

SCOTTS MIRACLE-GRO CO

Form 10-K

November 29, 2007

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2007

OR

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

For the transition period from _____ to _____

Commission file number 1-13292

The Scotts Miracle-Gro Company

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

14111 Scottslawn Road, Marysville, Ohio

(Address of principal executive offices)

31-1414921

(I.R.S. Employer Identification No.)

43041

(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

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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 No

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 No

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

Indicate by check mark 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.

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

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

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 30, 2007) was approximately \$1,755,904,160.

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 23, 2007 was 64,238,715.

DOCUMENT INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement for Registrant's 2008 Annual Meeting of Shareholders to be held January 31, 2008, are incorporated by reference into Part III hereof.

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 launched a seed business in Marysville, Ohio, based on the conviction that farmers shall have clean, weed-free fields. Beginning in 1907, the Company expanded its reach by selling grass seed to consumers and eventually exited the agricultural market. By 1988 both through innovation and acquisition the 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 aggressive and 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 a geographic and 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 controls to its portfolio. The Company has rapidly 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 the acquisitions of local and regional lawn care businesses to provide a platform for our rapid expansion throughout the U.S. In October 2004, the Company entered the fast growing outdoor living category with the acquisition of Smith & Hawken, Ltd. The Company entered the North America wild bird food category in fiscal 2006 with the acquisition of Gutwein & Co., Inc. and its Morning Song® brand of wild 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 America leading consumer brands is as follows:

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

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; Celflor®, Nexa-Lotte® and Substral® in Germany and Austria; and ASEF®, KB® and

Substral® in Belgium, the Netherlands and Luxembourg (the Benelux countries). Roundup® is also a significant brand in the United Kingdom, France, Germany and other European markets.

Business Segments

For fiscal 2007, we continued to report our business in the following segments:

North America;

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

Scotts LawnService®;

International; and

Corporate & Other.

These reportable segments are consistent with the Company's structure and the management of these units. Financial information about these segments for the three years ended September 30, 2007 is presented in Note 20 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

North America

In our North America segment, the Company manufactures and markets products that provide easy, reliable and effective assistance to homeowners who seek to nurture beautiful, weed- and pest-free lawns, gardens and indoor plants. These products incorporate many of the best technologies available. In addition, we manufacture and market a broad line of professional products designed to meet the specific needs of commercial nurseries, greenhouses and specialty crop growers in North America. The North America 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® Turf Builder® brand name. The Turf Builder® line of products 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.

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. In addition to our high-quality water-soluble plant foods, we have liquid plant foods, and a continuous-release line of plant foods, Osmocote®, for extended feeding and convenience.

Growing Media: A complete line of growing media products for indoor and outdoor uses is marketed under the Miracle-Gro®, Scotts®, Hyponex®, Earthgro®, Nature Scapes®, and SuperSoil® brand names, as well as other labels. These products include potting mix, garden soils, topsoil, manures, sphagnum peat and decorative barks and mulches. The addition of the Miracle-Gro® brand name and fertilizer to higher quality potting mix and garden soils has turned previously low-margin commodity products into value-added category leaders.

Grass Seed: We offer a broad line of grass seed products for both the consumer and the professional user. The fiscal 2006 acquisitions of certain brands and assets from Turf-Seed, Inc. and Landmark Seed Company allowed for the integration of these companies' extensive professional grass seed sales and distribution networks with the Company's existing professional presence and industry-leading brands in the consumer grass seed market. Our leading grass seed products are sold under the Scotts® Pure Premium®, Classic®, Turf Builder® and PatchMaster® brand names in the consumer market and the Scotts® Turf-Seed™ and the Scotts® Landmark™ brand names in the professional 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. Ortho® products are available in aerosol, ready-to-use liquids, concentrated, granular and dust forms. Ortho® control products include Weed-B-Gon MAX®, Bug-B-Gon MAX®, Home Defense MAX®, Ortho MAX®, Brush-B-Gon®, RosePride®, Ortho-Klor® and Orthene® Fire Ant Killer.

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 consumer 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, Holland 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.)

Wild Bird Food: In November 2005, the Company acquired Gutwein & Co., Inc. (Gutwein). Through its Morning Song® brand, Gutwein is a leader in the growing North America wild bird food category, generating approximately \$80.0 million in annual revenues. 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 higher quality content 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, SpeedyGreen® rotary 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®, Dial N Spray®, and Pull N Spray® trademarks for the diluted application of control products sold in the concentrated form.

The North America segment also includes our North American Professional, Canadian consumer and Australia consumer and professional business operations. The North American Professional business sells professional products to commercial nurseries, greenhouses and specialty crop growers in North America, the Caribbean and throughout Latin America, the Far East, New Zealand and Japan. Our professional products include a broad line of sophisticated controlled-release fertilizers, water-soluble fertilizers, pesticide products and wetting agents that are sold under brand names that include Banrot®, Miracle-Gro®, Osmocote®, Peters®, Poly-S®, Rout®, ScottKote®, Sierrablen®, Shamrock® and Sierra®. 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®, Miracle-Gro®, Killex®, and Roundup® brands.

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. These services consist primarily of fertilizer, weed control, pest control and disease control applications. As of September 30, 2007, Scotts LawnService® had 80 company-operated locations serving 46 metropolitan markets and 78 independent franchises primarily operating in secondary markets.

International

The International segment sells consumer lawn and garden products in more than 25 countries outside of North America. We also sell a broad line of professional products throughout Europe to commercial nurseries, greenhouses and specialty retailers.

International products and brand names vary from country to country depending upon the brand name strength and the nature of our strategic relationships in a given country. For example, in the United Kingdom, we sell Miracle-Gro® plant fertilizers and growing media, Weedol® and Pathclear® herbicides, EverGreen® lawn fertilizers and Levington® growing media. Our other International brands include KB® and Fertiligène® in France; Celaflor®, Nexa-Lotte® and Substral® in Germany and Austria; and ASEF®, KB® and Substral® in the Benelux countries. As noted earlier, Roundup® is also a significant brand in Europe.

For information concerning risks attendant to our foreign operations, please see ITEM 1A. RISK FACTORS Cautionary Statement on Forward-Looking Statements Foreign Operations and Currency Exposures.

Corporate and Other

The Corporate and Other segment includes Smith & Hawken®, a leading brand in the fast growing 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 61 retail stores, catalog and Internet sales, and other trade and wholesale relationships.

Competitive Marketplace

Our major customers include home improvement centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, food and drug stores, commercial nurseries and greenhouses, and specialty crop growers. 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 consumer do-it-yourself lawn and garden markets and pest control markets, we compete primarily against control label products as well as branded products. Control label products are those sold under a retailer-owned label or a supplier-owned label, which are sold exclusively at a specific retail chain. The control label products that we compete with include Vigoro® products sold at Home Depot, and Sta-Green® products sold at Lowe's. Our competitors in branded lawn and garden products and the consumer pest control markets include Spectrum Brands, Bayer AG, Central Garden & Pet Company, Garden Tech, Enforcer Products, Inc., Green Light Company and Lebanon Chemical Corp.

With respect to growing media products, in addition to nationally distributed, branded competitive products, we face competition from regional competitors who compete primarily on the basis of price for commodity growing media business.

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

We have the second largest market share position in the 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.

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, Kali & Salz (which owns the Compo, Algoflash brands), Westland and a variety of local companies.

The International 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 Kali & Salz, Norsk Hydro ASA, Haifa Chemicals Ltd. and Kemira Oyj.

Significant Customers

Approximately 70% of our worldwide net sales in fiscal 2007 were made by our North America segment. Within the North America segment, approximately 29% of our net sales in fiscal 2007 were made to Home Depot, 16% to Lowe's and 15% to Wal*Mart. 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 profits.

Competitive Strengths

Strong Brands

By far, 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 North American business competes. The Company also owns many of the leading brands in the European marketplace.

The Company has helped to build the awareness of its brands through a continuous increase in its investment in advertising. 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®. The Company believes it has successfully grown its service business because of the high level of consumer confidence associated with the Scotts® brand.

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®, 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

and Weed-B-Gon[®], are federally and/or internationally registered and are considered material to our business.

As of September 30, 2007, we held 93 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. Many of these have similar patents which have also been issued or are pending internationally, bringing our total worldwide patent portfolio to 461 United States and International 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 R&D associates. Currently, we have 89 pending patent applications worldwide, including 14 pending U.S. applications, some of which have been allowed for issuance of patents. We also hold exclusive and non-exclusive patent licenses and supply arrangements with various active ingredient and raw material suppliers, permitting the use and sale of additional patented fertilizers, pesticides and mechanical devices.

During fiscal 2007, we were granted 2 U.S. and 22 foreign national patents. Representative of the patent coverage provided by these new patents are coated fertilizers including granular water soluble fertilizers and fertilizers that are specifically formulated to provide delayed-release or triggered-start action when applied to turf; improved spraying devices and the design of such spraying devices; new broadcast spreader devices and coconut coir pith containing growth media products and processes. We continue to extend patent coverage of our core technologies to provide protection of our developments nationally and in additional countries within our Canadian, European, Asia/Pacific and South American markets.

Four U.S. patents expired in fiscal 2007. These expired patents covered fertilizer gel compositions; Kentucky Bluegrass plant varieties; and spreader devices. The loss of these patents is not expected to materially affect our business.

Supply Chain and Sales Force

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

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 2007, the Company achieved a customer service rate of 98.9 percent in its core North American business, its highest ever. 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's nationwide 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 our retail partners, our sales force works directly with consumers. By serving as in-store counselors on weekends, our associates help consumers answer their lawn and garden questions, which, we believe, drives 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 existing products and develop new products, manufacturing processes, and packaging and delivery systems. Spending on research and development was \$38.8 million, \$35.1 million and \$38.0 million in fiscal 2007, fiscal 2006, and fiscal 2005, including registrations of \$9.3 million, \$8.2 million and \$7.5 million, respectively. The Company's long-standing commitment to innovation is evidenced by a portfolio of patents worldwide that supports many of our fertilizers, grass seeds and application devices. In addition to the benefits of

our own research and development, we benefit from 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.

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

Before a product enhanced with biotechnology may be sold in the United States, it must be deregulated by appropriate governmental agencies. Deregulation involves compliance with the rules and regulations of, and cooperation with, the United States Department of Agriculture (the USDA), Animal and Plant Health Inspection Service, the United States Environmental Protection Agency (the U.S. EPA) and/or the Food and Drug Administration (the FDA). As part of the deregulation process for any product enhanced with biotechnology, we are required to present evidence to the USDA in the form of scientifically rigorous studies showing that the product poses no additional toxicological or ecological risk than products of the same species that have not been enhanced with biotechnology. We are also required to satisfy other agencies, such as the U.S. EPA and the FDA, as to their appropriate areas of regulatory authority. This process typically takes years to complete and also includes at least two opportunities for public comment. Therefore, any enhanced product for which we seek commercialization through submission of a petition for deregulation will be subjected to rigorous and thorough governmental regulatory review.

We submitted a petition for deregulation of a non-residential turfgrass product enhanced with biotechnology to the USDA on April 14, 2003. This turfgrass has been shown, through our research trials, to provide simple, more flexible and better weed control for golf courses in a manner we believe is more environmentally friendly. The USDA has a variety of options in adjudicating a petition to deregulate a biotechnology-derived plant product. The USDA has decided to employ the formal Environmental Impact Statement (EIS) process to judge the acceptability of our petition for deregulation. We welcome this process as the most thorough evaluative step available to the USDA. However, there can be no assurance our petition for deregulation of this product will be approved, or if approved and commercially introduced, this product will generate any revenues or contribute to our earnings.

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, Holland and the United Kingdom. Under the Marketing Agreement, 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 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 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 net sales in the Company's Consolidated Statements of Operations. For fiscal 2007 and fiscal 2006, the net amount earned under the Marketing Agreement was income of \$41.9 million and \$39.9 million, respectively. For

fiscal 2005, an expense of \$5.3 million (including a \$45.7 million charge for contribution payments previously deferred) was recognized. For further details, see Note 4 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 where the term extends through September 30, 2008. The parties may agree to renew the agreement with respect to the European Union countries for two successive terms ending on September 30, 2015 and 2018, with a separate determination being made by the parties at least six months prior to the expiration of each such term as to whether to commence a subsequent renewal term. However, if Monsanto does not agree to either of the remaining renewal terms with respect to the European Union countries, the commission structure will be renegotiated within the terms of the Marketing Agreement.

Monsanto has the right to terminate the Marketing Agreement upon certain specified events of default by us, including an uncured material breach, material fraud, material misconduct or egregious injury to the Roundup® brand. Monsanto also has the right to terminate the Marketing Agreement upon a change of control of Monsanto or the sale of the consumer Roundup® business. In addition, Monsanto may terminate the Marketing Agreement within specified regions, including North America, for specified declines in the consumer Roundup® business.

The Company has rights similar to Monsanto's to terminate the Marketing Agreement upon an uncured material breach, material fraud or material willful misconduct by Monsanto. In addition, we may terminate the Marketing Agreement upon Monsanto's sale of the consumer Roundup® business or in certain other circumstances, in which case we would not be able to collect the termination fee described below.

If Monsanto terminates the Marketing Agreement upon a change of control of Monsanto or the sale of the consumer Roundup® business prior to September 30, 2008, we will be entitled to a termination fee in excess of \$100 million. If we terminate the Marketing Agreement upon an uncured material breach, material fraud or material willful misconduct by Monsanto, we will be entitled to receive a termination fee in excess of \$100 million if the termination occurs prior to September 30, 2008. The termination fee declines over time from in excess of \$100 million to a minimum of \$16 million for terminations between September 30, 2008 and September 30, 2018.

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 a sale. In the event we acquire the consumer Roundup® business in such a sale, we would receive credit against the purchase price in the amount of the termination fee that would otherwise have been paid to us upon termination by Monsanto of the Marketing Agreement upon the sale. 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, unless and until the purchaser terminates our services and pays any applicable termination fee.

Strategic Initiatives

The Company has developed a strategic plan that focuses its efforts and capitalizes on its strengths to further own the relationship with its consumers and distance itself from the competition. The execution of this strategy will sustain future growth and further secure the Company's franchise. The critical elements of this strategy are as follows.

Leveraging our core strengths and competitive advantages in the United States

As stated previously, the Company has succeeded, in large degree, due to our ability to leverage our competitive advantages, including our world-class supply chain, industry-leading brands and our commitment to innovation. The

opportunity to further build upon these strengths is a major focus of the Company and will be key to driving continued growth and financial improvement.

Specifically, the Company is investing behind a key initiative to further improve upon its technologies and processes with the goals of enabling increased supply chain synergies and creating global shared services that result in lower selling, general, and administrative costs. In addition to this effort, the Company is currently exploring other supply chain initiatives designed to lower our cost structure without compromising our commitment to quality. For example, the Company will launch a pilot

program in fiscal 2008 to explore the economic viability of regional manufacturing and distribution of lawn fertilizer.

In addition, the Company intends to increase its investment in its sales force, an area that is also considered to be a key competitive advantage. The Company's interaction with its major retail partners is a key reason for its success. In fact, several of the Company's largest retail partners have awarded us with vendor of the year or similar honors over the past several years. In addition to working closely with retailers, the sales force also provides the Company an opportunity to interact with consumers on a 1-to-1 basis in stores. Our in-store counseling program, which is utilized during the peak of the lawn and garden season, provides the Company with a critical advantage by helping consumers. Of course, the Company also uses other means to build upon its relationships with consumers. To that end, in fiscal 2008, the Company intends to launch a state-of-the-art website that will improve our ability to communicate with consumers while also creating an online experience that allows them to speak with each other in public chat rooms, message boards and blogs. In addition to the website, the Company plans to increase its investment in promotions, cross-branding and other key marketing initiatives in fiscal 2008.

Research and development initiatives also will be increasingly focused on helping to create a more positive experience for consumers who use our products. Over the years, we have a proven track record of growing our business by providing consumers with value-added products that make success in the lawn or garden easier to attain. Looking ahead, we are focused on developing even more products that are easier to buy, easier to use and easier to store. Our commitment to environmental stewardship also will become increasingly evident in products currently under development or being considered.

Strengthening our International Business

We continue to believe in the long-term growth potential of our International business. 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 plan to achieve these goals through a variety of initiatives, including reducing the complexity of the business and the product portfolio, improving supply chain efficiency and effectiveness, and aggressively pursuing new business opportunities. As part of a broader corporate initiative, we will invest to improve our technology platform in the International business, which we believe will continue to reduce costs while allowing us to continue improving our customer service levels.

Expanding Scotts LawnService®

The number of lawn owners who want to maintain their lawns and gardens but do not want to do it themselves represents a significant portion of the total 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 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. The business has grown significantly from revenues of \$41.2 million in fiscal 2001 to revenues of \$230.5 million in fiscal 2007. This growth has come from geographic expansion, acquisitions and organic growth fueled by our direct marketing programs. We invested \$22.5 million in lawn service acquisitions in fiscal 2007. We anticipate continuing to make selective acquisitions in fiscal 2008 and beyond. Ongoing investments will continue to be made in the Scotts LawnService® business infrastructure in order to continually improve our customer service throughout the organization and leverage scale economies 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.

Consistent with prior years, 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, and no one source is considered essential to any of our segments or to our business as a whole. We are subject to market risk from fluctuating market prices of certain raw materials including urea, resins, 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. Occasionally, we hedge certain commodities to improve predictability and control costs.

Manufacturing and Distribution

We manufacture products for our North American consumer business at our facilities in Marysville, Ohio, Ft. Madison, Iowa and Temecula, California, as well as at a number of third party contract packers in the United States and Canada. In addition, the Company manufactures growing media products in 27 regional facilities located throughout North America. The primary distribution centers for our North American consumer business are managed by the Company and strategically placed across the United States.

We also manufacture horticultural products for our North America and International professional businesses at a leased fertilizer manufacturing facility in Charleston, South Carolina and a Company-owned site in Heerlen, the Netherlands. The remaining products for our 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 a network of public warehouses and distributors in Europe. We are subject to market risk from fluctuating market prices of diesel, 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.

We manufacture the non-growing media products for our International business 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 International businesses are located in the United Kingdom, France and Germany and are managed by a logistics provider.

The growing media products for our International segment are produced at our facilities in Hatfield, the United Kingdom and Hautmont, France and at a number of third party contract packers. Growing media products are generally shipped direct without passing through a distribution center.

Employees

As of September 30, 2007, we employed 5,081 full-time employees in the United States and an additional 1,039 full-time employees located outside the United States. During peak sales and production periods, we utilize seasonal and temporary labor.

None of our U.S. employees are members of a union. Approximately 45 of our full-time U.K. 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 120 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.

Environmental and Regulatory Considerations

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 be registered with the U.S. EPA (and similar state agencies) before they can be sold. The inability to obtain 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 also 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 Food Quality Protection Act, enacted by the U.S. Congress in August 1996, establishes a standard for food-use pesticides, which standard is the 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. We cannot predict the outcome or the severity of the effect of these 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 (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 and federal 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 state 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.

Regulatory Actions

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 seeking corrective action under the federal Resource Conservation and Recovery Act. The action related to discharges from on-site waste water treatment and several discontinued on-site disposal areas, which date back to the early operations of the Marysville facility that we had already been assessing and, in some cases, remediating, on a voluntary basis. We 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, 2007, \$4.6 million was accrued for the environmental and regulatory matters described herein, the majority of which is for site remediation. Most of the costs accrued as of September 30, 2007 are expected to be paid in fiscal 2008; however, payments could be made for a period thereafter.

We believe the amounts accrued as of September 30, 2007 are adequate to cover our known environmental exposures based on current facts and estimates of likely outcome. However, the adequacy of these accruals is based on several significant assumptions, including the following:

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, 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, it could have a material impact on the ultimate outcome of these matters and our results of operations, financial position and cash flows.

During fiscal 2007, fiscal 2006 and fiscal 2005, we expensed approximately \$1.5 million, \$2.4 million, and \$3.7 million for 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 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 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.

On March 18, 2005, we consummated the restructuring of our corporate structure into a holding company structure by merging The Scotts Company (Scotts) which had been the public company, into a newly-created, wholly-owned, second-tier Ohio limited liability company, The Scotts Company LLC (Scotts LLC), pursuant to the Agreement and Plan of Merger, dated as of December 13, 2004 (the Merger Agreement), among Scotts, Scotts LLC and Scotts Miracle-Gro. As a result of this restructuring merger, each of Scotts common shares issued and outstanding immediately prior to the consummation of the restructuring merger was automatically converted into one fully paid and nonassessable common share of Scotts Miracle-Gro. Scotts Miracle-Gro became the public company successor to Scotts and Scotts LLC a direct, wholly-owned subsidiary of Scotts Miracle-Gro. The restructuring merger did not affect the new parent holding company's management, corporate governance or capital stock structure. In addition, the consolidated assets and liabilities of Scotts Miracle-Gro and its subsidiaries (including Scotts LLC) immediately after the restructuring merger were the same as the consolidated assets and liabilities of Scotts and its subsidiaries immediately before the restructuring merger.

Financial Information About Geographic Areas

For certain information concerning our International revenues and long-lived assets, see ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and Note 20 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 our 2007 Annual Report, in this Annual Report on Form 10-K 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 2007 Annual Report, in this Annual Report on Form 10-K and in other contexts represent challenging goals for our Company, and the achievement of these goals 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.

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 fiscal 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 and results of operations.

Environmental/Socio-Political

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 be registered with the U.S. EPA (and similar state agencies) before they can be sold. The inability to obtain 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.

The Food Quality Protection Act, enacted by the U.S. Congress in August 1996, establishes a standard for food-use pesticides, which standard is the 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