated expense being recognized ratably over the Board of Directors service period, compared to previous years grants where the associated expense was recorded entirely in the year of the grant. Additionally, the decrease in the Company s share price during fiscal 2008 resulted in a reduction of expense for the equity awards that are expensed based on the Company s share price.

Amortization expense of $15.6 million in fiscal 2008 is comparable to $15.3 million in fiscal 2007 and $15.2 million in fiscal 2006.

Table of Contents

Impairment, Restructuring and Other Charges (in millions)

	2008	2007	2006
Goodwill and intangible asset impairment	$ 120.0	$ 35.3	$ 66.4
Property, plant and equipment impairment	1.7		
SG&A product registration and recall matters	12.7		
Restructuring severance and related			9.3
Other		2.7	
	$ 134.4	$ 38.0	$ 75.7

During the third quarter of fiscal 2007, the Company changed the timing of its SFAS 142, Goodwill and Other Intangible Assets annual goodwill impairment testing from the last day of our first fiscal quarter to the first day of our fourth fiscal quarter. Moving the timing of our annual goodwill impairment testing better aligns with the seasonal nature of our business and the timing of our annual strategic planning process. In addition, the Company also changed the date of its annual indefinite life intangible impairment testing to the first day of our fourth fiscal quarter. Management engages an independent valuation firm to assist in its impairment assessment reviews.

As a result of a significant decline in the market value of the Company s common shares 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 comparable 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 to reflect the decline in the fair value of certain goodwill and other assets evidenced by the decline in the Company s common shares. No further adjustments to the goodwill portion of this impairment charge were required as a result of the completion of the SFAS 142 Step 2 evaluation in the fourth quarter of fiscal 2008. However, an additional impairment charge of $13.5 million was recorded in the fourth quarter of fiscal 2008, primarily related to leasehold improvements of Smith & Hawken®. In total, the fiscal 2008 impairment charges comprise $80.8 million for goodwill, $19.0 million related to indefinite-lived tradenames and $37.0 million for SFAS 144 long-lived assets. Of the $37.0 million impairment charge recorded for SFAS 144 long-lived assets, $15.1 million was recorded in cost of sales. On a reportable segment basis, $64.5 million of the impairment was in Global Consumer, $38.4 million was in Global Professional, with the remaining $33.9 million in Corporate & Other.

The Company recorded $12.7 million of SG&A-related product registration and recall costs during fiscal 2008 which primarily relate to third-party compliance review, legal and consulting fees.

Our fourth quarter fiscal 2007 impairment review resulted in a non-cash goodwill and intangible asset impairment charge of $35.3 million. Partially as a result of the disappointing 2007 lawn and garden season, management completed a comprehensive strategic update of its business initiatives in the fourth quarter of fiscal 2007. One outcome of this update was a decision to increase the focus of Company resources on our core consumer lawn and garden do-it-yourself businesses. This process also involved a re-evaluation of the strategy and cash flow projections surrounding our Smith & Hawken® business, which has consistently performed below expectations since it was acquired in early fiscal 2005. We revised our Smith & Hawken® strategy to reflect a scaled back retail expansion plan, with an increased focus on aggressively expanding the wholesale aspect of this business. This resulted in a decrease in our prior cash flow projections for this business, resulting in a $24.6 million goodwill impairment charge and a $4.6 million impairment charge for an indefinite-lived tradename. The Company finalized the fourth quarter fiscal 2007 SFAS 142 impairment evaluation of the Smith & Hawken® goodwill during the first quarter of fiscal 2008 and there was no change to the related impairment charge recorded in the fourth quarter of fiscal 2007.

Our fiscal 2007 fourth quarter strategic update also encompassed other areas. We remain strongly committed to the development of turfgrass varieties that could one day require less mowing, less water and fewer treatments to resist insects, weeds and disease. Our efforts to develop such turfgrass varieties include conventional breeding programs as well as research and development involving biotechnology. Our efforts to develop turfgrass varieties involving biotechnology have yielded positive results; however, the required regulatory approval process is taking longer than anticipated, impacting our ability to commercialize our innovations. As a result of our fiscal 2007 fourth quarter strategic update, we recorded a $2.2 million goodwill impairment charge related to our turfgrass biotechnology program. Similarly, a strategic update of certain information technology initiatives in our Scotts LawnService® segment resulted in a $3.9 million impairment charge.

Other charges in fiscal 2007 related to ongoing monitoring and remediation costs associated with our turfgrass biotechnology program. Restructuring activities in fiscal 2006 related primarily to organizational reductions associated with Project Excellence, initiated in the third quarter of fiscal 2005. As a result of this program, approximately 110 associates accepted early retirement or were severed during fiscal 2006.

Other Income, net

Other income, net was $10.4 million for fiscal 2008, $11.5 million for fiscal 2007 and $9.2 million for fiscal 2006. Royalty income was the most significant component of other income, approximating $9.6 million, $9.9 million and $6.8 million in fiscal 2008, 2007 and 2006, respectively.

Income from Operations

Income from operations in fiscal 2008 was $98.0 million compared to $277.1 million in fiscal 2007, a decrease of $179.1 million. Fiscal 2008 was negatively impacted by impairment charges ($136.8 million) and product registration and recall costs ($51.1 million) that, when excluded, result in income from operations of $285.9 million. Fiscal 2007 was negatively impacted by impairment and other charges ($38.0 million) that, when excluded, result in income from operations of $315.1 million. Excluding the impairment and other charges and product registration and recall costs, income from operations declined by $29.2 million in 2008, primarily driven by increased commodity costs which more than offset price increases passed onto our customers.

Income from operations in fiscal 2007 was $277.1 million compared to $252.5 million in fiscal 2006, an increase of $24.6 million. Both years were negatively impacted by impairment, restructuring and other charges that, when excluded, result in a decline of $13.1 million of income from operations in fiscal 2007 as compared to fiscal 2006. The adverse effects of weather on net sales growth coupled with a 40 basis point decline in gross profit and SG&A spending increases were the drivers behind this decline.

Interest Expense and Refinancing Activities

Interest expense in fiscal 2008 was $82.2 million compared to $70.7 million and $39.6 million in fiscal 2007 and 2006, respectively. The increase in interest expense is primarily attributable to an increase in borrowings resulting from the recapitalization transactions that were consummated during the second quarter of fiscal 2007. We also recorded $18.3 million in costs in fiscal 2007 related to the refinancing undertaken to facilitate the recapitalization transactions.

Income Taxes

The effective tax rate for fiscal 2008 was 168.6% compared to 39.7% in fiscal 2007 and 37.7% in fiscal 2006. The increase in the effective tax rate for fiscal 2008 and fiscal 2007 was due to goodwill impairment charges ($80.8 million, $26.8 million and $1.8 million in fiscal 2008, 2007 and 2006, respectively), which are not fully deductible for tax purposes. The fiscal 2008 income tax expense also includes $16.9 million of charges to fully reserve for deferred tax assets that originated as a result of impairments of the Smith & Hawken® business in fiscal 2008 and fiscal 2007. The Company has concluded that it is probable that we will not receive any future benefit from these deferred tax assets.

Net Income (Loss) and Earnings (Loss) per Share

The Company reported a net loss of $10.9 million or $0.17 per diluted share in fiscal 2008 compared to net income of $113.4 million or $1.69 per diluted share in fiscal 2007. The Company recorded $136.8 million in impairment charges, as well as $51.1 million in costs related to product registration and recall matters, in fiscal 2008. Challenging weather conditions in March 2008 negatively impacted net sales for the largest part of our business, the Global Consumer segment. Additionally, commodity costs increased significantly in fiscal 2008. Diluted weighted-average common shares outstanding decreased from 67.0 million in fiscal 2007 to 64.5 million in fiscal 2008, due to the

Table of Contents

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. Furthermore, 0.9 million potential common shares were excluded from the diluted loss per share calculation for fiscal 2008 because their effect is anti-dilutive. The number of potential common shares declined in fiscal 2008 as a result of a lower average market price for our common shares.

While income from operations increased $24.6 million in fiscal 2007 over fiscal 2006, net income decreased from $132.7 million or $1.91 per diluted share in fiscal 2006 to $113.4 million or $1.69 per diluted share in fiscal 2007. Adverse weather conditions negatively impacted net sales in the Global Consumer segment, particularly during the important month of April. Costs related to the refinancing, increased levels of debt and a higher weighted average interest rate resulting from the recapitalization transactions coupled with a higher effective tax rate also contributed to the decline. Diluted weighted-average common shares outstanding decreased from 69.4 million in fiscal 2006 to 67.0 million in fiscal 2007 due to the repurchase of 4.5 million of our common shares, weighted for the period outstanding, as part of the recapitalization transactions consummated in the second quarter of fiscal 2007.

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, product registration and recall costs, and impairment, restructuring and other charges, which are not generally accepted accounting principles (GAAP) measures. 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.

Net Sales by Segment (in millions)

	2008	2007	2006
Global Consumer	$ 2,250.1	$ 2,176.2	$ 2,089.6
Global Professional	348.8	281.9	233.4
Scotts LawnService®	247.4	230.5	205.7
Corporate & Other	158.6	184.0	169.2
Segment total	3,004.9	2,872.6	2,697.9
Roundup® amortization	(0.8)	(0.8)	(0.8)
Product registrations and recall matters-returns	(22.3)		
Consolidated	$ 2,981.8	$ 2,871.8	$ 2,697.1

Income from Operations by Segment (in millions)

	2008	2007	2006
Global Consumer	$ 344.5	$ 379.1	$ 392.4
Global Professional	33.7	31.3	27.3
Scotts LawnService®	11.3	11.3	15.6
Corporate & Other	(87.2)	(90.5)	(91.0)
Segment total	302.3	331.2	344.3
Roundup® amortization	(0.8)	(0.8)	(0.8)
Other amortization	(15.6)	(15.3)	(15.2)
Product registrations and recall matters	(51.1)		
Impairment of assets	(136.8)	(35.3)	(66.4)
Restructuring and other charges		(2.7)	(9.4)
Consolidated	$ 98.0	$ 277.1	$ 252.5

Global Consumer

Global Consumer segment net sales were $2.25 billion in fiscal 2008 compared to $2.18 billion in fiscal 2007, an increase of 3.4%. Within Global Consumer, North America consumer sales increased by 2.0%. Net sales of our gardening products, which consist of plant foods and growing media, increased by 0.7%, with growth driven by growing media products, where consumers continue to trade up for branded, value-added solutions. Net sales of our lawn products, comprised of fertilizers, grass seed, and durables, increased by 0.8% as the season got off to a late start, with unseasonable March weather resulting in reduced sales of higher priced lawn fertilizer combination products. Ortho® net sales decreased by 3.4% in fiscal 2008, while the net sales in the wild bird food category have increased by 20.0% primarily due to pricing, and net sales in Canada increased by 9.3% excluding the effect of foreign exchange rates. International consumer sales increased by 10.8% in 2008. Excluding foreign exchanges rates, international consumer net sales increased 2.0% driven by growth in France and Central Europe as the result of improved marketing programs and new products. This growth offset the decreased net sales in the United Kingdom where the economic environment is more challenging and competition has been more aggressive.

Global Consumer segment operating income decreased by $34.6 million or 9.1% in fiscal 2008. The decrease in operating income was driven primarily by a decrease in gross margin rates of 160 basis points. The decrease in gross margin rates was largely the result of higher commodity costs, which more than offset price increases. SG&A spending, including media advertising, increased 3.7% in fiscal 2008 primarily related to higher selling and R&D costs.

For fiscal 2007, Global Consumer segment net sales were $2.18 billion, an increase of $86.6 million or 4.1% compared to fiscal 2006. In the North American consumer business, adverse weather conditions for much of the core selling season disproportionately impacted the lawns business, resulting in a 5.6% decline in net sales. The other core businesses were less impacted by the weather, with net sales in the gardening category up 7.4% and Ortho® up 2.9%. Net sales in our wild bird food business improved by 13.5%. International consumer net sales increased by 5.5% excluding foreign exchange rates, driven by growth in our two largest markets, France and the United Kingdom. The increase in net sales for the segment did not generate the gross margin improvement needed to offset the growth in advertising and other SG&A spending, with the result being a decline in segment operating income of $13.3 million or 3.4% compared to fiscal 2006.

Global Professional

Global Professional segment net sales increased $66.9 million or 23.7% in fiscal 2008. Excluding the effect of exchange rates, net sales increased by 17.2%. Strong demand for our proprietary technology drove the sales growth of 9.3% in fiscal 2008, excluding pricing actions. The segment operating income increased by $2.4 million in fiscal 2008 as the strong growth in net sales was partially offset by increased commodity costs and SG&A spending, primarily related to selling costs.

Global Professional segment net sales increased $48.5 million or 20.8% in fiscal 2007, driven by the impact of foreign exchange rates as well as organic growth in the international professional business. The segment operating income increased by $4.0 million or 14.7% in fiscal 2007 driven by a steady gross margin on higher net sales as well as tight control over growth in SG&A spending.

Scotts LawnService®

Compared to fiscal 2007, Scotts LawnService® net sales increased 7.3% to $247.4 million in fiscal 2008. The increase for fiscal 2008 was the result of acquisition growth of 3.3%, pricing of 2.8% and organic growth of 1.2%. Despite macroeconomic pressures that have reduced customer count, the business has grown partially due to increased penetration on tree, shrub and insect services, a reduction in new customer cancel rates and reduced cancels due to issues with service or results. Additionally, the shifting of late season lawn treatments to the first quarter of fiscal 2008 positively impacted net sales. The Scotts LawnService® segment operating income is flat compared to fiscal 2007 as the net sales and gross margin growth were offset by an increase in SG&A spending.

Compared to fiscal 2006, segment net sales increased 12.1% to $230.5 million for fiscal 2007. This revenue growth was primarily attributable to an increase in average customer count. Approximately 3.6% of the revenue increase came from acquisitions completed in fiscal 2006 and fiscal 2007. Operating income decreased from $15.6 million in fiscal 2006 to $11.3 million in fiscal 2007. The decrease in operating income was primarily attributable to higher planned SG&A spending to support higher volume and continued service improvements. Improved labor productivity helped to offset higher fertilizer and fuel costs, but revenue growth was not adequate to cover the higher levels of SG&A spending due to adverse weather conditions during the important late winter/early spring period.

Corporate & Other

Net sales for the Corporate & Other segment, which pertain primarily to Smith & Hawken®, decreased $25.4 million or 13.8% in fiscal 2008. Net sales decreased 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 $3.3 million in fiscal 2008 primarily due to lower net Corporate spending.

Net sales for the Corporate & Other segment increased $14.8 million or 8.7% in fiscal 2007 due largely to the business-to-business channel, including the initial start-up activity with Starbucks®. The operating loss for Corporate & Other decreased by $0.5 million in fiscal 2007. Spending at the Corporate level declined more than the numbers indicate for fiscal 2007, as fiscal 2006 benefited from a $10.1 million insurance recovery.

Management s Outlook

Entering fiscal 2009, we expected net income and earnings per share, excluding impairment charges and product registration and recall costs, to be in line with the results we reported in fiscal 2008. We anticipated net sales to be flat compared to 2008, as average price increases of eight percent would be largely offset by unfavorable foreign exchange rate movements and unit volume declines. We also anticipated that gross margin rates would be in line with 2008 and that SG&A would likely grow at a minimal level.

In the early weeks of fiscal 2009, however, key commodity costs continued to trend more favorably than expected. Subsequently, several retail partners approached the Company about possibly providing private label products for them in fiscal 2009 after a major competitor unexpectedly exited the category. While we are hopeful that favorable commodity price trends will continue and that we will ultimately be successful in securing additional volume from the private label opportunities, we are mindful of the continually deteriorating outlook for consumer spending. Given the seasonality of our business (which results in a concentration of sales in the second and third fiscal quarters), it is difficult for us to predict what impact the current economic volatility will have on upcoming consumer lawn and garden spending. Nevertheless, we believe that we have more opportunity than not to exceed the financial expectations we had entering fiscal 2009.

The Company remains focused on maintaining its free cash flow and return on invested capital, both of which the Company believes are important drivers of shareholder value. Our regular quarterly dividend will allow us to continue to return funds to shareholders while maintaining our targeted capital structure.

For certain information concerning our risk factors, see ITEM 1A. RISK FACTORS.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities decreased from $246.6 million in fiscal 2007 to $200.9 million in fiscal 2008. Net income (loss) plus non-cash impairment charges, non-cash costs related to refinancing, stock-based compensation expense, depreciation and amortization declined by $41.8 million from $250.5 million in fiscal 2007 to $208.7 million in fiscal 2008, primarily due to product registration and recall costs of approximately $51.1 million.

Cash provided by operating activities increased from $182.4 million in fiscal 2006 to $246.6 million in fiscal 2007. Net income plus non-cash impairment charges, non-cash costs related to refinancing, stock-based compensation expense, depreciation and amortization declined by $31.3 million from $281.8 million in fiscal 2006 to $250.5 million in fiscal 2007, primarily due to higher interest expense after our February 2007 recapitalization and lower operating income in our Global Consumer segment. Fiscal 2006 operating cash flows were unfavorably impacted by inventory and accounts receivable increases, which did not impact fiscal 2007. Furthermore, fiscal 2006 reflects a $43.0 million usage of cash to fund the Roundup® deferred contribution payment in October 2005.

The seasonal nature of our operations generally requires cash to fund significant increases in working capital (primarily inventory) during the first half of the year. Receivables and payables also build substantially in the second quarter of the year in line with the timing of sales to support our retailers spring selling season. These balances liquidate during the June through September period as the lawn and garden season unwinds. Unlike our core retail business, Scotts LawnService® typically has its highest receivables balances in the fourth quarter because of the seasonal timing of customer applications and extra service revenues.

Investing Activities

Cash used in investing activities was $59.1 million and $72.2 million for fiscal 2008 and 2007, respectively. Capital spending increased from $54.0 million in fiscal 2007 to $60.2 million in fiscal 2008. Capital spending in fiscal 2008 included a $4.1 million investment in intellectual property rights to certain organically derived herbicides, repellants and insecticides. For the three years ended September 30, 2008, the Company s capital spending was allocated as follows: 50% for expansion and maintenance of Global Consumer productive assets; 12% for new productive assets supporting our Global Consumer business; 9% primarily for leasehold improvements associated with new Smith & Hawken® retail stores; 5% for expansion and upgrades of Scotts LawnService® facilities; 16% to expand our information technology capabilities; and 8% for other corporate assets. Acquisition activity in fiscal 2007 was restricted to our Scotts LawnService® business, approximating $18.7 million. There was no acquisition activity in fiscal 2008.

Financing Activities

Financing activities used cash of $123.0 million and $158.8 million in fiscal 2008 and 2007, respectively. In fiscal 2008, the cash used was primarily the result of net repayments on outstanding debt of $99.9 million and dividends paid of $32.5 million, offset by cash of $9.2 million received from the exercise of stock options. Fiscal 2007 included the recapitalization plan that returned $750 million to shareholders in addition to the repurchase of all of our 65/8% 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 facility with senior secured $2.15 billion multicurrency credit facilities that provide for revolving credit and term loans through February 7, 2012.

Credit Agreements

Our primary sources of liquidity are cash generated by operations and borrowings under our credit agreements. In connection with the recapitalization transactions discussed in NOTE 5. RECAPITALIZATION to the Consolidated Financial Statements included in this Annual Report on Form 10-K, in February

2007, 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 facility 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. Borrowings may be made in various currencies including U.S. dollars, Euros, British pounds, Australian dollars and Canadian dollars. These $2.15 billion senior secured credit facilities replaced the Company s former $1.05 billion senior credit facility. In addition, we used proceeds from these senior secured credit facilities to repurchase all of our then outstanding 65/8% senior subordinated notes in an aggregate principal amount of $200 million. Under our current structure, we may request an additional $200 million in revolving credit and/or term credit commitments, subject to approval from our lenders. As of September 30, 2008, there was $1.19 billion of availability under our senior secured credit facilities. NOTE 11. DEBT to the Consolidated Financial Statements included in this Annual Report on Form 10-K provides additional information pertaining to our borrowing arrangements. Although we were in compliance with all of our debt covenants throughout fiscal 2008, please see ITEM 1A. RISK FACTORS FIFRA Compliance, the Corresponding Governmental Investigation and Related Matters for a discussion of the potential negative impact of such issues on our compliance with certain covenants contained in our credit agreements.

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 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 New MARP Agreement at September 30, 2008 were $62.1 million.

At September 30, 2008, the Company had outstanding interest rate swaps with major financial institutions that effectively converted a portion of our variable-rate debt denominated in Euros, British pounds and U.S. dollars to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of $711.4 million at September 30, 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	$ 51.2	3 years	11/17/2008	4.76%
Euro	60.2	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	3/30/2010	4.87%
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 September 30, 2008, there was $1.19 billion 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 4.25 as of September 30, 2008, which is scheduled to decrease to 3.75 on September 30, 2009. Management continues to monitor the Company s compliance with the leverage ratio and other covenants contained in the credit facilities and, based upon the Company s current operating assumptions, the Company expects to remain in compliance with the permissible leverage ratio throughout fiscal 2009. However, an unanticipated charge to earnings or an increase in debt could materially affect our ability to remain in compliance with the financial covenants of our credit facilities, potentially causing us to have to seek an amendment or waiver from our lending group. While we believe we have good relationships with our banking group, given the adverse conditions currently present in the global credit markets, we can provide no assurance that such a request would be likely to result in a modified or replacement credit facility on reasonable terms, if at all.

Judicial and Administrative Proceedings

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 reviewed our pending environmental and legal proceedings, including the probable outcomes, reasonably anticipated costs and expenses, and the availability and limits of our insurance coverage and have established what we believe to be appropriate reserves. Apart from the proceedings surrounding the FIFRA compliance matters, which are discussed separately, 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.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes our future cash outflows for contractual obligations as of September 30, 2008 (in millions):

	Payments Due by Period				
Contractual Cash Obligations	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Debt obligations	$ 999.5	$ 150.0	$ 349.4	$ 496.6	$ 3.5
Operating lease obligations	192.2	39.0	63.9	44.7	44.6
Purchase obligations	597.3	299.8	229.0	68.5	
Other, primarily retirement plan obligations	47.2	12.3	7.3	7.7	19.9
Total contractual cash obligations	$ 1,836.2	$ 501.1	$ 649.6	$ 617.5	$ 68.0

Purchase obligations primarily represent commitments for materials used in the Company s manufacturing processes, as well as commitments for warehouse services, seed and out-sourced information services which comprise the unconditional purchase obligations disclosed in NOTE 17. COMMITMENTS to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Other includes actuarially determined retiree benefit payments and pension funding to comply with local funding requirements. Pension funding requirements beyond fiscal 2009 are not currently determinable. The above table excludes interest payments and insurance accruals as the Company is unable to estimate the timing of the payment for these items.

The Company has no off-balance sheet financing arrangements.

In our opinion, cash flows from operations and capital resources will be sufficient to meet debt service and working capital needs during fiscal 2009, 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.

Regulatory 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. Apart from the proceedings surrounding the FIFRA compliance matters, which are discussed separately, 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 these 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

Table of Contents

financial position, results of operations and cash flows. 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 and cash flows. Additional information on environmental matters affecting us is provided in ITEM 1. BUSINESS Regulatory Considerations, ITEM 1. BUSINESS FIFRA Compliance, the Corresponding Governmental Investigation and Related Matters, ITEM 1. BUSINESS Other Regulatory Matters and ITEM 3. LEGAL PROCEEDINGS of this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based upon the Company s consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Certain accounting policies are particularly significant, including those related to revenue recognition, goodwill and intangibles, certain employee benefits, and income taxes. We believe these accounting policies, and others set forth in NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES to the Consolidated Financial Statements included in this Annual Report on Form 10-K, should be reviewed as they are integral to understanding our results of operations and financial position. Our critical accounting policies are reviewed periodically with the Audit Committee of the Board of Directors of Scotts Miracle-Gro.