

SCOTTS MIRACLE-GRO CO
Form 10-Q
May 08, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2014

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 31-1414921
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

14111 SCOTTSLAWN ROAD, 43041
MARYSVILLE, OHIO (Zip Code)
(Address of principal executive offices)
(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 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 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 Accelerated filer
Non-accelerated filer (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

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

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Class
Common Shares, \$0.01 stated value, no par value

Outstanding at May 6, 2014
61,283,532 common shares

1

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
INDEX

PAGE NO.

PART I. FINANCIAL INFORMATION:

<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations — Three months and six months ended March 29, 2014 and March 30, 2013</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) — Three months and six months ended March 29, 2014 and March 30, 2013</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows — Six months ended March 29, 2014 and March 30, 2013</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets — March 29, 2014, March 30, 2013 and September 30, 2013</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>46</u>
<u>Item 4. Controls and Procedures</u>	<u>46</u>

PART II. OTHER INFORMATION:

<u>Item 1. Legal Proceedings</u>	<u>47</u>
<u>Item 1A. Risk Factors</u>	<u>47</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
<u>Item 6. Exhibits</u>	<u>49</u>
<u>Signatures</u>	<u>50</u>
<u>Index to Exhibits</u>	<u>51</u>

Table of Contents

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Statements of Operations

(In millions, except per common share data)

(Unaudited)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	MARCH 29, 2014	MARCH 30, 2013	MARCH 29, 2014	MARCH 30, 2013
Net sales	\$1,081.0	\$ 1,007.9	\$1,270.6	\$ 1,203.0
Cost of sales	647.2	630.6	802.9	795.1
Cost of sales—impairment, restructuring and other	—	0.1	—	0.1
Gross profit	433.8	377.2	467.7	407.8
Operating expenses:				
Selling, general and administrative	212.2	206.7	336.6	330.8
Impairment, restructuring and other	6.1	0.1	6.4	(0.3)
Other income, net	(1.6)	(1.5)	(2.7)	(2.6)
Income from operations	217.1	171.9	127.4	79.9
Costs related to refinancing	10.7	—	10.7	—
Interest expense	12.0	17.9	25.9	31.1
Income from continuing operations before income taxes	194.4	154.0	90.8	48.8
Income tax expense from continuing operations	68.7	54.9	30.9	18.0
Income from continuing operations	125.7	99.1	59.9	30.8
Income from discontinued operations, net of tax	—	0.9	0.1	1.5
Net income	\$125.7	\$ 100.0	\$60.0	\$ 32.3
Basic income per common share:				
Income from continuing operations	\$2.03	\$ 1.61	\$0.97	\$ 0.50
Income from discontinued operations	—	0.01	—	0.02
Basic income per common share	\$2.03	\$ 1.62	\$0.97	\$ 0.52
Weighted-average common shares outstanding during the period	61.9	61.6	62.0	61.5
Diluted income per common share:				
Income from continuing operations	\$2.00	\$ 1.59	\$0.95	\$ 0.49
Income from discontinued operations	—	0.01	—	0.02
Diluted income per common share	\$2.00	\$ 1.60	\$0.95	\$ 0.51
Weighted-average common shares outstanding during the period plus dilutive potential common shares	62.9	62.4	63.1	62.3
Dividends declared per common share	\$0.438	\$ 0.325	\$0.875	\$ 0.650
See notes to condensed consolidated financial statements.				

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In millions)

(Unaudited)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	MARCH 29, 2014	MARCH 30, 2013	MARCH 29, 2014	MARCH 30, 2013
Net income	\$ 125.7	\$ 100.0	\$ 60.0	\$ 32.3
Other comprehensive income (loss), net of tax:				
Net foreign currency translation adjustment	(2.7)	(1.2)	(4.1)	(4.9)
Net unrealized loss on derivative instruments, net of tax of \$2.0, \$0.6, \$1.8 and \$1.8, respectively	(3.3)	(1.0)	(2.9)	(2.9)
Reclassification of net unrealized loss on derivatives to net income, net of tax of \$2.4, \$2.1, \$4.3 and \$2.8, respectively	3.9	3.4	7.0	4.5
Net unrealized loss in pension and other post-retirement benefits, net of tax of \$0, \$0, \$0.2 and \$0, respectively	—	—	(0.3)	—
Reclassification of net pension and post-retirement benefit loss to net income, net of tax of \$0.5, \$1.9, \$1.0 and \$2.6, respectively	0.7	3.0	1.5	4.2
Total other comprehensive income (loss)	(1.4)	4.2	1.2	0.9
Comprehensive income	\$ 124.3	\$ 104.2	\$ 61.2	\$ 33.2
See notes to condensed consolidated financial statements.				

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Cash Flows
(In millions) (Unaudited)

	SIX MONTHS ENDED	
	MARCH 29, 2014	MARCH 30, 2013
OPERATING ACTIVITIES		
Net income	\$60.0	\$32.3
Adjustments to reconcile net income to net cash used in operating activities:		
Impairment, restructuring and other	—	4.6
Costs related to refinancing	3.5	—
Share-based compensation expense	6.4	8.5
Depreciation	25.7	27.4
Amortization	6.4	5.4
Loss on sale of long-lived assets	0.2	—
Gain on sale of business	(0.2)) —
Equity in net loss of unconsolidated affiliates	(0.1)) —
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(775.3)	) (638.8)
Inventories	(222.7)	) (201.2)
Prepaid and other assets	(39.5)	) (38.1)
Accounts payable	208.8	192.0
Other current liabilities	116.9	78.0
Restructuring reserves	(0.9)	) (4.1)
Other non-current items	(2.9)	) (8.3)
Other, net	(0.9)	) (3.0)
Net cash used in operating activities	(614.6)	) (545.3)
INVESTING ACTIVITIES		
Proceeds from sale of long-lived assets	—	0.1
Proceeds from sale of business, net of transaction costs	4.1	—
Investments in property, plant and equipment	(53.0)	) (34.6)
Investment in acquired business, net of cash acquired	(60.0)	) (3.2)
Net cash used in investing activities	(108.9)	) (37.7)
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit	1,715.5	1,166.8
Repayments under revolving and bank lines of credit	(661.3)	) (572.9)
Repayment of Senior Notes	(200.0)) —
Financing and issuance fees	(6.1)) —
Dividends paid	(54.5)	) (40.6)
Purchase of common shares	(59.6)) —
Payments on seller notes	(0.8)	) (0.8)
Excess tax benefits from share-based payment arrangements	3.8	0.7
Cash received from the exercise of stock options	7.9	2.7
Net cash provided by financing activities	744.9	555.9
Effect of exchange rate changes on cash	1.5	(5.7)
Net increase (decrease) in cash and cash equivalents	22.9	(32.8)
Cash and cash equivalents, beginning of period	129.8	131.9

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Cash and cash equivalents, end of period	\$152.7	\$99.1
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SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$(24.6) \$(27.2)
Call premium on 7.25% Senior Notes	\$(7.3) \$—)
Income taxes refunded	\$13.2	\$36.1)

See notes to condensed consolidated financial statements.

5

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Balance Sheets

(In millions, except stated value per share) (Unaudited)

	MARCH 29, 2014	MARCH 30, 2013	SEPTEMBER 30, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 152.7	\$ 99.1	\$ 129.8
Accounts receivable, less allowances of \$17.7, \$13.3 and \$9.5, respectively	746.9	713.9	206.6
Accounts receivable pledged	341.9	252.7	106.7
Inventories	546.2	613.0	324.9
Prepaid and other current assets	149.9	158.0	113.0
Total current assets	1,937.6	1,836.7	881.0
Property, plant and equipment, net of accumulated depreciation of \$593.8, \$565.9 and \$573.4, respectively	443.6	417.8	422.3
Goodwill	333.3	314.5	315.1
Intangible assets, net	318.5	299.2	284.4
Other assets	38.2	28.7	34.4
Total assets	\$3,071.2	\$2,896.9	\$ 1,937.2
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of debt	\$ 278.6	\$ 208.0	\$ 92.4
Accounts payable	342.5	327.5	137.7
Other current liabilities	397.0	352.7	279.7
Total current liabilities	1,018.1	888.2	509.8
Long-term debt	1,145.3	1,163.0	478.1
Other liabilities	232.1	238.8	238.8
Total liabilities	2,395.5	2,290.0	1,226.7
Contingencies (note 11)			
Shareholders' equity:			
Common shares and capital in excess of \$.01 stated value per share, 61.5, 61.7 and 62.0 shares issued and outstanding, respectively	395.0	402.7	397.5
Retained earnings	708.5	622.2	703.4
Treasury shares, at cost: 6.7, 6.5 and 6.1 shares, respectively	(351.2)	) (331.6)	) (312.6)
Accumulated other comprehensive loss	(76.6)	) (86.4)	) (77.8)
Total shareholders' equity	675.7	606.9	710.5
Total liabilities and shareholders' equity	\$3,071.2	\$2,896.9	\$ 1,937.2
See notes to condensed consolidated financial statements.			

Table of Contents

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 six months ended March 29, 2014 and March 30, 2013 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, 2013, which includes a complete set of footnote disclosures, including the Company’s significant accounting policies.

The Company’s Condensed Consolidated Balance Sheet at September 30, 2013 has been derived from the Company’s audited Consolidated Balance Sheet at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

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

Discontinued Operations Reporting

In April 2014, the FASB issued an accounting standard update that amends the accounting guidance related to discontinued operations. This amendment defines discontinued operations as a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity’s operations and financial results. This amendment also introduces new disclosures for disposals that do not meet the criteria of discontinued operations. The provisions are effective for fiscal years beginning after December 15, 2014 and applies to new disposals and new classifications of disposal groups as held for sale after the effective date. The adoption of the amended guidance impacts presentation and disclosure and will not have a significant impact on the Company’s consolidated financial position, results of operations or cash flows.

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 did not have a significant impact on the Company’s financial statements and related disclosures.

Table of Contents

NOTE 2. DISCONTINUED OPERATIONS

In March 2014, the Company completed the sale of its U.S. and Canadian wild bird food business, including intangible assets, certain on-hand inventory and fixed assets, for \$4.1 million in cash and an estimated \$1.0 million in future earn-out payments. As a result, effective in the second quarter of fiscal 2014, the Company classified its results of operations for all periods presented to reflect the wild bird food business as a discontinued operation.

The following table summarizes the results of the wild bird food business within discontinued operations for the periods presented:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	MARCH 29, 2014	MARCH 30, 2013	MARCH 29, 2014	MARCH 30, 2013
	(In millions)			
Net sales	\$11.2	\$11.7	\$18.0	\$22.4
Operating costs	11.0	10.5	17.6	20.2
Gain on sale of business	(0.2)	—	(0.2)	—
Income from discontinued operations before income taxes	0.4	1.2	0.6	2.2
Income tax expense from discontinued operations	0.4	0.3	0.5	0.7
Income from discontinued operations, net of tax	\$—	\$0.9	\$0.1	\$1.5

NOTE 3. ACQUISITIONS

During the first quarter of fiscal 2014, the Company completed the \$60.0 million all-cash acquisition of the Tomcat[®] consumer rodent control business from Bell Laboratories, Inc. located in Madison, Wisconsin. Tomcat[®] consumer products are sold at home centers, mass retailers, grocery, drug and general merchandise stores across the U.S., Canada, Europe and Australia. The assessment of fair value is preliminary and is based on information that was available at the time the consolidated financial statements were prepared. During the second quarter of fiscal 2014, the valuation of acquired assets was updated based on actual results, which resulted in a reallocation of approximately \$1.7 million to finite-lived intangibles from goodwill. The revised valuation of acquired assets included finite-lived identifiable intangible assets of \$39.8 million, goodwill of \$18.2 million. Also, the Company received a \$2.0 million credit toward the purchase of finished goods in the months subsequent to acquisition date. Identifiable intangible assets included tradename, technology, customer relationships, product registrations and non-compete agreements with useful lives ranging between 10 - 30 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return. Net sales for the Tomcat[®] rodent control business for the three and six months ended March 29, 2014 were \$6.6 million and \$12.2 million, respectively.

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 "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations.

During the three months ended March 29, 2014, the Company recognized \$3.9 million in restructuring costs related to termination benefits provided to U.S. marketing personnel as part of the Company's restructuring of its U.S. marketing group. In addition, for the three months ended March 29, 2014, the Company recognized \$2.0 million in additional ongoing monitoring and remediation costs for the Company's turfgrass biotechnology program.

The Company also recognized \$0.2 million and \$0.5 million of international restructuring costs during the three and six months ended March 29, 2014 and \$0.2 million during the three months ended March 30, 2013, respectively. The

restructuring costs related to termination benefits provided to international employees as part of 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.

8

Table of Contents

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 first quarter of fiscal 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.

The following table summarizes the activity related to liabilities associated with the restructuring and other charges during the six months ended March 29, 2014 (in millions):

Amounts reserved for restructuring and other charges at September 30, 2013	\$ 11.1
Restructuring and other charges	6.4
Payments and other	(7.3)
Amounts reserved for restructuring and other charges at March 29, 2014	\$ 10.2

Payments and other for the three months ended March 29, 2014 were \$3.1 million. Included in the restructuring reserves as of March 29, 2014 is \$3.1 million that is classified as long-term. Payments against the long-term reserves will be incurred as the employees covered by the 2012 restructuring plan retire. The remaining amounts reserved will continue to be paid out over the course of the remainder of fiscal 2014.

NOTE 5. INVENTORIES

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

	MARCH 29, 2014	MARCH 30, 2013	SEPTEMBER 30, 2013
	(In millions)		
Finished goods	\$376.8	\$410.3	\$ 182.6
Work-in-process	43.7	53.6	42.7
Raw materials	125.7	149.1	99.6
Total inventories	\$546.2	\$613.0	\$ 324.9

Adjustments to reflect inventories at net realizable values were \$20.4 million at March 29, 2014, \$18.5 million at March 30, 2013 and \$19.7 million at September 30, 2013.

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 five years as of March 29, 2014.

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.

9

Table of Contents

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		SIX MONTHS ENDED	
	MARCH 29, 2014	MARCH 30, 2013	MARCH 29, 2014	MARCH 30, 2013
	(In millions)			
Gross commission	\$33.1	\$27.4	\$33.1	\$27.4
Contribution expenses	(5.0)	) (5.0)	(10.0)	) (10.0)
Amortization of marketing fee	(0.2)	) (0.2)	(0.4)	) (0.4)
Net commission income	27.9	22.2	22.7	17.0
Reimbursements associated with Marketing Agreement	18.7	20.9	33.8	34.6
Total net sales associated with Marketing Agreement	\$46.6	\$43.1	\$56.5	\$51.6

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, 2015. 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.

NOTE 7. DEBT

The components of long-term debt are as follows:

	MARCH 29, 2014	MARCH 30, 2013	SEPTEMBER 30, 2013
	(In millions)		
Credit facility – Revolving loans	\$941.3	\$757.5	\$73.0
Senior Notes – 7.25%	—	200.0	200.0
Senior Notes – 6.625%	200.0	200.0	200.0

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Master Accounts Receivable Purchase Agreement	273.5	202.1	85.3
Other	9.1	11.4	12.2
	1,423.9	1,371.0	570.5
Less current portions	278.6	208.0	92.4
Total long-term debt	\$1,145.3	\$1,163.0	\$478.1

10

Table of Contents

On January 15, 2014, the Company redeemed all of its outstanding \$200.0 million aggregate principal amount of 7.25% senior notes due 2018 (the “7.25% Senior Notes”) paying a redemption price of \$214.5 million, which included \$7.25 million of accrued and unpaid interest, \$7.25 million of call premium, and \$200.0 million for outstanding principal amount. The \$7.25 million call premium charge was recognized within the “Costs related to refinancing” line on the Condensed Consolidated Statement of Operations in the Company's second quarter of fiscal 2014. Additionally, the Company had \$3.5 million in unamortized bond discount and issuance costs associated with the 7.25% senior notes that were written-off and recognized in the “Costs related to refinancing” line on the Condensed Consolidated Statement of Operations in the Company's second quarter of fiscal 2014.

On December 20, 2013, the Company entered into a third amended and restated senior secured credit agreement (“credit facility”), providing the Company and certain of its subsidiaries with a five-year senior secured revolving loan facility in the aggregate principal amount of up to \$1.7 billion. The third amended and restated senior secured credit agreement also provides the Company with the right to seek to increase the credit facility by an aggregate amount of up to \$450.0 million, subject to certain specified conditions. The credit agreement replaces the Company's second amended and restated senior secured credit agreement, which was entered into on June 30, 2011, and would have terminated on June 30, 2016 if it had not been terminated early pursuant to the credit facility.

The terms of the third amended and restated credit agreement include customary representations and warranties, customary affirmative and negative covenants, customary financial covenants and customary events of default. The proceeds of borrowings on the credit facility may be used: (i) to finance working capital requirements and other general corporate purposes of the Company and its subsidiaries; and (ii) to refinance the amounts outstanding under the previous credit agreement. The Company may use the credit facility for issuance of up to \$75 million of letters of credit and for borrowings under swing line loans of up to \$100 million. The credit facility will terminate on December 20, 2018.

Under the terms of the third amended and restated credit agreement, loans made under the credit facility bear interest, at the Company's election, at a rate per annum equal to either the ABR or LIBOR (both as defined in the credit agreement) plus the applicable margin. The credit facility is guaranteed by substantially all of the Company's domestic subsidiaries. The credit facility is secured by (1) a perfected first priority security interest in all of the accounts receivable, inventory and equipment of the Company and those of the Company's domestic subsidiaries that are parties to the third amended and restated guarantee and collateral agreement and (2) the pledge of all of the capital stock of the Company's domestic subsidiaries that are parties to the third amended and restated guarantee and collateral agreement.

As of March 29, 2014, there was \$735.4 million of availability under the Company's 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 March 29, 2014, the Company had letters of credit in the aggregate face amount of \$23.3 million outstanding on the credit facility.

The third amended and restated credit agreement 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 4.00 as of March 29, 2014. The Company's leverage ratio was 1.83 at March 29, 2014. 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 March 29, 2014. The Company's interest coverage ratio was 7.18 for the twelve months ended March 29, 2014. The Company may make restricted payments (as defined in the third amended and restated credit agreement); provided that if after giving effect to any such restricted payment the leverage ratio is not greater than 3.00. Otherwise the Company may only make restricted payments in an aggregate amount for each fiscal year not to exceed the amount set forth for such fiscal year (\$150.0 million for 2014 and 2015 and \$175.0 million for 2016 and in each fiscal year thereafter).

The Company accounts for the sale of receivables under the Master Accounts Receivable Purchase Agreement (“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 10. DEBT” in the Company's Form 10-K for the year ended September 30, 2013 for more information regarding the MARP Agreement. There were \$273.5 million in borrowings under the MARP Agreement as of March 29, 2014 and \$202.1 million in borrowings as of March 30, 2013. The carrying value of the receivables pledged as collateral was \$341.9 million as of March 29, 2014 and \$252.7 million as of March 30, 2013. As of March 29, 2014, there was \$126.5 million of availability under the MARP Agreement.

Table of Contents

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.

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 March 29, 2014, March 30, 2013 and September 30, 2013, the fair value of the 6.625% Senior Notes was approximately \$217.2 million, \$219.1 million and \$213.5 million, respectively. The fair value measurement for the 6.625% Senior Notes was classified in Level 1 of the fair value hierarchy.

Accounts Receivable Pledged

The interest rate on the short-term debt associated with accounts receivable pledged under the 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.

Interest Rate Swap Agreements

At March 29, 2014, March 30, 2013 and September 30, 2013, 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 \$1,300.0 million at March 29, 2014, and \$1,100.0 million at March 30, 2013 and September 30, 2013. 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.

Notional Amount (in millions)	Effective Date (a)	Expiration Date	Fixed Rate
\$50	2/14/2012	2/14/2016	3.78%
200	2/7/2014	11/7/2017	1.28%
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	(c) 2/7/2017	5/7/2019	2.25%
200	(c) 12/20/2016	6/20/2019	2.12%

- (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.

Table of Contents

Weighted Average Interest Rate

The weighted average interest rates on average debt were 5.7% and 6.0% for the six months ended March 29, 2014 and March 30, 2013, respectively.

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			MARCH 30, 2013		
	MARCH 29, 2014			MARCH 30, 2013		
	U.S. Pension	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
	(In millions)					
Service cost	\$—	\$0.3	\$0.1	\$—	\$0.4	\$0.1
Interest cost	1.1	1.9	0.4	1.0	2.5	0.3
Expected return on plan assets	(1.3	) (2.2	) —	(1.3	) (2.7) —
Net amortization	0.9	0.3	—	1.2	0.4	0.1
Net periodic benefit cost	\$0.7	\$0.3	\$0.5	\$0.9	\$0.6	\$0.5

	SIX MONTHS ENDED			MARCH 30, 2013		
	MARCH 29, 2014			MARCH 30, 2013		
	U.S. Pension	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
	(In millions)					
Service cost	\$—	\$0.8	\$0.2	\$—	\$0.8	\$0.2
Interest cost	2.2	5.1	0.7	2.0	5.0	0.6
Expected return on plan assets	(2.6	) (5.8	) —	(2.6	) (5.4) —
Net amortization	1.9	0.8	—	2.4	0.8	0.2
Net periodic benefit cost	\$1.5	\$0.9	\$0.9	\$1.8	\$1.2	\$1.0

NOTE 9. SHAREHOLDERS' EQUITY

During the six months ended March 29, 2014, Scotts Miracle-Gro repurchased 1.1 million of its common shares (the "Common Shares") for \$59.6 million. These repurchases were made pursuant to the \$700 million share repurchase program approved by the Scotts Miracle-Gro Board of Directors. Since the inception of the program in the fourth quarter of fiscal 2010 through March 29, 2014, Scotts Miracle-Gro has repurchased approximately 8.9 million Common Shares for \$460.8 million to be held in treasury.

Share-Based Awards

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

	SIX MONTHS ENDED	
	MARCH 29, 2014	MARCH 30, 2013
Employees		
Restricted stock units	105,365	129,069
Performance units	161,229	178,321
Board of Directors		
Deferred stock units	20,894	29,443
Total share-based awards	287,488	336,833
Aggregate fair value at grant dates (in millions)	\$17.1	\$15.2

Table of Contents

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	MARCH 29, 2014	MARCH 30, 2013	MARCH 29, 2014	MARCH 30, 2013
	(In millions)			
Share-based compensation	\$4.6	\$6.6	\$6.4	\$8.5
Tax benefit recognized	1.8	2.5	2.4	3.3

As of March 29, 2014, total unrecognized compensation cost related to non-vested share-based awards amounted to \$17.4 million. This cost is expected to be recognized over a weighted-average period of 2.2 years. The tax benefit realized from the tax deductions associated with the exercise of share-based awards and the vesting of restricted stock totaled \$3.8 million for the first six months of fiscal 2014.

Stock Options/SARs

Aggregate stock option and SARs activity consisted of the following (options/SARs in millions):

	No. of Options/SARs	WTD. Avg. Exercise Price
Awards outstanding at September 30, 2013	2.7	\$37.60
Granted	—	—
Exercised	(0.4	) 29.04
Forfeited	—	—
Awards outstanding at March 29, 2014	2.3	39.05
Exercisable	1.9	37.50

At March 29, 2014, the Company expects 0.3 million stock options (after forfeitures), with a weighted-average exercise price of \$47.66, intrinsic value of \$4.2 million and average remaining term of 7.8 years, to vest in the future. The following summarizes certain information pertaining to stock option and SAR awards outstanding and exercisable at March 29, 2014 (options/SARs in millions):

Range of Exercise Price	Awards Outstanding			Awards Exercisable		
	No. of Options/ SARs	WTD. Avg. Remaining Life	WTD. Avg. Exercise Price	No. of Options/ SARS	WTD. Avg. Remaining Life	WTD. Avg. Exercise Price
\$20.12 – \$28.72	0.3	4.33	\$22.02	0.3	4.33	\$22.02
\$29.01 – \$31.62	0.2	0.84	29.17	0.2	0.84	29.17
\$33.25 – \$37.48	0.2	1.54	35.74	0.2	1.54	35.74
\$37.89 – \$38.90	0.6	3.10	38.56	0.6	3.10	38.56
\$40.81 – \$51.73	1.0	6.61	47.37	0.6	5.94	47.21
	2.3	4.34	\$39.05	1.9	3.72	\$37.50

Table of Contents

The intrinsic value of the stock option and SAR awards outstanding and exercisable at March 29, 2014 were as follows:

	(In millions)
Outstanding	\$47.5
Exercisable	43.3
Restricted share-based awards	

Restricted share-based award activity (including restricted stock, restricted stock units and deferred stock units) was as follows:

	No. of Shares	WTD. Avg. Grant Date Fair Value per Share
Awards outstanding at September 30, 2013	409,651	\$47.36
Granted	126,259	59.41
Vested	(78,874	) 42.26
Forfeited	(29,479	) 45.89
Awards outstanding at March 29, 2014	427,557	51.96

For the six months ended March 29, 2014, the total fair value of restricted stock units vested was \$3.3 million.

Performance-based awards

Performance-based award activity was as follows:

	No. of Units	WTD. Avg. Grant Date Fair Value per Unit
Awards outstanding at September 30, 2013	261,917	\$46.81
Granted	161,229	59.39
Vested	—	—
Forfeited	(55,778	) 50.88
Awards outstanding at March 29, 2014	367,368	51.71

NOTE 10. INCOME TAXES

The effective tax rate related to continuing operations for the six months ended March 29, 2014 was 34.0%, compared to 36.9% for the six months ended March 30, 2013. The Company recognized discrete tax benefits of \$1.6 million for the three months ended March 29, 2014. 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 the Internal Revenue Service and certain foreign and U.S. state and local tax authorities. The U.S. federal examination is limited to fiscal year 2011. Regarding the foreign jurisdictions, an audit is currently underway in France covering fiscal years 2010 through 2012. In regard to the multiple U.S., state and local audits, the tax periods under examination are limited to fiscal years 2007 through 2012. 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 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.

Table of Contents

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, the 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.

Regulatory Matters

At March 29, 2014, \$6.1 million was accrued in the "Other liabilities" line in the Consolidated Balance Sheet for environmental actions, the majority of which are 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 reasonably 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

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.

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 allege, among other things, a purported class action on behalf of all persons and entities in the United States who purchased certain bird food products. The plaintiffs seek monetary damages (actual, compensatory, consequential, punitive, and treble); reimbursement, restitution, and disgorgement for benefits unjustly conferred; injunctive and declaratory relief; pre-judgment and post-judgment interest; and costs and attorneys' fees. 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 the Company has not recorded any accruals with respect thereto.

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.

Table of Contents**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 forward contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. At March 29, 2014, the notional amount of outstanding foreign currency forward contracts was \$197.8 million, with a negative fair value of \$0.2 million. At March 30, 2013, the notional amount of outstanding foreign currency forward contracts was \$266.8 million, with a fair value of \$7.1 million. At September 30, 2013, the notional amount of outstanding foreign currency forward contracts was \$80.4 million, with a negative fair value of \$2.1 million. The fair value of foreign currency forward 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 except for any ineffective portion of the change in fair value, which is immediately recorded in interest expense. 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. On December 20, 2013, in conjunction with entering into the third amended and restated senior secured credit facility, the Company recognized hedge ineffectiveness of \$2.0 million which was recorded to interest expense.

At March 29, 2014, March 30, 2013 and September 30, 2013, 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 \$1,300.0 million at March 29, 2014 and \$1,100.0 million at March 30, 2013 and September 30, 2013, respectively. Included in the AOCI balance at March 29, 2014 was a loss of \$5.3 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 March 29, 2014 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 March 29, 2014 was a gain of \$0.4 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 March 29, 2014 was a gain of \$0.1 million 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.

Table of Contents

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

Commodity	MARCH 29, 2014	MARCH 30, 2013	SEPTEMBER 30, 2013
Urea	15,000 tons	22,500 tons	49,500 tons
Diesel	2,940,000 gallons	3,738,000 gallons	3,528,000 gallons
Gasoline	756,000 gallons	644,000 gallons	630,000 gallons
Heating Oil	2,730,000 gallons	2,856,000 gallons	2,940,000 gallons

Fair Values of Derivative Instruments

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

		ASSETS / (LIABILITIES)		
		MARCH 29, 2014	MARCH 30, 2013	SEPTEMBER 30, 2013
DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS	BALANCE SHEET LOCATION	FAIR VALUE		
		(In millions)		
Interest rate swap agreements	Other assets	\$5.1	\$—	\$ 3.7
	Other current liabilities	(10.6	) (8.2	) (8.3
	Other liabilities	(9.4	) (17.6	) (12.1
Commodity hedging instruments	Prepaid and other current assets	0.5	0.3	0.1
	Other current liabilities	—	(0.2	) (2.0
Total derivatives designated as hedging instruments		\$(14.4	) \$(25.7	) \$( 18.6
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS				
		BALANCE SHEET LOCATION		
Foreign currency forward contracts	Prepaid and other current assets	\$0.3	\$7.3	\$ —
	Other current liabilities	(0.5	) (0.2	) (2.1
Commodity hedging instruments	Prepaid and other current assets	—	0.3	—
	Other current liabilities	—	—	(0.3
Total derivatives not designated as hedging instruments		\$(0.2	) \$7.4	\$ (2.4
Total derivatives		\$(14.6	) \$(18.3	) \$( 21.0

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 MARCH 29, 2014	THREE MONTHS ENDED MARCH 30, 2013	SIX MONTHS ENDED MARCH 29, 2014	SIX MONTHS ENDED MARCH 30, 2013
(In millions)				
Interest rate swap agreements	\$(4.0	) \$(1.0	) \$(4.8	) \$(1.9
Commodity hedging instruments	0.7	—	1.9	(1.0
Total	\$(3.3	) \$(1.0	) \$(2.9	) \$(2.9

DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS	RECLASSIFIED FROM AOCI INTO STATEMENT OF OPERATIONS	AMOUNT OF GAIN / (LOSS)			
		THREE MONTHS ENDED MARCH 29, 2014	THREE MONTHS ENDED MARCH 30, 2013	SIX MONTHS ENDED MARCH 29, 2014	SIX MONTHS ENDED MARCH 30, 2013
(In millions)					

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Interest rate swap agreements	Interest expense	\$(4.0)	\$(3.5)	\$(7.1)	\$(4.7)
Commodity hedging instruments	Cost of sales	0.1		0.1		0.1		0.2	
Total		\$(3.9	)	\$(3.4	)	\$(7.0	)	\$(4.5)

18

Table of Contents

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS	RECOGNIZED IN STATEMENT OF OPERATIONS	AMOUNT OF GAIN / (LOSS)				
		THREE MONTHS ENDED		SIX MONTHS ENDED		
		MARCH 29, 2014	MARCH 30, 2013	MARCH 29, 2014	MARCH 30, 2013	
		(In millions)				
Foreign currency forward contracts	Interest expense	\$(1.1	) \$11.2	\$(2.4	) \$9.6
Commodity hedging instruments	Cost of sales	(0.3) 0.4	0.3	(0.1)
Total		\$(1.4	) \$11.6	\$(2.1	) \$9.5

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 forward 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.

Table of Contents

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at March 29, 2014:

	Quoted Prices in Active Markets for Identical Assets (Level 1) (In millions)	Significant Observable Inputs (Level 2)	Other Inputs (Level 3)	Unobservable Inputs (Level 3)	Total
Assets					
Cash equivalents	\$86.3	\$—		\$—	\$86.3
Derivatives					
Interest rate swap agreements	—	5.1		—	5.1
Foreign currency forward contracts	—	0.3		—	0.3
Commodity hedging instruments	—	0.5		—	0.5
Other	8.3	—		—	8.3
Total	\$94.6	\$5.9		\$—	\$100.5
Liabilities					
Derivatives					
Interest rate swap agreements	\$—	\$(20.0)	)	\$—	\$(20.0)
Foreign currency forward contracts	—	(0.5)	)	—	(0.5)
Total	\$—	\$(20.5)	)	\$—	\$(20.5)

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at March 30, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1) (In millions)	Significant Observable Inputs (Level 2)	Other Inputs (Level 3)	Unobservable Inputs (Level 3)	Total
Assets					
Cash equivalents	\$78.3	\$—		\$—	\$78.3
Derivatives					
Foreign currency forward contracts	—	7.3		—	7.3
Commodity hedging instruments	—	0.6		—	0.6
Other	6.8	—		—	6.8
Total	\$85.1	\$7.9		\$—	\$93.0
Liabilities					
Derivatives					
Interest rate swap agreements	\$—	\$(25.8)	)	\$—	\$(25.8)
Foreign currency forward contracts	—	(0.2)	)	—	(0.2)
Commodity hedging instruments	—	(0.2)	)	—	(0.2)
Total	\$—	\$(26.2)	)	\$—	\$(26.2)

Table of Contents

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at September 30, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1) (In millions)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets				
Cash equivalents	\$83.9	\$—	\$—	\$83.9
Derivatives				
Interest rate swap agreements	—	3.7	—	3.7
Commodity hedging instruments	—	0.1	—	0.1
Other	7.0	—	—	7.0
Total	\$90.9	\$3.8	\$—	\$94.7
Liabilities				
Derivatives				
Interest rate swap agreements	\$—	\$(20.4)	\$—	\$(20.4)
Foreign currency forward contracts	—	(2.1)	—	(2.1)
Commodity hedging instruments	—	(2.3)	—	(2.3)
Total	\$—	\$(24.8)	\$—	\$(24.8)

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 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.

Table of Contents

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	MARCH 29, 2014	MARCH 30, 2013	MARCH 29, 2014	MARCH 30, 2013
	(In millions)			
Net sales:				
Global Consumer	\$1,046.0	\$962.8	\$1,184.4	\$1,105.4
Scotts LawnService®	28.9	32.9	75.2	77.7
Segment total	1,074.9	995.7	1,259.6	1,183.1
Corporate & Other	6.1	12.2	11.0	19.9
Consolidated	\$1,081.0	\$1,007.9	\$1,270.6	\$1,203.0
Income (loss) from continuing operations before income taxes:				
Global Consumer	\$269.5	\$218.9	\$202.1	\$150.2
Scotts LawnService®	(20.3	) (17.0	) (17.7	) (17.9
Segment total	249.2	201.9	184.4	132.3
Corporate & Other	(23.0	) (27.3	) (44.7	) (47.6
Intangible asset amortization	(3.0	) (2.5	) (5.9	) (5.0
Impairment, restructuring and other	(6.1	) (0.2	) (6.4	) 0.2
Costs related to refinancing	(10.7	) —	(10.7) —
Interest expense	(12.0	) (17.9	) (25.9	) (31.1
Consolidated	\$194.4	\$154.0	\$90.8	\$48.8
		MARCH 29, 2014	MARCH 30, 2013	SEPTEMBER 30, 2013
		(In millions)		
Total assets:				
Global Consumer		\$2,721.6	\$2,517.1	\$1,564.2
Scotts LawnService®		181.0	180.1	189.8
Corporate & Other		168.6	199.7	183.2
Consolidated		\$3,071.2	\$2,896.9	\$1,937.2

Table of Contents

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

The 6.625% Senior Notes (the “Senior Notes”) issued by Scotts Miracle-Gro on December 16, 2010 are guaranteed at March 29, 2014 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. On January 15, 2014, the Company redeemed all of its outstanding \$200 million aggregate principal amount of the 7.25% Senior Notes which were previously guaranteed by certain of its domestic subsidiaries. The guarantees are “full and unconditional,” as those terms are used in Regulation S-X Rule 3-10, except that a subsidiary’s guarantee will be automatically released in certain customary circumstances, such as (1) upon any sale or other disposition of all or substantially all of the assets of the subsidiary (including by way of merger or consolidation) to any person other than Scotts Miracle-Gro or any “restricted subsidiary” under the applicable indenture; (2) if the subsidiary merges with and into Scotts Miracle-Gro, with Scotts Miracle-Gro surviving such merger; (3) if the subsidiary is designated an “unrestricted subsidiary” in accordance with the applicable indenture or otherwise ceases to be a “restricted subsidiary” (including by way of liquidation or dissolution) in a transaction permitted by such indenture; (4) upon legal or covenant defeasance; (5) upon satisfaction and discharge of the Senior Notes; or (6) if the subsidiary ceases to be a “wholly owned restricted subsidiary” and the subsidiary is not otherwise required to provide a guarantee of the Senior Notes pursuant to the applicable indenture. The following 100% directly or indirectly owned subsidiaries fully and unconditionally guarantee at March 29, 2014 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 LLC; SMG Growing Media, Inc.; Swiss Farms Products, Inc.; SMGM LLC; SLS Franchise Systems, LLC; and The Scotts Company LLC (collectively, the “Guarantors”). SLS Franchise Systems, LLC was added as a guarantor to The Scotts Miracle-Gro Company indenture governing its 6.625% Notes on February 25, 2014. Accordingly, SLS Franchise Systems, LLC has been added as a Guarantor for the three month period ending March 29, 2014.

The following information presents Condensed Consolidating Statements of Operations for the three and six months ended March 29, 2014 and March 30, 2013, Condensed Consolidating Statements of Comprehensive Income (Loss) for the three and six months ended March 29, 2014 and March 30, 2013, Condensed Consolidating Statements of Cash Flows for the six months ended March 29, 2014 and March 30, 2013, and Condensed Consolidating Balance Sheets as of March 29, 2014, March 30, 2013 and September 30, 2013. 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, return on 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. Included in the Parent Condensed Consolidating Statement of Cash Flow for March 29, 2014 and March 30, 2013, respectively are \$128.6 million and \$40.6 million of dividends paid by the Guarantors to the Parent.

In the Condensed Consolidating Statement of Cash Flows for the six months ended March 30, 2013 (which was previously presented in our Form 10-Q dated May 7, 2013 and is presented herein), the Company reclassified intercompany dividends received by Parent from Guarantors from “Net Cash (Used In) Provided By Financing Activities” to “Net Cash (Used In) Provided By Operating Activities.” In the Condensed Consolidating Balance Sheet as

of September 30, 2013 (which was previously presented in our Form 10-K dated November 20, 2013 and is presented herein), the Company made a correction to properly reflect the Senior Notes and the credit agreement as Parent debt and the Company made related correcting adjustments to Parent intercompany assets and the elimination entries. The Company believes these changes are immaterial.

Similarly, the Company has identified adjustments in the classification of intercompany dividends received by Parent from Guarantors between “Net Cash (Used In) Provided By Financing Activities” and “Net Cash (Used In) Provided By Operating Activities” in the Condensed Consolidating Statements of Cash Flows for the each of the three years ended September 30, 2013. The amounts of such dividends for the fiscal years ended September 30, 2013, 2012, and 2011 were \$87.8 million, \$75.4 million and \$67.9 million, respectively. As the Company believes these amounts are immaterial, the disclosures will be corrected in future filings.

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended March 29, 2014
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated	
Net sales	\$—	\$899.0	\$182.0	\$—	\$ 1,081.0	
Cost of sales	—	527.0	120.2	—	647.2	
Gross profit	—	372.0	61.8	—	433.8	
Operating expenses:						
Selling, general and administrative	—	170.5	41.7	—	212.2	
Impairment, restructuring and other	—	5.9	0.2	—	6.1	
Other income, net	—	(1.0) (0.6) —	(1.6)
Income from operations	—	196.6	20.5	—	217.1	
Equity income in subsidiaries	(143.5	) (7.4	) —	150.9	—
Other non-operating income	(5.1	) —	(5.7	) 10.8	—
Costs related to refinancing	10.7	—	—	—	10.7	
Interest expense	12.5	9.9	0.4	(10.8	) 12.0
Income from continuing operations before income taxes	125.4	194.1	25.8	(150.9	) 194.4
Income tax expense (benefit) from continuing operations	(0.3	) 59.9	9.1	—	68.7
Income from continuing operations	125.7	134.2	16.7	(150.9	) 125.7
Income (loss) from discontinued operations, net of tax	—	(0.2	) 0.2	—	—
Net income	\$125.7	\$134.0	\$16.9	\$(150.9	) \$ 125.7

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the six months ended March 29, 2014
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
Net sales	\$—	\$1,043.6	\$227.0	\$—	\$ 1,270.6
Cost of sales	—	645.1	157.8	—	802.9
Gross profit	—	398.5	69.2	—	467.7
Operating expenses:					
Selling, general and administrative	—	268.4	68.2	—	336.6
Impairment, restructuring and other	—	5.9	0.5	—	6.4
Other income, net	—	(2.1)	(0.6)	—	(2.7)
Income from operations	—	126.3	1.1	—	127.4
Equity income in subsidiaries	(87.6)	(3.5)	—	91.1	—
Other non-operating income	(9.5)	—	(11.0)	20.5	—
Costs related to refinancing	10.7	—	—	—	10.7
Interest expense	26.6	19.4	0.4	(20.5)	25.9
Income from continuing operations before income taxes	59.8	110.4	11.7	(91.1)	90.8
Income tax expense (benefit) from continuing operations	(0.2)	27.1	4.0	—	30.9
Income from continuing operations	60.0	83.3	7.7	(91.1)	59.9
Income (loss) from discontinued operations, net of tax	—	(0.3)	0.4	—	0.1
Net income	\$60.0	\$83.0	\$8.1	\$(91.1)	\$ 60.0

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Statement of Comprehensive Income (Loss)

for the three months ended March 29, 2014

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
Net income	\$125.7	\$134.0	\$16.9	\$(150.9)	\$ 125.7
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	(2.7)	—	(2.7)	2.7	(2.7)
Net change in derivatives	0.6	(0.6)	—	0.6	0.6
Net change in pension and other post retirement benefits	0.7	0.5	0.2	(0.7)	0.7
Total other comprehensive loss	(1.4)	(0.1)	(2.5)	2.6	(1.4)
Comprehensive income	\$124.3	\$133.9	\$14.4	\$(148.3)	\$ 124.3

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
 Condensed Consolidated Statement of Comprehensive Income (Loss)
 for the six months ended March 29, 2014
 (In millions)
 (Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
Net income	\$60.0	\$83.0	\$8.1	\$(91.1)	\$60.0
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	(4.1)	—	(4.1)	4.1	(4.1)
Net change in derivatives	4.1	1.8	—	(1.8)	4.1
Net change in pension and other post retirement benefits	1.2	1.1	0.1	(1.2)	1.2
Total other comprehensive income (loss)	1.2	2.9	(4.0)	1.1	1.2
Comprehensive income	\$61.2	\$85.9	\$4.1	\$(90.0)	\$61.2

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the six months ended March 29, 2014
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$110.3	\$(474.1)	\$(122.2)	\$(128.6)	\$(614.6)
INVESTING ACTIVITIES					
Proceeds from sale of business, net of transaction costs—		3.1	1.0	—	4.1
Investments in property, plant and equipment —		(50.1)	(2.9)	—	(53.0)
Investment in acquired business, net of cash acquired —		(60.0)	—	—	(60.0)
Net cash used in investing activities —		(107.0)	(1.9)	—	(108.9)
FINANCING ACTIVITIES					