SCOTTS MIRACLE-GRO CO
Form 10-Q
May 10, 2007

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

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007**

**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<br>(State or Other Jurisdiction of Incorporation or Organization) | 31-1414921<br>(I.R.S. Employer Identification No.) |

14111 SCOTTSLAWN ROAD, MARYSVILLE, OHIO 43041
(Address of Principal Executive Offices) (Zip Code)

(937) 644-0011
(Registrant s Telephone Number, Including Area Code)

NO CHANGE
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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 þ Accelerated Filer o Non-accelerated Filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: The number of Common Shares, without par value, of the registrant outstanding as of May 4, 2007 was 63,568,843.

THE SCOTTS MIRACLE-GRO COMPANY
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS MIRACLE-GRO COMPANY

CONDENSED, CONSOLIDATED STATEMENTS OF OPERATIONS

(IN MILLIONS EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|---|---|---|---|
| | MARCH 31, 2007 | APRIL 1, 2006 | MARCH 31, 2007 | APRIL 1, 2006 |
| Net sales | $ 993.3 | $ 907.5 | $ 1,264.5 | $ 1,157.0 |
| Cost of sales | 624.9 | 561.0 | 840.8 | 757.0 |
| Cost of sales restructuring and other | | 0.1 | | 0.1 |
| Gross profit | 368.4 | 346.4 | 423.7 | 399.9 |
| Operating expenses: | | | | |
| Selling, general and administrative | 203.0 | 183.2 | 345.2 | 309.2 |
| Impairment, restructuring and other charges | | 1.0 | | 6.7 |
| Other income, net | (1.1) | (0.8) | (3.4) | (2.4) |
| Income from operations | 166.5 | 163.0 | 81.9 | 86.4 |
| Costs related to refinancing | 18.3 | | 18.3 | |
| Interest expense | 17.9 | 12.5 | 26.1 | 19.6 |
| Income before income taxes | 130.3 | 150.5 | 37.5 | 66.8 |
| Income taxes | 46.9 | 55.7 | 13.5 | 24.7 |
| Net income | $ 83.4 | $ 94.8 | $ 24.0 | $ 42.1 |
| BASIC NET INCOME PER COMMON SHARE: | | | | |
| Weighted-average common shares outstanding during the period | 66.1 | 67.5 | 66.6 | 67.9 |
| Basic net income per common share | $ 1.26 | $ 1.40 | $ 0.36 | $ 0.62 |
| DILUTED NET INCOME PER COMMON SHARE: | | | | |
| Weighted-average common shares outstanding during the period plus dilutive potential common shares | 67.8 | 69.6 | 68.4 | 70.0 |
| Diluted net income per common share | $ 1.23 | $ 1.36 | $ 0.35 | $ 0.60 |

| | | | | |
|---|---|---|---|---|
| Dividends declared per common share | $ 8.125 | $ 0.125 | $ 8.250 | $ 0.250 |

See notes to condensed, consolidated financial statements

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

| | SIX MONTHS ENDED | |
|---|---|---|
| | **MARCH 31, 2007** | **APRIL 1, 2006** |
| OPERATING ACTIVITIES | | |
| Net income | $ 24.0 | $ 42.1 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Impairment of intangible assets | | 1.0 |
| Costs related to refinancing | 18.3 | |
| Stock-based compensation expense | 10.0 | 8.7 |
| Depreciation | 26.4 | 25.1 |
| Amortization | 7.7 | 7.3 |
| Gain on sale of property, plant and equipment | (0.4) | |
| Changes in assets and liabilities, net of acquired businesses: | | |
| Accounts receivable | (616.8) | (581.3) |
| Inventories | (158.0) | (200.1) |
| Prepaid and other current assets | (28.3) | (11.2) |
| Accounts payable | 141.3 | 110.1 |
| Accrued taxes and liabilities | 64.2 | 18.7 |
| Restructuring reserves | (4.2) | 7.4 |
| Other non-current items | (2.1) | 10.9 |
| Other, net | (1.8) | 2.6 |
| Net cash used in operating activities | (519.7) | (558.7) |
| INVESTING ACTIVITIES | | |
| Proceeds from the sale of property, plant and equipment | 0.4 | |
| Investment in property, plant and equipment | (30.1) | (26.6) |
| Investment in acquired businesses, net of cash acquired | (6.3) | (102.0) |
| Net cash used in investing activities | (36.0) | (128.6) |
| FINANCING ACTIVITIES | | |
| Borrowings under revolving and bank lines of credit | 2,122.8 | 691.4 |
| Repayments under revolving and bank lines of credit | (611.1) | (4.9) |
| Repayments of 6 5/8% senior subordinated notes | (209.6) | |
| Dividends paid | (528.4) | (16.8) |
| Purchase of common shares and related costs | (246.7) | (45.9) |
| Financing fees | (12.7) | |
| Payments on seller notes | (1.2) | (3.1) |
| Excess tax benefits from share-based payment arrangements | 12.9 | |
| Cash received from the exercise of stock options | 21.8 | 14.2 |

| | | |
|---|---|---|
| Net cash provided by financing activities | 547.8 | 634.9 |
| Effect of exchange rate changes on cash | 3.3 | (0.5) |
| Net decrease in cash | (4.6) | (52.9) |
| Cash and cash equivalents at beginning of period | 48.1 | 80.2 |
| Cash and cash equivalents at end of period | $ 43.5 | $ 27.3 |
| Supplemental cash flow information | | |
| Interest paid, net of interest capitalized | 24.1 | 15.7 |
| Income taxes paid (received) | 6.3 | (16.4) |

See notes to condensed, consolidated financial statements

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

| | MARCH 31, 2007 | APRIL 1, 2006 | SEPTEMBER 30, 2006 |
|---|---|---|---|
| | UNAUDITED | | (SEE NOTE 1) |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 43.5 | $ 27.3 | $ 48.1 |
| Accounts receivable, less allowances of $15.0, $13.5 and $11.3, respectively | 1,001.0 | 915.8 | 380.4 |
| Inventories, net | 571.9 | 537.9 | 409.2 |
| Prepaid and other assets | 131.0 | 70.8 | 104.3 |
| Total current assets | 1,747.4 | 1,551.8 | 942.0 |
| Property, plant and equipment, net of accumulated depreciation of $398.1, $349.8 and $370.0, respectively | 369.2 | 359.8 | 367.6 |
| Goodwill | 475.0 | 457.3 | 458.1 |
| Intangible assets, net | 421.7 | 470.0 | 424.7 |
| Other assets | 29.5 | 20.5 | 25.2 |
| Total assets | $ 3,042.8 | $ 2,859.4 | $ 2,217.6 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Current portion of debt | $ 23.7 | $ 11.5 | $ 6.0 |
| Accounts payable | 341.5 | 266.6 | 200.4 |
| Accrued liabilities | 355.8 | 354.3 | 289.8 |
| Total current liabilities | 721.0 | 632.4 | 496.2 |
| Long-term debt | 1,783.2 | 1,064.0 | 475.2 |
| Other liabilities | 163.8 | 133.5 | 164.5 |
| Total liabilities | 2,668.0 | 1,829.9 | 1,135.9 |
| Commitments and contingencies (notes 4 and 10) | | | |
| Shareholders equity: | | | |
| Common shares and capital in excess of $.01 stated value per share, 68.2, 67.5 and 66.6 shares issued, respectively | 492.2 | 501.4 | 509.1 |
| Retained earnings | 186.3 | 616.9 | 690.7 |
| Treasury shares, at cost: 4.6, 0.7, and 1.5 shares, respectively | (252.9) | (33.0) | (66.5) |
| Accumulated other comprehensive loss | (50.8) | (55.8) | (51.6) |

| | | | |
|---|---|---|---|
| Total shareholders equity | 374.8 | 1,029.5 | 1,081.7 |
| Total liabilities and shareholders equity | $ 3,042.8 | $ 2,859.4 | $ 2,217.6 |

See notes to condensed, consolidated financial statements

## NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### NATURE OF OPERATIONS

The Scotts Miracle-Gro Company ( Scotts Miracle-Gro ) and its subsidiaries (collectively, the Company ) are engaged in the manufacture, marketing and sale of lawn and garden care products. The Company s major customers include home improvement centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, food and drug stores, commercial nurseries and greenhouses, and specialty crop growers. The Company s products are sold primarily in North America and the European Union. The Company also operates the Scotts LawnService® business which provides lawn and tree and shrub fertilization, insect control and other related services in the United States and Smith & Hawken®, a leading brand in the outdoor living and gardening lifestyle category with sales in the retail, internet, and catalog channels. Effective November 18, 2005, the Company entered the North America wild bird food category with the acquisition of Gutwein & Co., Inc. ( Gutwein ).

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

### ORGANIZATION AND BASIS OF PRESENTATION

The Company s condensed, consolidated financial statements are unaudited; however, in the opinion of management, these financial statements are presented in accordance with accounting principles generally accepted in the United States of America. The condensed, consolidated financial statements include the accounts of Scotts Miracle-Gro and all wholly-owned and majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company s criteria for consolidating entities is based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. Interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year. The interim financial statements and notes are presented as specified by Regulation S-X of the Securities and Exchange Commission, and should be read in conjunction with the consolidated financial statements and accompanying notes in Scotts Miracle-Gro s Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

The balance sheet at September 30, 2006 has been derived from the audited financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

### REVENUE RECOGNITION

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

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

### PROMOTIONAL ALLOWANCES

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

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ADVERTISING

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

Scotts LawnService® promotes its service offerings primarily through direct mail campaigns. External costs associated with these campaigns that qualify as direct response advertising costs are deferred and recognized as advertising expense in proportion to revenues over a period not beyond the end of the subsequent calendar year. The costs deferred at March 31, 2007, April 1, 2006 and September 30, 2006 were $10.6 million, $5.6 million and $5.6 million, respectively.

STOCK-BASED COMPENSATION AWARDS

In fiscal 2003, the Company began expensing prospective grants of employee stock-based compensation awards in accordance with Statement of Financial Accounting Standards (SFAS) 123, Accounting for Stock-Based Compensation. The Company adopted SFAS 123(R), Share-Based Payment effective October 1, 2005, following the modified prospective application approach. The Company was already in substantial compliance with SFAS 123(R) at the adoption date as SFAS 123(R) closely parallels SFAS 123. The fair value of awards is expensed ratably over the vesting period, generally three years, except for grants to members of the Board of Directors that have a shorter vesting period. The adoption of SFAS 123(R) did not have a significant effect on the Company s results of operations for the six-month period ended April 1, 2006.

GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

In accordance with SFAS 142, Goodwill and Other Intangible Assets , goodwill and intangible assets determined to have indefinite lives are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. The Company conducts its annual impairment review of indefinite-lived tradenames and goodwill during its first fiscal quarter. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value and is classified as Impairment, restructuring, and other charges in the Condensed, Consolidated Statements of Operations.

The impairment analysis for the first quarter of fiscal 2007 indicated that no impairment charges were required. The $1.0 million charge recorded in the first quarter of fiscal 2006 related to a tradename written off in the United Kingdom.

NET INCOME PER COMMON SHARE

The following represents a reconciliation from basic net income per share to diluted net income per share. Options with exercise prices greater than the average market price of the underlying common shares are excluded from the computation of diluted net income per share because the effect would be antidilutive. The number of options excluded at March 31, 2007 and April 1, 2006, were immaterial.

| | **THREE MONTHS ENDED** | | **SIX MONTHS ENDED** | |
|---|---|---|---|---|
| | **MARCH 31, 2007** | **APRIL 1, 2006** | **MARCH 31, 2007** | **APRIL 1, 2006** |
| | **(IN MILLIONS, EXCEPT PER SHARE DATA)** | | | |
| Determination of common shares: | | | | |
| Average common shares outstanding | 66.1 | 67.5 | 66.6 | 67.9 |
| Assumed conversion of dilutive potential common shares | 1.7 | 2.1 | 1.8 | 2.1 |
| Diluted average common shares outstanding | 67.8 | 69.6 | 68.4 | 70.0 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Basic net income per common share | $ | 1.26 | $ | 1.40 | $ | 0.36 | $ | 0.62 |
| Diluted net income per common share | $ | 1.23 | $ | 1.36 | $ | 0.35 | $ | 0.60 |

See Note 2 for a discussion of the Company s recapitalization transactions that were consummated in the second quarter of fiscal 2007.

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USE OF ESTIMATES

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

RECENT ACCOUNTING PRONOUNCEMENTS

**Statement of Financial Accounting Standards No. 157 Fair Value Measurements**

In September 2006, the Financial Accounting Standards Board issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company will be required to adopt SFAS 157 no later than October 1, 2008, the beginning of its 2009 fiscal year. The Company has not yet determined the effect, if any, that the adoption of SFAS 157 will have on its consolidated financial statements.

**Statement of Financial Accounting Standards No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans**

The Financial Accounting Standards Board has issued SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158 will require the Company to recognize the underfunded status of its defined benefit postretirement plans as a liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 does not change the way the Company measures plan assets and benefit obligations as of the date of its balance sheet and in determining the amount of net periodic benefit cost.

The Company will be required to adopt the provisions of SFAS 158 as of September 30, 2007. At September 30, 2006, the Company s projected benefit obligation for its international defined benefit plans exceeded the accumulated benefit obligation and the accumulated plan benefit obligation for its post-retirement medical plan exceeded the recorded liability. If the provisions of SFAS 158 were adopted as of September 30, 2006, the Company would have been required to record an additional long-term liability of $26.3 million, an additional long-term deferred tax asset of $9.6 million, and charge the Accumulated other comprehensive loss component of shareholders equity for $16.7 million.

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

On February 15, 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS 159 further establishes certain additional disclosure requirements. SFAS 159 is effective for the Company s financial statements for the fiscal year beginning on October 1, 2008, with earlier adoption permitted. Management is currently evaluating the impact and timing of the adoption of SFAS 159 on the Company s consolidated financial statements.

**FIN 48 Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109**

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

The Company will be required to adopt the provisions of FIN 48 in respect of all the Company s tax positions as of October 1, 2007, the beginning of the 2008 fiscal year. The cumulative effect of applying the provisions of the Interpretation will be reported as an adjustment to the opening balance of retained earnings for the 2008 fiscal year.

The Company has not completed its evaluation of FIN 48 and the effect the adoption of the Interpretation will have on the Company s consolidated financial statements. It is possible that the adoption of this Interpretation will have a material effect on future results of operations.

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## 2. RECAPITALIZATION

On December 12, 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) under which the Company repurchased $87.9 million of its common shares during fiscal 2006. Pursuant to the recapitalization plan, on February 14, 2007, the Company completed a modified Dutch auction tender offer, resulting in the repurchase of 4.5 million of the Company s common shares for an aggregate purchase price of $245.5 million ($54.50 per share). On February 16, 2007, the Company s Board of Directors declared a special one-time cash dividend of $8.00 per share ($508 million in the aggregate), which was paid on March 5, 2007, to shareholders of record on February 26, 2007.

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

The payment of the special one-time cash dividend required the Company to adjust the number of common shares subject to stock options and stock appreciation rights outstanding under the Company s share-based awards programs, as well as the price at which the awards may be exercised. Reference should be made to Note 9, Stock-Based Compensation Awards for further information.

Subsequent to the completion of the recapitalization, the Company s interest expense will be significantly higher as a result of the borrowings incurred to fund the cash returned to shareholders. The following pro forma financial information has been compiled as if the Company had completed the recapitalization transactions as of October 1, 2005 for fiscal 2006 and as of October 1, 2006 for fiscal 2007. Borrowing rates in effect as of March 30, 2007 were used to compute this pro forma interest expense. As the recapitalization involved a share repurchase, pro forma shares are also provided.

| | PROFORMA FINANCIAL INFORMATION | | | |
|---|---|---|---|---|
| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
| | MARCH 31, 2007 | APRIL 1, 2006 | MARCH 31, 2007 | APRIL 1, 2006 |
| | (IN MILLIONS, EXCEPT PER SHARE DATA) | | | |
| Income before income taxes, as reported | $ 130.3 | $ 150.5 | $ 37.5 | $ 66.8 |
| Add back reported interest expense | 17.9 | 12.5 | 26.1 | 19.6 |
| Add back costs related to refinancing | 18.3 | | 18.3 | |
| Deduct pro forma interest expense | (27.2) | (28.3) | (49.7) | (50.0) |
| Pro forma income before income taxes | 139.3 | 134.7 | 32.2 | 36.4 |
| Pro forma income taxes | 50.1 | 50.8 | 11.6 | 13.7 |
| Pro forma net income | $ 89.2 | $ 83.9 | $ 20.6 | $ 22.7 |
| Pro forma basic net income per common share | $ 1.41 | $ 1.33 | $ 0.33 | $ 0.36 |
| Pro forma diluted net income per common share | $ 1.37 | $ 1.28 | $ 0.32 | $ 0.34 |
| Reported interest expense | $ 17.9 | $ 12.5 | $ 26.1 | $ 19.6 |

| | | | | |
|---|---|---|---|---|
| Increamental interest on recapitalization borrowings | 8.7 | 13.1 | 21.8 | 26.2 |
| New credit facility interest rate differential | 0.5 | 2.5 | 1.5 | 3.8 |
| Incremental amortization of new credit facility fees | 0.1 | 0.2 | 0.3 | 0.4 |
| Pro forma interest expense | $ 27.2 | $ 28.3 | $ 49.7 | $ 50.0 |
| Pro forma effective tax rates | 36.0% | 37.7% | 36.0% | 37.7% |

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| | PROFORMA SHARES | | | |
|---|---|---|---|---|
| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
| | MARCH 31, 2007 | APRIL 1, 2006 | MARCH 31, 2007 | APRIL 1, 2006 |
| | (IN MILLIONS) | | | |
| Weighted-average common shares outstanding during the period | 66.1 | 67.5 | 66.6 | 67.9 |
| Incremental full period impact of repurchased shares | (2.7) | (4.5) | (3.6) | (4.5) |
| Pro forma basic shares | 63.4 | 63.0 | 63.0 | 63.4 |
| Weighted-average common shares outstanding during the period plus dilutive potential common shares | 67.8 | 69.6 | 68.4 | 70.0 |
| Incremental full period impact of repurchased shares | (2.7) | (4.5) | (3.6) | (4.5) |
| Impact on dilutive potential common shares | 0.1 | 0.3 | 0.2 | 0.3 |
| Pro forma diluted shares | 65.2 | 65.4 | 65.0 | 65.8 |