SCOTTS MIRACLE-GRO CO
Form 10-Q
August 07, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 29, 2013

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: 001-11593

The Scotts Miracle-Gro Company
(Exact name of registrant as specified in its charter)

OHIO (State or other jurisdiction of incorporation or organization)	31-1414921 (I.R.S. Employer Identification No.)
14111 SCOTTSLAWN ROAD, MARYSVILLE, OHIO (Address of principal executive offices)	43041 (Zip Code)

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

(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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

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

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

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

Class	Outstanding at August 5, 2013
Common Shares, $0.01 stated value, no par value	61,879,752 common shares

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ITEM 1. FINANCIAL STATEMENTS
THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Operations
(In millions, except per common share data)
(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales	$1,148.1	$1,054.9	$2,373.5	$2,424.9
Cost of sales	704.8	685.7	1,520.3	1,568.2
Cost of sales—impairment, restructuring and other	1.5	—	1.6	—
Cost of sales—product registration and recall matters	—	0.2	—	0.4
Gross profit	441.8	369.0	851.6	856.3
Operating expenses:				
Selling, general and administrative	189.5	197.6	521.0	557.0
Impairment, restructuring and other	7.0	(0.4)	6.7	7.1
Product registration and recall matters	—	3.8	—	7.4
Other income, net	(4.9)	(2.2)	(7.5)	(3.5)
Income from operations	250.2	170.2	331.4	288.3
Interest expense	16.8	16.6	47.9	49.8
Income from continuing operations before income taxes	233.4	153.6	283.5	238.5
Income tax expense from continuing operations	85.2	57.2	103.7	88.7
Income from continuing operations	148.2	96.4	179.8	149.8
Income (loss) from discontinued operations, net of tax	—	(3.1)	0.7	(3.2)
Net income	$148.2	$93.3	$180.5	$146.6
Basic income per common share:				
Income from continuing operations	$2.40	$1.58	$2.91	$2.45
Income (loss) from discontinued operations	—	(0.05)	0.01	(0.05)
Basic income per common share	$2.40	$1.53	$2.92	$2.40
Weighted-average common shares outstanding during the period	61.7	61.1	61.7	61.0
Diluted income per common share:				
Income from continuing operations	$2.37	$1.55	$2.88	$2.42
Income (loss) from discontinued operations	—	(0.05)	0.01	(0.05)
Diluted income per common share	$2.37	$1.50	$2.89	$2.37
Weighted-average common shares outstanding during the period plus dilutive potential common shares	62.6	62.2	62.5	62.0
Dividends declared per common share	$0.325	$0.300	$0.975	$0.900

See notes to condensed consolidated financial statements.

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 29, 2013	JUNE 30, 2012	JUNE 29, 2013	JUNE 30, 2012
Net income	$148.2	$93.3	$180.5	$146.6
Other comprehensive income (loss), net of tax:				
Net foreign currency translation adjustment	(3.6)	4.4	(8.5)	(0.5)
Net change in derivatives	4.8	(2.0)	6.4	0.3
Net change in pension and other post retirement benefits	0.9	1.5	5.1	3.6
Total other comprehensive income	2.1	3.9	3.0	3.4
Comprehensive income	$150.3	$97.2	$183.5	$150.0

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)

	NINE MONTHS ENDED	
	JUNE 29, 2013	JUNE 30, 2012
OPERATING ACTIVITIES		
Net income	$180.5	$146.6
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Impairment, restructuring and other	4.6	5.3
Share-based compensation expense	10.4	10.6
Depreciation	41.0	39.6
Amortization	8.1	7.3
Loss (gain) on sale of long-lived assets	0.8	(0.1)
Equity in net loss of unconsolidated affiliates	0.1	—
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(356.5)	(293.5)
Inventories	24.3	(79.5)
Prepaid and other assets	(15.4)	12.2
Accounts payable	97.1	97.6
Other current liabilities	176.8	178.4
Restructuring reserves	(5.0)	(14.2)
Other non-current items	(17.1)	(4.8)
Other, net	(6.6)	9.6
Net cash provided by operating activities	143.1	115.1
INVESTING ACTIVITIES		
Proceeds from sale of long-lived assets	3.5	0.5
Investments in property, plant and equipment	(42.7)	(39.0)
Investment in unconsolidated affiliates	(4.5)	—
Investment in acquired business, net of cash acquired	(3.2)	(7.0)
Net cash used in investing activities	(46.9)	(45.5)
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit	1,284.9	1,531.9
Repayments under revolving and bank lines of credit	(1,347.5)	(1,549.4)
Dividends paid	(60.7)	(55.5)
Purchase of common shares	—	(17.5)
Payments on seller notes	(0.8)	—
Excess tax benefits from share-based payment arrangements	1.0	5.0
Cash received from the exercise of stock options	5.3	16.6
Net cash used in financing activities	(117.8)	(68.9)
Effect of exchange rate changes on cash	(4.9)	0.7
Net (decrease) increase in cash and cash equivalents	(26.5)	1.4
Cash and cash equivalents, beginning of period	131.9	130.9
Cash and cash equivalents, end of period	$105.4	$132.3

SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$(45.6)	$(48.8)
Income taxes refunded (paid)	29.4	(18.6)

See notes to condensed consolidated financial statements.

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Balance Sheets
(In millions, except stated value per share)

	JUNE 29, 2013 (UNAUDITED)	JUNE 30, 2012 (UNAUDITED)	SEPTEMBER 30, 2012
ASSETS			
Current assets:			
Cash and cash equivalents	$105.4	$132.3	$ 131.9
Accounts receivable, less allowances of $10.0, $6.2 and $10.5, respectively	482.4	516.7	330.9
Accounts receivable pledged	199.9	97.2	—
Inventories	385.8	469.3	414.9
Prepaid and other current assets	135.0	130.6	122.3
Total current assets	1,308.5	1,346.1	1,000.0
Property, plant and equipment, net of accumulated depreciation of $579.1, $533.7 and $542.6, respectively	409.8	387.7	427.4
Goodwill	315.2	309.1	309.4
Intangible assets, net	297.6	308.7	307.1
Other assets	31.2	32.5	30.5
Total assets	$2,362.3	$2,384.1	$ 2,074.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of debt	$165.5	$90.8	$ 1.5
Accounts payable	230.7	242.8	152.3
Other current liabilities	450.2	476.6	279.8
Total current liabilities	846.4	810.2	433.6
Long-term debt	548.1	680.4	781.1
Other liabilities	226.0	219.5	257.8
Total liabilities	1,620.5	1,710.1	1,472.5
Contingencies (note 11)			
Shareholders' equity:			
Common shares and capital in excess of $.01 stated value per share, 61.8, 61.2 and 61.3 shares issued and outstanding, respectively	401.8	413.6	408.6
Retained earnings	750.0	690.3	630.2
Treasury shares, at cost: 6.4, 7.0 and 6.8 shares, respectively	(325.7)	(359.2)	(349.6)
Accumulated other comprehensive loss	(84.3)	(70.7)	(87.3)
Total shareholders' equity	741.8	674.0	601.9
Total liabilities and shareholders' equity	$2,362.3	$2,384.1	$ 2,074.4

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Scotts Miracle-Gro Company ("Scotts Miracle-Gro") and its subsidiaries (collectively, together with Scotts Miracle-Gro, the "Company") are engaged in the manufacturing, marketing and sale of consumer branded products for lawn and garden care. The Company's primary customers include home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers and food and drug stores. The Company's products are sold primarily in North America and the European Union. The Company also operates the Scotts LawnService® business, which provides residential and commercial lawn care, tree and shrub care and limited pest control services in the United States.

Organization and Basis of Presentation

The Company's unaudited condensed consolidated financial statements for the three and nine months ended June 29, 2013 and June 30, 2012 are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The condensed consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company's consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, this report should be read in conjunction with Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2012, which includes a complete set of footnote disclosures, including the Company's significant accounting policies.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and related disclosures. 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

Comprehensive Income

In June 2011, the FASB issued amended accounting guidance on the presentation of comprehensive income. The amended guidance requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions were effective for the Company's financial statements for the fiscal year beginning October 1, 2012 and the Company elected to present net income and other comprehensive income in two separate but consecutive statements. The adoption of the amended guidance did not have a significant impact on the Company's financial statements and related disclosures.

Balance Sheet Offsetting

In December 2011, the FASB issued an amendment to accounting guidance on the presentation of offsetting of derivatives, and financial assets and liabilities. The amended guidance requires quantitative disclosures regarding the gross amounts and their location within the statement of financial position. The provisions are effective for the Company's financial statements for the fiscal year beginning October 1, 2013. The adoption of the amended guidance will not have a significant impact on the Company's financial statements and related disclosures.

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Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued an amendment to accounting guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. The amended guidance requires presentation of reclassification adjustments from each component of accumulated other comprehensive income either in a single note or parenthetically on the face of the financial statements, for those amounts required to be reclassified into net income in their entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety in the same reporting period, cross-reference to other disclosures is required. The provisions are effective for the Company's financial statements for the fiscal year beginning October 1, 2013. The adoption of the amended guidance will not have a significant impact on the Company's financial statements and related disclosures.

NOTE 2. DISCONTINUED OPERATIONS

In the fourth quarter of fiscal year 2012, the Company completed the wind down of the Company's professional seed business. As a result, effective in its fourth quarter of fiscal 2012, the Company classified its results of operations for all periods presented to reflect the professional seed business as a discontinued operation.

In the second quarter of fiscal 2011, the Company completed the sale of the Global Professional business (excluding the non-European professional seed business , "Global Pro") to Israel Chemicals LTD. In the third quarter of fiscal 2012, the Company recorded an adjustment of $1.7 million as a change in estimate on the tax due on the sale of Global Pro.

The following table summarizes the results of the professional seed business and Global Pro within discontinued operations for the periods presented:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 29, 2013	JUNE 30, 2012	JUNE 29, 2013	JUNE 30, 2012
	(In millions)			
Net sales	$—	$7.3	$—	$22.0
Operating costs	—	9.6	(0.8)	24.6
Impairment, restructuring and other	—	—	—	0.7
Other income, net	—	(0.2)	—	(1.1)
Income (loss) from discontinued operations before income taxes	—	(2.1)	0.8	(2.2)
Income tax expense from discontinued operations	—	1.0	0.1	1.0
Income (loss) from discontinued operations	$—	$(3.1)	$0.7	$(3.2)

NOTE 3. ACQUISITIONS

During the first quarter of fiscal 2013, Scotts LawnService® completed the acquisition of two franchisee businesses that individually and in the aggregate were not significant. The aggregate purchase price of these acquisitions was $7.2 million. The condensed consolidated financial statements include the results of operations from these business combinations from the date of each acquisition.

NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER

Activity described herein is classified within the "Cost of sales—impairment, restructuring and other" and "Impairment, restructuring and other" lines in the Condensed Consolidated Statement of Operations.

During the first quarter of fiscal 2013, the Company recognized income of $4.7 million related to the reimbursement by a vendor of a portion of the costs incurred for the development and commercialization of products including the active ingredient MAT 28 for the Global Consumer segment. During the second quarter of fiscal 2012, the Company recorded an impairment charge of $5.3 million to fully impair assets associated with the active ingredient MAT 28. During the first quarter of 2013, the Company also recognized a $4.3 million asset impairment charge as a result of issues with the commercialization of an insect repellent technology for the Global Consumer segment. For the three months ended June 29, 2013, the Company recognized $8.5 million in restructuring costs related to termination benefits provided to international employees in relation to the profitability improvement initiative announced in December 2012, associated with the international restructuring plan to reduce headcount and streamline management decision making within the Global Consumer segment.

For the nine months ended June 30, 2012, in continuation of the 2011 restructuring plan, the Company incurred an additional $1.6 million in restructuring costs related to termination benefits provided to employees who accepted voluntary retirement and special termination benefits provided to certain employees upon future separation as well as $0.2 million related to curtailment charges for its U.S. defined benefit pension and U.S retiree medical plans.

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The following table summarizes the activity related to liabilities associated with the restructuring and other charges during the nine months ended June 29, 2013 (in millions):

Amounts reserved for restructuring and other charges at September 30, 2012	$10.2
Restructuring and other charges	8.7
Payments and other	(5.0)
Amounts reserved for restructuring and other charges at June 29, 2013	$13.9

Included in the restructuring reserves as of June 29, 2013 is $3.4 million that is classified as long-term. Payments against the long-term reserves will be incurred as the employees covered by the 2011 restructuring plan retire. The remaining amounts reserved will be paid out over the course of the remainder of fiscal 2013 and fiscal 2014.

NOTE 5. INVENTORIES

Inventories consisted of the following for each of the periods presented:

	June 29, 2013	June 30, 2012	September 30, 2012
	(In millions)		
Finished goods	$235.0	$284.6	$224.6
Work-in-process	39.5	37.1	48.3
Raw materials	111.3	147.6	142.0
Total inventories	$385.8	$469.3	$414.9

Adjustments to reflect inventories at net realizeable values were $20.1 million at June 29, 2013, $26.3 million at June 30, 2012 and $21.0 million at September 30, 2012.

NOTE 6. MARKETING AGREEMENT

The Company is Monsanto’s exclusive agent for the marketing and distribution of consumer Roundup® herbicide 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 Marketing Agreement, the Company is entitled to receive an annual commission from Monsanto as consideration for the performance of the Company’s duties as agent. The annual gross commission under the Marketing Agreement is calculated as a percentage of the actual earnings before interest and income taxes of the consumer Roundup® business in the markets covered by the Marketing Agreement and is based on the achievement of two earnings thresholds, as defined in the Marketing Agreement. The Marketing Agreement also requires the Company to make annual payments to Monsanto as a contribution against the overall expenses of the consumer Roundup® business. The annual contribution payment is defined in the Marketing Agreement as $20 million.

In consideration for the rights granted to the Company under the Marketing Agreement for North America, the Company was required to pay a marketing fee of $32 million to Monsanto. The Company has deferred this amount on the basis that the payment will provide a future benefit through commissions that will be earned under the Marketing Agreement. The economic useful life over which the marketing fee is being amortized is 20 years, with a remaining amortization period of less than six years as of June 29, 2013.

Under the terms of the Marketing Agreement, the Company performs certain functions, primarily manufacturing conversion, distribution and logistics, and selling and marketing support, on behalf of Monsanto in the conduct of the consumer Roundup® business. The actual costs incurred for these activities are charged to and reimbursed by Monsanto. The Company records costs incurred under the Marketing Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in “Cost of sales” and the reimbursement of these costs in “Net sales,” with no effect on gross profit dollars or net income.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(In millions)			
Gross commission	$40.5	$38.2	$67.9	$71.6
Contribution expenses	(5.0)	(5.0)	(15.0)	(15.0)
Amortization of marketing fee	(0.2)	(0.2)	(0.6)	(0.6)
Net commission income	35.3	33.0	52.3	56.0
Reimbursements associated with Marketing Agreement	16.9	27.8	51.5	69.0
Total net sales associated with Marketing Agreement	$52.2	$60.8	$103.8	$125.0

The Marketing Agreement has no definite term except as it relates to the European Union countries (the "EU term"). The EU term extends through September 30, 2013, with an automatic renewal period of two years, subject to non-renewal only upon the occurrence of certain performance defaults. Thereafter, the Marketing Agreement provides that the parties may agree to renew the EU term for an additional three years.

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 for cause, the Company would not be entitled to any termination fee. 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. If the Marketing Agreement was terminated for any reason, the Company would also lose all, or a substantial portion, of the significant source of earnings and overhead expense absorption the Marketing Agreement provides.

Under the Marketing Agreement, Monsanto must provide the Company with notice of any proposed sale of the consumer Roundup business, allow the Company to participate in the sale process and negotiate in good faith with the Company with respect to any such proposed sale. In the event the Company acquires the consumer Roundup® business in such a sale, the Company would receive as a credit against the purchase price the amount of the termination fee that would have been paid to the Company 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, the Company must let Monsanto know whether the Company intends to terminate the Marketing Agreement and forfeit any right to a termination fee or whether it will agree to continue to perform under the Marketing Agreement on behalf of the purchaser.

NOTE 7. DEBT

The components of long-term debt are as follows:

	JUNE 29, 2013	JUNE 30, 2012	SEPTEMBER 30, 2012
	(In millions)		
Credit facility – revolving loans	$142.9	$278.3	$377.1
Senior Notes – 7.25%	200.0	200.0	200.0

Senior Notes – 6.625%	200.0	200.0	200.0
MARP Agreement	159.9	87.5	—
Other	10.8	5.4	5.5
	713.6	771.2	782.6
Less current portions	165.5	90.8	1.5
Total long-term debt	$548.1	$680.4	$781.1

As of June 29, 2013, there was $1,533.8 million of availability under the Company’s senior secured credit facility, including availability under letters of credit. Under the credit facility, the Company has the ability to obtain letters of credit up to $75 million outstanding. At June 29, 2013, the Company had letters of credit in the aggregate face amount of $23.3 million outstanding on the credit facility.

The Company was in compliance with the terms of all debt covenants at June 29, 2013. The credit facility contains, among other obligations, an affirmative covenant regarding the Company’s leverage ratio, calculated as average total indebtedness, as described in the Company’s credit facility, relative to the Company’s earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted pursuant to the terms of the credit facility (“Adjusted EBITDA”). Under the terms of the credit facility, the maximum leverage ratio was 3.50 as of June 29, 2013. The Company’s leverage ratio was 2.46 at June 29, 2013. The Company’s credit facility also includes an affirmative covenant regarding its interest coverage ratio. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the credit facility, and excludes costs related to refinancings. Under the terms of the credit facility, the minimum interest coverage ratio was 3.50 for the twelve months ended June 29, 2013. The Company’s interest coverage ratio was 5.79 for the twelve months ended June 29, 2013.

The Company accounts for the sale of receivables under the Master Accounts Receivable Purchase Agreement ("2012 MARP Agreement") as short-term debt and continues to carry the receivables on its Consolidated Balance Sheet, primarily as a result of the Company’s right to repurchase receivables sold. Refer to "NOTE 11. DEBT" in the Company's Form 10-K for the year ended September 30, 2012 for more information regarding the 2012 MARP Agreement. There were $159.9 million in borrowings under the MARP Agreements as of June 29, 2013 and $87.5 million as of June 30, 2012.

Estimated Fair Values

A description of the methods and assumptions used to estimate the fair values of the Company’s debt instruments is as follows:

Credit Facility

The interest rate currently available to the Company fluctuates with the applicable LIBOR rate, prime rate or Federal Funds Effective Rate and thus the carrying value is a reasonable estimate of fair value. The fair value measurement for the credit facility was classified in Level 2 of the fair value hierarchy.

7.25% Senior Notes

The fair value of Scotts Miracle-Gro’s 7.25% Senior Notes due 2018 (the “7.25% Senior Notes”) can be determined based on the trading of the 7.25% Senior Notes in the open market. The difference between the carrying value and the fair value of the 7.25% Senior Notes represents the premium or discount on that date. Based on the trading value on or around June 29, 2013, June 30, 2012 and September 30, 2012, the fair value of the 7.25% Senior Notes was approximately $210.5 million, $216.8 million and $212.0 million, respectively. The fair value measurement for the 7.25% Senior Notes was classified in Level 1 of the fair value hierarchy.

6.625% Senior Notes

The fair value of Scotts Miracle-Gro’s 6.625% Senior Notes due 2020 (the “6.625% Senior Notes”) can be determined based on the trading of the 6.625% Senior Notes in the open market. The difference between the carrying value and the fair value of the 6.625% Senior Notes represents the premium or discount on that date. Based on the trading value on or around June 29, 2013, June 30, 2012 and September 30, 2012, the fair value of the 6.625% Senior Notes was approximately $211.5 million, $215.0 million and $217.5 million, respectively. The fair value measurement for the 6.625% Senior Notes was classified in Level 1 of the fair value hierarchy.

Interest Rate Swap Agreements

At June 29, 2013, June 30, 2012 and September 30, 2012, the Company had outstanding interest rate swap agreements with major financial institutions that effectively converted a portion of the Company’s variable-rate debt to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of $1,100 million, $700 million and $700 million at June 29, 2013, June 30, 2012 and September 30, 2012, respectively. Interest payments made between the effective date and expiration date are hedged by the swap agreements, except as noted below. The notional amount, effective date, expiration date and rate of each of these swap agreements are shown in the table below.

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Notional Amount (in millions)		Effective Date (a)	Expiration Date	Fixed Rate
50		2/14/2012	2/14/2016	3.78%
150	(b)	2/7/2012	5/7/2016	2.42%
150	(c)	11/16/2009	5/16/2016	3.26%
50	(b)	2/16/2010	5/16/2016	3.05%
100	(b)	2/21/2012	5/23/2016	2.40%
150	(c)	12/20/2011	6/20/2016	2.61%
50	(d)	12/6/2012	9/6/2017	2.96%
150	(b)	2/7/2017	5/7/2019	2.12%
50	(b)	2/7/2017	5/7/2019	2.25%
200	(c)	12/20/2016	6/20/2019	2.13%

(a) The effective date refers to the date on which interest payments were, or will be, first hedged by the applicable swap agreement.

(b) Interest payments made during the three-month period of each year that begins with the month and day of the effective date are hedged by the swap agreement.

(c) Interest payments made during the six-month period of each year that begins with the month and day of the effective date are hedged by the swap agreement.

(d) Interest payments made during the nine-month period of each year that begins with the month and day of the effective date are hedged by the swap agreement.

Accounts Receivable Pledged

The interest rate on the short-term debt associated with accounts receivable pledged under the 2012 MARP Agreement fluctuates with the applicable LIBOR rate and thus the carrying value is a reasonable estimate of fair value. The fair value measurement for the MARP agreement was classified in Level 2 of the fair value hierarchy.

NOTE 8. RETIREMENT AND RETIREE MEDICAL PLANS

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

	THREE MONTHS ENDED					
	JUNE 29, 2013			JUNE 30, 2012		
	U.S. Pension	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
	(In millions)					
Service cost	$—	$0.4	$0.1	$—	$0.3	$0.2
Interest cost	0.9	2.8	0.4	1.1	2.5	0.4
Expected return on plan assets	(1.3)	(3.0)	—	(1.3)	(2.4)	—
Net amortization	1.2	0.5	—	1.2	0.2	—
Net periodic benefit cost	$0.8	$0.7	$0.5	$1.0	$0.6	$0.6

	NINE MONTHS ENDED					
	JUNE 29, 2013			JUNE 30, 2012		
	U.S. Pension	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
	(In millions)					
Service cost	$—	$1.2	$0.3	$—	$1.0	$0.4
Interest cost	2.9	7.8	1.0	3.4	7.8	1.2
Expected return on plan assets	(3.9)	(8.4)	—	(4.1)	(7.5)	—

Net amortization	3.6	1.3	0.2	3.7	0.7	0.1
Curtailment loss	—	—	—	0.2	—	—
Net periodic benefit cost	$2.6	$1.9	$1.5	$3.2	$2.0	$1.7

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NOTE 9. SHAREHOLDERS' EQUITY

In August 2010, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to $500 million of Scotts Miracle-Gro’s common shares (the “Common Shares”) over a four-year period through September 30, 2014. In May 2011, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to an additional $200 million of the Common Shares, resulting in authority to repurchase up to a total of $700 million of the Common Shares through September 30, 2014. During the nine months ended June 29, 2013, Scotts Miracle-Gro did not repurchase any Common Shares under the $700 million shares repurchase program approved by Scotts Miracle-Gro's Board of Directors. Since inception of the program in the fourth quarter of fiscal 2010 through June 29, 2013, Scotts Miracle-Gro has repurchased 7.8 million Common Shares for $401.2 million to be held in treasury. On August 6, 2013, the Company announced the Scotts Miracle-Gro Board of Directors had approved an increase in the quarterly dividend from $0.325 to $0.4375 per share.

Share-Based Awards

The following is a summary of the share-based awards granted during the periods indicated:

	NINE MONTHS ENDED	
	JUNE 29, 2013	JUNE 30, 2012
Employees		
Stock options	—	464,061
Restricted stock units	178,030	106,844
Performance units	178,321	110,079
Board of Directors		
Deferred stock units	30,473	28,317
Total share-based awards	386,824	709,301
Aggregate fair value at grant dates (in millions)	$17.4	$17.0

Total share-based compensation recognized was as follows for the periods indicated:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 29, 2013	JUNE 30, 2012	JUNE 29, 2013	JUNE 30, 2012
	(In millions)			
Share-based compensation	$1.9	$1.7	$10.4	$10.6
Tax benefit recognized	0.7	0.7	4.0	4.1

NOTE 10. INCOME TAXES

The effective tax rate related to continuing operations for the nine months ended June 29, 2013 was 36.6%, compared to 37.2% for the nine months ended June 30, 2012. The effective tax rate related to continuing operations for the three months ended June 29, 2013 was 36.5%, compared to 37.2% for the three months ended June 30, 2012. The effective tax rate used for interim reporting purposes is based on management’s best estimate of factors impacting the effective tax rate for the full fiscal year. An allocation of the income tax expense has been separately determined to report the discontinued operations, net of tax. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

Scotts Miracle–Gro or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. With few exceptions, which are discussed further below, the Company is no longer subject to examination by these tax authorities for fiscal years prior to 2010. The Company is currently under examination by certain foreign and U.S. state and local tax authorities. Regarding the foreign jurisdictions, an audit is currently underway in Canada covering fiscal years 2008 through 2011. In regard to the multiple U.S. state and local audits, the tax periods under examination are limited to fiscal years 1997 through 2011. In addition to the aforementioned audits, certain other tax deficiency notices and refund claims for previous years remain unresolved. The Company currently anticipates that few of its open and active audits will be resolved within the next 12 months. The Company is unable to make a reasonably reliable estimate as to when or if cash settlements with taxing authorities may occur. Although audit outcomes and the timing of audit payments are subject to significant uncertainty, the Company does not anticipate

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that the resolution of these tax matters or any events related thereto will result in a material change to its consolidated financial position, results of operations or cash flows.

NOTE 11. CONTINGENCIES

Management regularly evaluates the Company’s contingencies, including various lawsuits and claims which arise in the normal course of business, product and general liabilities, workers’ compensation, property losses and other liabilities for which the Company is self-insured or retains a high exposure limit. Self-insurance reserves are established based on actuarial loss estimates for specific individual claims plus actuarially estimated amounts for incurred but not reported claims and adverse development factors applied to existing claims. Legal costs incurred in connection with the resolution of claims, lawsuits and other contingencies generally are expensed as incurred. In the opinion of management, its assessment of contingencies is reasonable and related reserves, in the aggregate, are adequate; however, there can be no assurance that final resolution of these matters will not have a material effect on the Company’s financial condition, results of operations or cash flows. The Company's identified contingencies include the matters set out below.

Regulatory Matters

At June 29, 2013, $3.7 million was accrued in the “Other liabilities” line in the Condensed Consolidated Balance Sheet for compliance-related environmental actions, the majority of which is for site remediation. The amounts accrued are believed to be adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

Other

In connection with the sale of wild bird food products that were the subject of a voluntary recall in 2008, the Company has been named as a defendant in four putative class actions filed on and after June 27, 2012, which have now been consolidated in the United States District Court for the Southern District of California as In re Morning Song Bird Food Litigation, Lead Case No. 3:12-cv-01592-JAH-RBB. The plaintiffs allege various statutory and common law claims associated with the Company's sale of wild bird food products and a plea agreement entered into in previously pending government proceedings associated with such sales. The plaintiffs seek on behalf of themselves and various purported class members monetary damages, restitution, injunctive relief, declaratory relief, attorney's fees, interest and costs. The Company intends to vigorously defend the consolidated action. Given the early stages of the action, the Company cannot make a determination as to whether it could have a material effect on the Company's financial condition, results of operations or cash flows and has not recorded any accruals with respect thereto.

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. In many of these cases, the complaints are not specific about the plaintiffs’ contacts with the Company or its products. 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 these cases and, accordingly, no reserves have been recorded in the Company’s Consolidated Financial Statements. 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. 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 effect on the Company’s financial condition, results of operations or cash flows.

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

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NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. To manage a portion of the volatility related to these exposures, the Company enters into various financial transactions. The utilization of these financial transactions is governed by policies covering acceptable counterparty exposure, instrument types and other hedging practices. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

Exchange Rate Risk Management

The Company periodically uses foreign currency swap contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. At June 29, 2013, the notional amount of outstanding foreign currency swap contracts was $230.8 million, with a fair value of $4.5 million. At June 30, 2012, the notional amount of outstanding foreign currency swap contracts was $146.7 million, with a negative fair value of $1.6 million. The fair value of foreign currency swap contracts is determined based on changes in spot rates. At September 30, 2012, the notional amount of outstanding foreign currency swap contracts was $61.8 million, with a negative fair value of $1.0 million. The fair value of foreign currency swap contracts is determined based on changes in spot rates. The outstanding contracts will mature over the next fiscal year.

Interest Rate Risk Management

The Company enters into interest rate swap agreements as a means to hedge its variable interest rate risk on debt instruments. The fair values are reflected in the Company's Condensed Consolidated Balance Sheets. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. Since the interest rate swap agreements have been designated as hedging instruments, unrealized gains or losses resulting from adjusting these swaps to fair value are recorded as elements of accumulated other comprehensive income (loss) ("AOCI") within the Condensed Consolidated Balance Sheets. The fair value of the swap agreements is determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date.

At June 29, 2013, June 30, 2012 and September 30, 2012, the Company had outstanding interest rate swap agreements with major financial institutions that effectively converted a portion of the Company's variable-rate debt to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of $1,100 million, $700 million and $700 million at June 29, 2013, June 30, 2012 and September 30, 2012, respectively. Included in the AOCI balance at June 29, 2013 was a loss of $4.7 million related to interest rate swap agreements that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

Commodity Price Risk Management

The Company had outstanding hedging arrangements at June 29, 2013 designed to fix the price of a portion of its projected future urea requirements. The contracts are designated as hedges of the Company's exposure to future cash flow fluctuations associated with the cost of urea. The objective of the hedges is to mitigate the earnings and cash flow volatility attributable to the risk of changing prices. Unrealized gains or losses in the fair value of these contracts are recorded to the AOCI within the Condensed Consolidated Balance Sheets. Realized gains or losses remain as a component of AOCI until the related inventory is sold. Upon sale of the underlying inventory, the gain or loss is reclassified to cost of sales. Included in the AOCI balance at June 29, 2013 was a loss of $0.7 million related to urea derivatives that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

Periodically, the Company also uses derivatives to partially mitigate the effect of fluctuating diesel and gasoline costs on operating results. Any such derivatives that do not qualify for hedge accounting treatment in accordance with GAAP are recorded at fair value, with unrealized gains and losses on open contracts and realized gains or losses on settled contracts recorded as an element of cost of sales. Unrealized gains or losses in the fair value of contracts that do qualify for hedge accounting are recorded in AOCI except for any ineffective portion of the change in fair value, which is immediately recorded in earnings. For the effective portion of the change in fair value, realized gains or losses remain as a component of AOCI until the related fuel is consumed. Upon consumption of the fuel, the gain or loss is reclassified to cost of sales. Included in the AOCI balance at June 29, 2013 was an immaterial gain related to fuel derivatives that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

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The Company had the following outstanding commodity contracts that were entered into to hedge forecasted purchases:

Commodity	JUNE 29, 2013	JUNE 30, 2012	SEPTEMBER 30, 2012
Urea	27,000 tons	13,500 tons	34,500 tons
Diesel	1,890,000 gallons	2,016,000 gallons	6,552,000 gallons
Gasoline	868,000 gallons	336,000 gallons	224,000 gallons
Heating Oil	588,000 gallons	210,000 gallons	5,208,000 gallons

Fair Values of Derivative Instruments

The fair values of the Company's derivative instruments were as follows:

DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS	BALANCE SHEET LOCATION	ASSETS / (LIABILITIES) JUNE 29, 2013	JUNE 30, 2012	SEPTEMBER 30, 2012
		FAIR VALUE (In millions)		
Interest rate swap agreements	Other current liabilities	$(8.0)	$(7.2)	$ (8.2)
	Other liabilities	(7.1)	(17.9)	(20.6)
Commodity hedging instruments	Prepaid and other current assets	0.1	—	1.0
	Other current liabilities	(1.4)	(0.3)	—
Total derivatives designated as hedging instruments		$(16.4)	$(25.4)	$ (27.8)
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS				
Foreign currency swap contracts	Prepaid and other current assets	$4.5	$—	$ —
	Other current liabilities	—	(1.6)	(1.0)
Commodity hedging instruments	Prepaid and other current assets	—	—	1.0
	Other current liabilities	(0.1)	(0.2)	—
Total derivatives not designated as hedging instruments		$4.4	$(1.8)	$ —
Total derivatives		$(12.0)	$(27.2)	$ (27.8)

The effect of derivative instruments on AOCI and the Condensed Consolidated Statements of Operations was as follows:

DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS	AMOUNT OF GAIN / (LOSS) RECOGNIZED IN AOCI THREE MONTHS ENDED JUNE 29, 2013	JUNE 30, 2012	NINE MONTHS ENDED JUNE 29, 2013	JUNE 30, 2012
	(In millions)			
Interest rate swap agreements	$2.7	$(3.7)	$0.8	$(8.3)
Commodity hedging instruments	(1.0)	—	(2.0)	0.8
Total	$1.7	$(3.7)	$(1.2)	$(7.5)

DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS	RECLASSIFIED FROM AOCI INTO STATEMENT OF OPERATIONS	AMOUNT OF GAIN / (LOSS) THREE MONTHS ENDED JUNE 29, 2013	JUNE 30, 2012	NINE MONTHS ENDED JUNE 29, 2013	JUNE 30, 2012
		(In millions)			
Interest rate swap agreements	Interest expense	$(3.0)	$(2.4)	$(7.7)	$(9.5)
Commodity hedging instruments	Cost of sales	(0.1)	0.7	0.1	1.7

Total	$(3.1)	$(1.7)	$(7.6)	$(7.8)

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DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS	RECOGNIZED IN STATEMENT OF OPERATIONS	AMOUNT OF GAIN / (LOSS) THREE MONTHS ENDED JUNE 29, 2013	JUNE 30, 2012	NINE MONTHS ENDED JUNE 29, 2013	JUNE 30, 2012
		(In millions)			
Foreign currency swap contracts	Interest expense	$2.6	$(5.4)	$12.2	$(3.7)
Commodity hedging instruments	Cost of sales	(0.3)	(0.9)	(0.4)	1.0
Total		$2.3	$(6.3)	$11.8	$(2.7)

NOTE 13. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or the most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following describes the valuation methodologies used for financial assets and liabilities measured at fair value on a recurring basis, as well as the general classification within the valuation hierarchy.

Derivatives

Derivatives consist of foreign currency, interest rate and commodity derivative instruments. Foreign currency swap contracts are valued using observable forward rates in commonly quoted intervals for the full term of the contracts. Interest rate swap agreements are valued based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. Commodity contracts are measured using observable commodity exchange prices in active markets.

These derivative instruments are classified within Level 2 of the valuation hierarchy and are included within other assets and other liabilities in the Company’s Condensed Consolidated Balance Sheets, except for derivative instruments expected to be settled within the next 12 months, which are included within prepaid and other current assets and other current liabilities.

Cash equivalents

Cash equivalents consist of highly liquid investments purchased with a maturity of three months or less. The carrying value of these cash equivalents approximates fair value due to their short-term maturities.

Other

Other financial assets consist of investment securities in non-qualified retirement plan assets. These securities are valued using observable market prices in active markets.

The following table presents the Company’s financial assets and liabilities measured at fair value on a recurring basis at June 29, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets				
Cash equivalents	$79.3	$—	$—	$79.3
Derivatives				
Foreign currency swap contracts	—	4.5	—	4.5

Commodity hedging instruments	—	0.1	—	0.1
Other	6.7	—	—	6.7
Total	$86.0	$4.6	$—	$90.6
Liabilities				
Derivatives				
Interest rate swap agreements	$—	$(15.1)	$—	$(15.1)
Commodity hedging instruments	—	(1.5)	—	(1.5)
Total	$—	$(16.6)	$—	$(16.6)

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The following table presents the Company’s financial assets and liabilities measured at fair value on a recurring basis at June 30, 2012:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets				
Cash equivalents	$84.8	$—	$—	$84.8
Other	6.4	—	—	6.4
Total	$91.2	$—	$—	$91.2
Liabilities				
Derivatives				
Interest rate swap agreements	$—	$(25.1)	$—	$(25.1)
Foreign currency swap contracts	—	(1.6)	—	(1.6)
Commodity hedging instruments	—	(0.5)	—	(0.5)
Total	$—	$(27.2)	$—	$(27.2)

The following table presents the Company’s financial assets and liabilities measured at fair value on a recurring basis at September 30, 2012:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets				
Cash equivalents	$41.1	$—	$—	$41.1
Derivatives				
Commodity hedging instruments	—	2.0	—	2.0
Other	6.4	—	—	6.4
Total	$47.5	$2.0	$—	$49.5
Liabilities				
Derivatives				
Interest rate swap agreements	$—	$(28.8)	$—	$(28.8)
Foreign currency swap contracts	—	(1.0)	—	(1.0)
Total	$—	$(29.8)	$—	$(29.8)

NOTE 14. SEGMENT INFORMATION

The Company divides its business into the following segments — Global Consumer and Scotts LawnService®. This division of reportable segments is consistent with how the segments report to and are managed by the chief operating decision maker of the Company.

Segment performance is evaluated based on several factors, including income from continuing operations before amortization, product registration and recall costs, and impairment, restructuring and other charges, which is not a GAAP measure. Senior management of the Company uses this measure of operating profit to gauge segment performance because the Company believes this measure is the most indicative of performance trends and the overall earnings potential of each segment.

Corporate & Other consists of revenues and expenses associated with the Company’s supply agreements with Israel Chemicals, Ltd. ("ICL") and the amortization related to the Roundup® Marketing Agreement, as well as corporate, general and administrative expenses and certain other income/expense items not allocated to the business segments. Corporate & Other assets primarily include deferred financing and debt issuance costs and corporate intangible assets, as well as deferred tax assets.

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The following tables present summarized financial information concerning the Company's reportable segments for the periods indicated:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(In millions)			
Net sales:				
Global Consumer	$1,052.2	$960.7	$2,180.0	$2,229.4
Scotts LawnService®	89.9	87.8	167.6	161.3
Segment total	1,142.1	1,048.5	2,347.6	2,390.7
Corporate & Other	6.0	6.4	25.9	34.2
Consolidated	$1,148.1	$1,054.9	$2,373.5	$2,424.9
Income (loss) from continuing operations before income taxes:				
Global Consumer	$261.7	$171.7	$413.1	$377.4
Scotts LawnService®	22.3	22.4	4.4	4.9
Segment total	284.0	194.1	417.5	382.3
Corporate & Other	(22.8)	(18.1)	(70.3)	(72.4)
Intangible asset amortization	(2.5)	(2.2)	(7.5)	(6.7)
Product registration and recall matters	—	(4.0)	—	(7.8)
Impairment, restructuring and other	(8.5)	0.4	(8.3)	(7.1)
Interest expense	(16.8)	(16.6)	(47.9)	(49.8)
Consolidated	$233.4	$153.6	$283.5	$238.5

	June 29, 2013	June 30, 2012	September 30, 2012
	(In millions)		
Total assets:			
Global Consumer	$1,977.3	$1,967.3	$1,676.4
Scotts LawnService®	191.4	183.2	181.5
Corporate & Other	193.6	233.6	216.5
Consolidated	$2,362.3	$2,384.1	$2,074.4

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NOTE 15. FINANCIAL INFORMATION FOR SUBSIDIARY GUARANTORS AND NON-GUARANTORS

The 7.25% and 6.625% Senior Notes (collectively, the “Senior Notes”) issued by Scotts Miracle-Gro on January 14, 2010 and December 16, 2010, respectively, are guaranteed by certain of its domestic subsidiaries and, therefore, the Company has disclosed condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered. The following 100% directly or indirectly owned subsidiaries fully and unconditionally guarantee the Senior Notes on a joint and several basis: EG Systems, Inc., dba Scotts LawnService®; Gutwein & Co., Inc.; Hyponex Corporation; Miracle-Gro Lawn Products, Inc.; OMS Investments, Inc.; Rod McLellan Company; Sanford Scientific, Inc.; Scotts Temecula Operations, LLC; Scotts Manufacturing Company; Scotts Products Co.; Scotts Professional Products Co.; Scotts-Sierra Investments, Inc.; SMG Brands, Inc.; SMG Growing Media, Inc.; Swiss Farms Products, Inc.; and The Scotts Company LLC (collectively, the “Guarantors”).

The following information presents Condensed Consolidating Statements of Operations for the three and nine months ended June 29, 2013 and June 30, 2012, Condensed Consolidating Statements of Comprehensive Income for the three and nine months ended June 29, 2013 and June 30, 2012, Condensed Consolidating Statements of Cash Flows for the nine months ended June 29, 2013 and June 30, 2012, and Condensed Consolidating Balance Sheets as of June 29, 2013, June 30, 2012 and September 30, 2012. The condensed consolidating financial information presents, in separate columns, financial information for: Scotts Miracle-Gro on a Parent-only basis, carrying its investment in subsidiaries under the equity method; Guarantors on a combined basis, carrying their investments in subsidiaries which do not guarantee the debt (collectively, the “Non-Guarantors”) under the equity method; Non-Guarantors on a combined basis; and eliminating entries. The eliminating entries primarily reflect intercompany transactions, such as interest expense, accounts receivable and payable, short and long-term debt, and the elimination of equity investments and income in subsidiaries. Because the Parent is obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors or Non-Guarantors under the credit facility (and was obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors and Non-Guarantors under the previous senior secured five-year revolving loan facility), the borrowings and related interest expense for the loans outstanding of the Guarantors and Non-Guarantors are also presented in the accompanying Parent-only financial information, and are then eliminated.

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended June 29, 2013
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$—	$951.7	$196.4	$—	$ 1,148.1
Cost of sales	—	571.6	133.2	—	704.8
Cost of sales—impairment, restructuring and other	—	—	1.5	—	1.5
Gross profit	—	380.1	61.7	—	441.8
Operating expenses:					
Selling, general and administrative	—	134.7	54.8	—	189.5
Impairment, restructuring and other	—	—	7.0	—	7.0
Other income, net	—	(3.0)	(1.9)	—	(4.9)
Income from operations	—	248.4	1.8	—	250.2
Equity income in subsidiaries	(155.9)	(1.0)	—	156.9	—
Other non-operating income	(6.6)	—	—	6.6	—
Interest expense	14.6	8.6	0.2	(6.6)	16.8
Income from continuing operations before income taxes	147.9	240.8	1.6	(156.9)	233.4
Income tax expense (benefit) from continuing operations	(0.3)	84.9	0.6	—	85.2
Income from continuing operations	148.2	155.9	1.0	(156.9)	148.2
Income from discontinued operations, net of tax	—	—	—	—	—
Net income	$148.2	$155.9	$1.0	$ (156.9)	$ 148.2

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the nine months ended June 29, 2013
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$—	$1,948.8	$424.7	$—	$ 2,373.5
Cost of sales	—	1,226.9	293.4	—	1,520.3
Cost of sales—impairment, restructuring and other	—	—	1.6	—	1.6
Gross profit	—	721.9	129.7	—	851.6
Operating expenses:					
Selling, general and administrative	—	397.8	123.2	—	521.0
Impairment, restructuring and other	—	(0.4)	7.1	—	6.7
Other income, net	—	(4.6)	(2.9)	—	(7.5)
Income from operations	—	329.1	2.3	—	331.4
Equity income in subsidiaries	(203.7)	(0.1)	—	203.8	—
Other non-operating income	(18.9)	—	—	18.9	—
Interest expense	42.9	21.8	2.1	(18.9)	47.9
Income from continuing operations before income taxes	179.7	307.4	0.2	(203.8)	283.5
Income tax expense (benefit) from continuing operations	(0.8)	104.4	0.1	—	103.7
Income from continuing operations	180.5	203.0	0.1	(203.8)	179.8
Income from discontinued operations, net of tax	—	0.7	—	—	0.7
Net income	$180.5	$203.7	$0.1	$ (203.8)	$ 180.5

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Comprehensive Income
for the three months ended June 29, 2013
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net income	$148.2	$155.9	$1.0	$(156.9)	$148.2
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	—	—	(3.6)	—	(3.6)
Net change in derivatives	5.4	(0.6)	—	—	4.8
Net change in pension and other post retirement benefits	—	0.7	0.2	—	0.9
Total other comprehensive income (loss)	5.4	0.1	(3.4)	—	2.1
Comprehensive income (loss)	$153.6	$156.0	$(2.4)	$(156.9)	$150.3

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Comprehensive Income
for the nine months ended June 29, 2013
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net income	$180.5	$203.7	$0.1	$(203.8)	$180.5
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	—	—	(8.5)	—	(8.5)
Net change in derivatives	8.2	(1.8)	—	—	6.4
Net change in pension and other post retirement benefits	—	2.7	2.4	—	5.1
Total other comprehensive income (loss)	8.2	0.9	(6.1)	—	3.0
Comprehensive income (loss)	$188.7	$204.6	$(6.0)	$(203.8)	$183.5

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the nine months ended June 29, 2013
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$(21.6)	$118.0	$46.7	$—	$ 143.1
INVESTING ACTIVITIES					
Proceeds from sale of long-lived assets	—	0.1	3.4	—	3.5
Investments in property, plant and equipment	—	(37.9)	(4.8)	—	(42.7)
Investment in unconsolidated affiliates	—	(4.5)	—	—	(4.5)
Investment in acquired business, net of cash acquired	—	(3.2)	—	—	(3.2)
Net cash used in investing activities	—	(45.5)	(1.4)	—	(46.9)
FINANCING ACTIVITIES					
Borrowings under revolving and bank lines of credit	—	1,045.1	239.8	—	1,284.9
Repayments under revolving and bank lines of credit	—	(854.1)	(493.4)	—	(1,347.5)
Dividends paid	(60.7)	—	—	—	(60.7)
Payments on seller notes	—	(0.8)	—	—	(0.8)
Excess tax benefits from share-based payment arrangements	—	1.0	—	—	1.0
Cash received from the exercise of stock options	5.3	—	—	—	5.3
Intercompany financing	77.0	(263.8)	186.8	—	—
Net cash provided by (used in) financing activities	21.6	(72.6)	(66.8)	—	(117.8)
Effect of exchange rate changes on cash	—	—	(4.9)	—	(4.9)
Net decrease in cash and cash equivalents	—	(0.1)	(26.4)	—	(26.5)
Cash and cash equivalents, beginning of period	—	2.6	129.3	—	131.9
Cash and cash equivalents, end of period	$—	$2.5	$102.9	$—	$ 105.4

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of June 29, 2013
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$2.5	$102.9	$—	$105.4
Accounts receivable, net	—	266.8	215.6	—	482.4
Accounts receivable pledged	—	199.9	—	—	199.9
Inventories	—	307.8	78.0	—	385.8
Prepaid and other current assets	—	96.3	38.7	—	135.0
Total current assets	—	873.3	435.2	—	1,308.5
Property, plant and equipment, net	—	362.8	47.0	—	409.8
Goodwill	—	314.5	0.7	—	315.2
Intangible assets, net	—	258.2	39.4	—	297.6
Other assets	21.5	15.2	30.2	(35.7)	31.2
Equity investment in subsidiaries	991.4	—	—	(991.4)	—
Intercompany assets	294.4	156.7	—	(451.1)	—
Total assets	$1,307.3	$1,980.7	$552.5	$(1,478.2)	$2,362.3
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt	$—	$161.9	$3.6	$—	$165.5
Accounts payable	—	154.8	75.9	—	230.7
Other current liabilities	15.9	319.0	115.3	—	450.2
Total current liabilities	15.9	635.7	194.8	—	846.4
Long-term debt	542.8	132.4	15.7	(142.8)	548.1
Other liabilities	6.8	208.5	46.5	(35.8)	226.0
Equity investment in subsidiaries	—	183.0	—	(183.0)	—
Intercompany liabilities	—	—	308.2	(308.2)	—
Total liabilities	565.5	1,159.6	565.2	(669.8)	1,620.5
Shareholders' equity	741.8	821.1	(12.7)	(808.4)	741.8
Total liabilities and shareholders' equity	$1,307.3	$1,980.7	$552.5	$(1,478.2)	$2,362.3

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended June 30, 2012
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$—	$888.3	$166.6	$—	$ 1,054.9
Cost of sales	—	567.7	118.0	—	685.7
Cost of sales—product registration and recall matters	—	0.2	—	—	0.2
Gross profit	—	320.4	48.6	—	369.0
Operating expenses:					
Selling, general and administrative	—	150.3	47.3	—	197.6
Impairment, restructuring and other	—	—	(0.4)	—	(0.4)
Product registration and recall matters	—	3.8	—	—	3.8
Other income, net	—	(1.9)	(0.3)	—	(2.2)
Income from operations	—	168.2	2.0	—	170.2
Equity income in subsidiaries	(101.0)	(0.3)	—	101.3	—
Other non-operating income	(6.8)	—	—	6.8	—
Interest expense	14.8	7.1	1.5	(6.8)	16.6
Income from continuing operations before income taxes	93.0	161.4	0.5	(101.3)	153.6
Income tax expense (benefit) from continuing operations	(0.3)	57.3	0.2	—	57.2
Income from continuing operations	93.3	104.1	0.3	(101.3)	96.4
Loss from discontinued operations, net of tax	—	(3.1)	—	—	(3.1)
Net income	$93.3	$101.0	$0.3	$ (101.3)	$ 93.3

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the nine months ended June 30, 2012
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$—	$1,993.3	$431.6	$—	$ 2,424.9
Cost of sales	—	1,272.3	295.9	—	1,568.2
Cost of sales—product registration and recall matters	—	0.4	—	—	0.4
Gross profit	—	720.6	135.7	—	856.3
Operating expenses:					
Selling, general and administrative	—	434.7	122.3	—	557.0
Impairment, restructuring and other	—	7.9	(0.8)	—	7.1
Product registration and recall matters	—	7.4	—	—	7.4
Other income, net	—	(2.4)	(1.1)	—	(3.5)
Income from operations	—	273.0	15.3	—	288.3
Equity income in subsidiaries	(169.7)	(7.5)	—	177.2	—
Other non-operating income	(22.4)	—	—	22.4	—
Interest expense	46.3	22.4	3.5	(22.4)	49.8
Income from continuing operations before income taxes	145.8	258.1	11.8	(177.2)	238.5
Income tax expense (benefit) from continuing operations	(0.8)	85.2	4.3	—	88.7
Income from continuing operations	146.6	172.9	7.5	(177.2)	149.8
Loss from discontinued operations, net of tax	—	(3.2)	—	—	(3.2)
Net income	$146.6	$169.7	$7.5	$(177.2)	$ 146.6

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Comprehensive Income
for the three months ended June 30, 2012
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net income	$93.3	$101.0	$0.3	$(101.3)	$93.3
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	—	—	4.4	—	4.4
Net change in derivatives	(1.3)	(0.7)	—	—	(2.0)
Net change in pension and other post retirement benefits	—	0.8	0.7	—	1.5
Total other comprehensive income (loss)	(1.3)	0.1	5.1	—	3.9
Comprehensive income	$92.0	$101.1	$5.4	$(101.3)	$97.2

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Comprehensive Income
for the nine months ended June 30, 2012
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net income	$146.6	$169.7	$7.5	$(177.2)	$146.6
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	—	—	(0.5)	—	(0.5)
Net change in derivatives	1.2	(0.9)	—	—	0.3
Net change in pension and other post retirement benefits	—	2.3	1.3	—	3.6
Total other comprehensive income (loss)	1.2	1.4	0.8	—	3.4
Comprehensive income	$147.8	$171.1	$8.3	$(177.2)	$150.0

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the nine months ended June 30, 2012
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$(23.1)	$154.6	$(16.4)	$—	$115.1
INVESTING ACTIVITIES					
Proceeds from sale of long-lived assets	—	0.5	—	—	0.5
Investments in property, plant and equipment	—	(33.4)	(5.6)	—	(39.0)
Investment in acquired business, net of cash acquired	—	(6.7)	(0.3)	—	(7.0)
Net cash used in investing activities	—	(39.6)	(5.9)	—	(45.5)
FINANCING ACTIVITIES					
Borrowings under revolving and bank lines of credit	—	835.6	696.3	—	1,531.9
Repayments under revolving and bank lines of credit	—	(926.4)	(623.0)	—	(1,549.4)
Dividends paid	(55.5)	—	—	—	(55.5)
Purchase of common shares	(17.5)	—	—	—	(17.5)
Excess tax benefits from share-based payment arrangements	—	5.0	—	—	5.0
Cash received from the exercise of stock options	16.6	—	—	—	16.6
Intercompany financing	79.5	(30.5)	(49.0)	—	—
Net cash provided by (used in) financing activities	23.1	(116.3)	24.3	—	(68.9)
Effect of exchange rate changes on cash	—	—	0.7	—	0.7
Net increase (decrease) in cash and cash equivalents	—	(1.3)	2.7	—	1.4
Cash and cash equivalents, beginning of period	—	4.3	126.6	—	130.9
Cash and cash equivalents, end of period	$—	$3.0	$129.3	$—	$132.3

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of June 30, 2012
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$3.0	$129.3	$—	$132.3
Accounts receivable, net	—	354.4	162.3	—	516.7
Accounts receivable pledged	—	97.2	—	—	97.2
Inventories	—	377.9	91.4	—	469.3
Prepaid and other current assets	—	86.7	43.9	—	130.6
Total current assets	—	919.2	426.9	—	1,346.1
Property, plant and equipment, net	—	339.1	48.6	—	387.7
Goodwill	—	308.4	0.7	—	309.1
Intangible assets, net	—	265.3	43.4	—	308.7
Other assets	29.5	12.4	27.5	(36.9)	32.5
Equity investment in subsidiaries	935.9	—	—	(935.9)	—
Intercompany assets	417.3	92.6	—	(509.9)	—
Total assets	$1,382.7	$1,937.0	$547.1	$(1,482.7)	$2,384.1
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt	$—	$88.7	$2.1	$—	$90.8
Accounts payable	—	174.9	67.9	—	242.8
Other current liabilities	15.1	342.7	118.8	—	476.6
Total current liabilities	15.1	606.3	188.8	—	810.2
Long-term debt	676.3	84.2	196.1	(276.2)	680.4
Other liabilities	17.3	199.6	39.5	(36.9)	219.5
Equity investment in subsidiaries	—	281.3	—	(281.3)	