

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)

☒ 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 SCOTTS LAWN ROAD,
MARYSVILLE, OHIO

(Address of principal executive offices)
(937) 644-0011

43041

(Zip Code)

(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:

Edgar Filing: SCOTTS MIRACLE-GRO CO - Form 10-Q

Class

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

Outstanding at August 5, 2013

61,879,752 common shares

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
INDEX

PAGE NO.

PART I. FINANCIAL INFORMATION:

<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Condensed Consolidated Statements of Operations — Three and nine months ended June 29, 2013 and June 30, 2012</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Comprehensive Income — Three and nine months ended June 29, 2013 and June 30, 2012</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Cash Flows — Nine months ended June 29, 2013 and June 30, 2012</u>	<u>5</u>
	<u>Condensed Consolidated Balance Sheets — June 29, 2013, June 30, 2012 and September 30, 2011</u>	<u>6</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>43</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>43</u>

PART II. OTHER INFORMATION:

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>44</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>44</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>46</u>
	<u>Signatures</u>	<u>47</u>
	<u>Index to Exhibits</u>	<u>48</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		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.

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Statements of Comprehensive Income

(In millions)

(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 29,	JUNE 30,	JUNE 29,	JUNE 30,
	2013	2012	2013	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.

Table of Contents

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.

Table of Contents

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.			

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 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.

Table of Contents

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.

Table of Contents

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 realizable 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.

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		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

Edgar Filing: SCOTTS MIRACLE-GRO CO - Form 10-Q

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

10

Table of Contents

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.

Table of Contents

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	) —

Edgar Filing: SCOTTS MIRACLE-GRO CO - Form 10-Q

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

12

Table of Contents**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

Table of Contents

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.

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 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.

Table of Contents

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		ASSETS / (LIABILITIES)			
		JUNE 29, 2013	JUNE 30, 2012	SEPTEMBER 30, 2012	
BALANCE SHEET LOCATION		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	THREE MONTHS ENDED JUNE 30, 2012	NINE MONTHS ENDED JUNE 29, 2013	NINE MONTHS ENDED JUNE 30, 2012
		(In millions)			
Interest rate swap agreements		\$2.7	\$(3.7	) \$0.8	\$(8.3
		(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			
		THREE MONTHS ENDED JUNE 29, 2013	THREE MONTHS ENDED JUNE 30, 2012	NINE MONTHS ENDED JUNE 29, 2013	NINE MONTHS ENDED JUNE 30, 2012
		(In millions)			
Interest rate swap agreements	Interest expense	\$(3.0	) \$(2.4	) \$(7.7	) \$(9.5
	Cost of sales	(0.1	) 0.7	0.1	1.7

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

16

Table of Contents

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS	RECOGNIZED IN STATEMENT OF OPERATIONS	AMOUNT OF GAIN / (LOSS)			
		THREE MONTHS ENDED		NINE MONTHS ENDED	
		JUNE 29, 2013	JUNE 30, 2012	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) (In millions)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets				
Cash equivalents	\$79.3	\$—	\$—	\$79.3
Derivatives				
Foreign currency swap contracts	—	4.5	—	4.5

Edgar Filing: SCOTTS MIRACLE-GRO CO - Form 10-Q

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)

17

Table of Contents

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) (In millions)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
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) (In millions)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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	

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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	

Table of Contents

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)	—
Intercompany liabilities	—	—	233.7	(233.7)	—
Total liabilities	708.7	1,171.4	658.1	(828.1)	1,710.1
Shareholders' equity	674.0	765.6	(111.0)	(654.6)	674.0
Total liabilities and shareholders' equity	\$1,382.7	\$1,937.0	\$547.1	\$(1,482.7)	\$2,384.1

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Balance Sheet

As of September 30, 2012

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$—	\$2.6	\$129.3	\$—	\$131.9
Accounts receivable, net	—	248.4	82.5	—	330.9
Inventories	—	332.1	82.8	—	414.9
Prepaid and other current assets	—	88.5	33.8	—	122.3
Total current assets	—	671.6	328.4	—	1,000.0
Property, plant and equipment, net	—	368.2	59.2	—	427.4
Goodwill	—	308.7	0.7	—	309.4
Intangible assets, net	—	264.2	42.9	—	307.1
Other assets	29.8	11.2	32.8	(43.3)	30.5
Equity investment in subsidiaries	828.5	—	—	(828.5)	—
Intercompany assets	556.6	—	—	(556.6)	—
Total assets	\$1,414.9	\$1,623.9	\$464.0	\$(1,428.4)	\$2,074.4
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt	\$—	\$1.2	\$0.3	\$—	\$1.5
Accounts payable	—	105.4	46.9	—	152.3
Other current liabilities	15.9	177.4	86.5	—	279.8
Total current liabilities	15.9	284.0	133.7	—	433.6
Long-term debt	777.1	99.8	281.3	(377.1)	781.1
Other liabilities	20.0	227.2	54.0	(43.4)	257.8
Equity investment in subsidiaries	—	303.7	—	(303.7)	—
Intercompany liabilities	—	50.9	128.5	(179.4)	—
Total liabilities	813.0	965.6	597.5	(903.6)	1,472.5
Shareholders' equity	601.9	658.3	(133.5)	(524.8)	601.9
Total liabilities and shareholders' equity	\$1,414.9	\$1,623.9	\$464.0	\$(1,428.4)	\$2,074.4

Table of Contents**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

Executive summary

Results of operations

Segment results

Liquidity and capital resources

Regulatory matters

Critical accounting policies and estimates

This discussion and analysis should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Scotts Miracle-Gro’s Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

EXECUTIVE SUMMARY

We are a leading manufacturer and marketer of consumer branded products for lawn and garden care in North America and Europe. We are Monsanto’s exclusive agent for the marketing and distribution of consumer Roundup® non-selective herbicide products within the United States and other contractually specified countries. We have a presence in similar consumer branded products in Australia, the Far East and Latin America. We also operate Scotts LawnService®, the second largest lawn care service business in the United States. Our operations are divided into the following reportable segments: Global Consumer and Scotts LawnService®.

As a leading consumer branded lawn and garden company, our product development and marketing efforts are largely focused on providing innovative and differentiated products and on continually increasing brand and product awareness to inspire consumers and create retail demand. We have successfully applied this model for a number of years by focusing on research and development and investing in advertising to support and promote our products and brands. We continually explore new and innovative ways to communicate with consumers. We believe that we receive a significant return on these expenditures and anticipate a similar commitment to research and development, and advertising and marketing investments in the future, with the continuing objective of driving profitable growth. We are undertaking initiatives in fiscal 2013 to focus on improving profitability while balancing the need to continually build stronger capabilities for future growth. These initiatives include price optimization, product cost-out initiatives and SG&A productivity.

Effective in our fourth quarter of fiscal 2012, we classified our professional seed business as discontinued operations. Prior to being reported as discontinued operations, our professional seed business was included as part of Corporate & Other.

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

	Percent of Net Sales from Continuing Operations by Quarter					
	2012		2011		2010	
First Quarter	7.1	%	8.1	%	8.6	%
Second Quarter	41.4	%	40.1	%	36.4	%
Third Quarter	37.3	%	37.4	%	40.6	%
Fourth Quarter	14.2	%	14.4	%	14.4	%

Table of Contents

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. 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, leaving \$298.8 million authorized for repurchases through September 30, 2014.

Further, on August 6, 2013, we announced that the Scotts Miracle-Gro Board of Directors had approved an increase in our quarterly dividend from \$0.325 to \$0.4375 per Common Share. The decision to increase the amount of cash we intend to return to our shareholders reflects our continued confidence in the business and our desire to maintain a consistent capital structure.

RESULTS OF OPERATIONS

We classified our professional seed business as discontinued operations, for all periods presented, beginning in our fourth quarter of fiscal 2012. As a result, and unless specifically stated, all discussions regarding results for the three and nine months ended June 29, 2013 and June 30, 2012, reflect results from our continuing operations.

The following table sets forth the components of income and expense as a percentage of net sales:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 29, 2013	JUNE 30, 2012	JUNE 29, 2013	JUNE 30, 2012
Net sales	100.0	% 100.0	% 100.0	% 100.0
Cost of sales	61.4	65.0	64.0	64.7
Cost of sales—impairment, restructuring and other	0.1	—	0.1	—
Gross profit	38.5	35.0	35.9	35.3
Operating expenses:				
Selling, general and administrative	16.5	18.7	21.9	22.9
Impairment, restructuring and other	0.6	—	0.3	0.3
Product registration and recall matters	—	0.4	—	0.3
Other income, net	(0.4)	) (0.2	) (0.3	) (0.1
Income from operations	21.8	16.1	14.0	11.9
Interest expense	1.5	1.6	2.0	2.1
Income from continuing operations before income taxes	20.3	14.5	12.0	9.8
Income tax expense from continuing operations	7.4	5.4	4.4	3.7
Income from continuing operations	12.9	9.1	7.6	6.1
Income from discontinued operations, net of tax	—	(0.3)	) —	(0.1)
Net income	12.9	% 8.8	% 7.6	% 6.0
Net Sales				

Net sales for the three months ended June 29, 2013, were \$1,148.1 million, an increase of 8.8% from net sales of \$1,054.9 million for the three months ended June 30, 2012. Net sales for the nine months ended June 29, 2013, were \$2,373.5 million, a decrease of 2.1% from net sales of \$2,424.9 million for the nine months ended June 30, 2012. The change in net sales was attributable to the following:

	THREE MONTHS ENDED	NINE MONTHS ENDED
	JUNE 29, 2013	JUNE 29, 2013
Volume	6.2	% (3.6)
Pricing	2.8	1.7
Foreign exchange rates	(0.3)	) (0.3)
Acquisitions	0.1	0.1

Change in net sales	8.8	% (2.1	)%
---------------------	-----	--------	----

35

Table of Contents

The increase in net sales for the three months ended June 29, 2013, was primarily driven by:

- increased volume in our Global Consumer segment, due to a shift in net sales from the second quarter to the third quarter as a result of the delay in the start of the fiscal 2013 spring lawn and garden selling season;
- favorable impact of increased pricing in the Global Consumer segment, primarily in the U.S.;
- partially offset by a decline in net sales attributable to our marketing agreement with Monsanto; and
- an unfavorable impact of foreign exchange rates as a result of the slight strengthening of the U.S. dollar relative to other currencies.

The decrease in net sales for the nine months ended June 29, 2013, was primarily driven by:

- decreased volume in our Global Consumer segment, driven by a delay in the start of the fiscal 2013 spring lawn and garden selling season;
- a decline in net sales attributable to our marketing agreement with Monsanto;
- a decrease in net sales related to ICL supply agreements, which were entered into in connection with the sale of Global Pro in February 2011;
- an unfavorable impact of foreign exchange rates as a result of the slight strengthening of the U.S. dollar relative to other currencies;
- partially offset by a favorable impact of increased pricing in the Global Consumer segment, primarily in the U.S.; and
- increased volume within our Scotts LawnService® segment due to increased customer count and a weather driven delay of sales from the fourth quarter of fiscal 2012 to the first quarter of fiscal 2013.

Cost of Sales

The following table shows the major components of cost of sales:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 29, 2013	JUNE 30, 2012	JUNE 29, 2013	JUNE 30, 2012
	(In millions)			
Materials	\$434.3	\$416.3	\$923.6	\$957.4
Manufacturing labor and overhead	129.7	117.3	275.9	269.8
Distribution and warehousing	123.9	124.2	269.3	272.0
Roundup® reimbursements	16.9	27.9	51.5	69.0
	\$704.8	\$685.7	1,520.3	1,568.2
Impairment, restructuring and other	1.5	—	1.6	—
Product registration and recall matters	—	0.2	—	0.4
	\$706.3	\$685.9	\$1,521.9	\$1,568.6

Factors contributing to the change in cost of sales are outlined in the following table:

	THREE MONTHS ENDED	NINE MONTHS ENDED
	JUNE 29, 2013	JUNE 29, 2013
	(In millions)	
Material costs	\$(10.2)	) \$(2.6)
Volume and product mix	42.5	(23.5)
Roundup® reimbursements	(11.0)	) (17.5)
Foreign exchange rates	(2.2)	) (4.3)
Change in cost of sales	\$19.1	(47.9)
Impairment, restructuring and other	1.5	1.6
Product registration and recall matters	(0.2)	) (0.4)
Change in cost of sales	\$20.4	\$(46.7)

Table of Contents

The increase in cost of sales, for the three months ended June 29, 2013, was primarily driven by:

- increased volume in our Global Consumer segment, due to a shift in net sales from the second quarter to the third quarter as a result of the delay in the start of the fiscal 2013 spring lawn and garden selling season;
- partially offset by a decline in our growing media material costs due to our product cost-out initiatives;
- lower reimbursements attributable to our marketing agreement with Monsanto; and
- favorable impact of foreign exchange rates as a result of a slight strengthening of the U.S. dollar relative to other currencies.

The decrease in cost of sales, for the nine months ended June 29, 2013, was primarily driven by:

- decreased volume in our Global Consumer segment, resulting from a delay in the start of the fiscal 2013 spring lawn and garden selling season;
- a decline in our growing media material costs due to our product cost-out initiatives;
- lower reimbursements attributable to our marketing agreement with Monsanto; and
- favorable impact of foreign exchange rates as a result of a slight strengthening of the U.S. dollar relative to other currencies.

Gross Profit

As a percentage of net sales, our gross profit rate was 38.5% and 35.0% for the three months ended June 29, 2013 and June 30, 2012, respectively. As a percentage of net sales, our gross profit rate was 35.9% and 35.3% for the nine months ended June 29, 2013 and June 30, 2012, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	THREE MONTHS ENDED JUNE 29, 2013		NINE MONTHS ENDED JUNE 29, 2013	
Pricing	1.7	%	1.1	%
Material costs	0.9		0.1	
Product mix and volume:				
Roundup® commissions and reimbursements	0.5		0.2	
Corporate & Other	—		0.1	
Scotts LawnService®	0.1		0.1	
Global Consumer mix and volume	0.4		(0.9	)
Change in gross profit rate	3.6	%	0.7	%
Impairment, restructuring and other	(0.1	)	(0.1	)
Change in gross profit rate	3.5	%	0.6	%

The increase in the gross profit rate, for the three months ended June 29, 2013, was primarily driven by:

- favorable impact of increased pricing for the Global Consumer segment, primarily in the U.S.;
- decreased material costs in our Global Consumer segment due to a decline in growing media material costs due to product cost-out initiatives; and
- increased volume in our Global Consumer segment, resulting in improved leverage of fixed manufacturing and warehousing costs.

The increase in the gross profit rates, for the nine months ended June 29, 2013, was primarily driven by:

- favorable impact of increased pricing for the Global Consumer segment, primarily in the U.S.;
- lower reimbursements attributable to our marketing agreement with Monsanto;
- partially offset by decreased sales volume in our Global Consumer segment resulting in reduced leverage of fixed manufacturing and warehousing costs.

Table of Contents

Selling, General and Administrative Expenses

The following table sets forth the components of selling, general and administrative expenses:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 29, 2013	JUNE 30, 2012	JUNE 29, 2013	JUNE 30, 2012
	(In millions)			
Advertising	\$59.3	\$64.4	\$124.6	\$147.1
Share-based compensation	1.9	1.7	10.4	10.6
Research and development	11.5	13.2	34.1	37.4
Amortization of intangibles	1.9	1.8	5.9	5.4
Other selling, general and administrative	114.9	116.5	346.0	356.5
	\$189.5	\$197.6	\$521.0	\$557.0

Selling, general and administrative (“SG&A”) expenses decreased \$8.1 million, or 4.1%, to \$189.5 million for the third quarter of fiscal 2013 compared to the same period of fiscal 2012. The decrease in advertising of \$5.1 million was driven by a planned reduction in media investment and our media purchasing efficiencies. The decrease in other SG&A of \$1.6 million was driven by a decrease in outside consulting expenditures and marketing related expenditures due to cost productivity initiatives, partially offset by higher employee related costs, including incentive compensation and severance.

SG&A expenses decreased \$36.0 million, or 6.5%, to \$521.0 million for the first nine months of fiscal 2013 compared to the same period of fiscal 2012. The decrease in advertising of \$22.5 million was driven by a planned reduction in media investment and our media purchasing efficiencies. The decrease in other SG&A of \$10.5 million was driven by a decrease in outside consulting and marketing related expenditures due to cost productivity initiatives, partially offset by higher employee related costs, including incentive compensation and severance.

Impairment, Restructuring and Other

For the three months ended June 29, 2013, we recognized expense for employee severance charges of \$8.5 million related to an international restructuring plan to reduce headcount and streamline management decision making within the Global Consumer segment. For the nine months ended June 29, 2013, we recognized expense of \$8.3 million primarily related to international severance of \$8.7 million. In addition, we recognized income of \$4.7 million related to the reimbursement by a vendor for a portion of the costs incurred for the development and commercialization of products including the active ingredient MAT 28 in the Global Consumer segment. We 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 nine months ended June 30, 2012, we incurred \$7.1 million of impairment, restructuring and other charges primarily associated with a \$5.3 million asset impairment charge as a result of issues with commercialization of products including the active ingredient MAT 28 for the Global Consumer segment. In continuation of the 2011 restructuring plan, we 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 our U.S. defined benefit pension and U.S retiree medical plans.

Other Income, net

Other income was \$4.9 million for the three months ended June 29, 2013 compared to \$2.2 million for the three months ended June 30, 2012. Other income was \$7.5 million for the nine months ended June 29, 2013 compared to \$3.5 million for the nine months ended June 30, 2012. The increase in other income for fiscal 2013 is primarily due to the sale of peat bog land in the United Kingdom for a gain of \$2.3 million. Other income is comprised of activities outside our normal business operations, such as royalty income from the licensing of certain of our brand names, franchise fee income from our Scotts LawnService® business, foreign exchange gains/losses and gains/losses from the sale of non-inventory assets.

Interest Expense

Interest expense was \$16.8 million for the three months ended June 29, 2013 compared to \$16.6 million for the three months ended June 30, 2012. Excluding the impact of foreign exchange rates, average borrowings declined by approximately \$22.0 million during the three months ended June 29, 2013, as compared to the same prior year period. The decline in average borrowings was driven by lower working capital needs associated with lower production of inventory. Additionally, there was an increase in our weighted average interest rate of 17 basis points primarily due to an increase in our credit facility rate as a result of an increase in our leverage ratio.

Table of Contents

Interest expense was \$47.9 million for the nine months ended June 29, 2013 compared to \$49.8 million for the nine months ended June 30, 2012. Excluding the impact of foreign exchange rates, average borrowings declined by approximately \$53.2 million during the nine months ended June 29, 2013, as compared to the same prior year period. The decline in average borrowings was primarily driven by lower working capital needs associated with lower production of inventory. Additionally, there was minimal change in our weighted average interest rate compared to the nine months ended June 30, 2012, as the February 2012 expiration of our of 5.2% interest rate swap was offset by higher interest rates on our credit facility.

Income Tax Expense

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 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 used for interim purposes was based on our best estimate of factors impacting the effective tax rate for the full fiscal year. Factors affecting the estimated effective tax rate include assumptions as to income by jurisdiction (domestic and foreign), the availability and utilization of tax credits and the existence of elements of income and expense that may not be taxable or deductible. The estimated effective tax rate is subject to revision in later interim periods and at fiscal year end as facts and circumstances change during the course of the fiscal year. There can be no assurances that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

Income from Continuing Operations

We reported income from continuing operations of \$148.2 million, or \$2.37 per diluted share, for the third quarter of fiscal 2013 compared to \$96.4 million, or \$1.55 per diluted share, for the third quarter of fiscal 2012. Income from continuing operations for the first nine months of fiscal 2013 was \$179.8 million, or \$2.88 per diluted share, compared to \$149.8 million, or \$2.42 per diluted share, for the same period of fiscal 2012. The increase in our income from continuing operations for the three months ended June 29, 2013 was driven primarily by the impact of higher net sales and a decrease in SG&A, partially offset by impairment, restructuring and other charges. The increase in our income from continuing operations for the nine months ended June 29, 2013 was driven primarily by a decrease in SG&A expenses and product registration and recall matter charges. Diluted average common shares used in the diluted net income per common share calculation were 62.6 million for the third quarter of fiscal 2013 compared to 62.2 million for the same period a year ago. Diluted average common shares used in the diluted net income per common share calculation were 62.5 million for the first nine months ended June 29, 2013 compared to 62.0 million for the first nine months ended June 30, 2012. The increase in dilutive average common shares for the three and nine months ended June 29, 2013 was a result of the exercise and issuance of share-based compensation awards.

SEGMENT RESULTS

Our continuing operations are divided into the following reportable 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. Corporate & Other consists of revenues and expenses associated with our supply agreements with ICL and 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.

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 measure recognized under GAAP. Senior management uses this measure of operating profit to gauge segment performance because we believe this measure is most indicative of performance trends and the overall earnings potential of each segment.

The following table sets forth net sales by segment:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 29, 2013	JUNE 30, 2012	JUNE 29, 2013	JUNE 30, 2012
	(In millions)			
Global Consumer	\$1,052.2	\$960.7	\$2,180.0	\$2,229.4

Edgar Filing: SCOTTS MIRACLE-GRO CO - Form 10-Q

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

39

Table of Contents

The following table sets forth segment income from continuing operations before income taxes:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 29, 2013	JUNE 30, 2012	JUNE 29, 2013	JUNE 30, 2012
	(In millions)			
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

Global Consumer

Global Consumer segment net sales were \$1,052.2 million in the third quarter of fiscal 2013, an increase of 9.5% from the third quarter of fiscal 2012 sales of \$960.7 million, and were \$2,180.0 million for the first nine months of fiscal 2013, a decrease of 2.2% from the first nine months of fiscal 2012 sales of \$2,229.4 million. For the three months ended June 29, 2013, pricing and volume favorably impacted net sales by 3.2% and 6.7%, respectively, partially offset by unfavorable foreign exchange rates of 0.3%. For the nine months ended June 29, 2013, volume and foreign exchange rates unfavorably impacted net sales by 3.9% and 0.3%, respectively, partially offset by favorable price and acquisition impacts of 1.9% and 0.1%, respectively.

Net sales in the U.S. increased \$60.0 million, or 7.5% and decreased \$47.3 million, or 2.6%, for the third quarter and first nine months of fiscal 2013, respectively, as compared to the same periods in fiscal 2012. The increase in U.S. net sales for the third quarter was driven by higher sales within all geographies and product categories except for our home protection controls products, due to a shift from second quarter to the third quarter in net sales as a result of the delay in the start of the fiscal 2013 spring lawn and garden selling season. The decrease in U.S. net sales for the first nine months was driven by lower sales within all product categories, except for our growing media products, due to a delay in the start of the fiscal 2013 spring lawn and garden season.

Excluding the impact of changes in foreign exchange rates, net sales internationally increased by \$34.3 million, or 21.1% and \$3.7 million, or 0.9%, for the third quarter and first nine months of fiscal 2013, respectively. The increase in sales internationally was primarily driven by higher sales within all product categories.

Global Consumer segment operating income increased by \$90.0 million, or 52.4%, and \$35.7 million, or 9.5%, in the third quarter and first nine months of fiscal 2013, respectively, as compared to the same periods of fiscal 2012.

Excluding the impact of changes in foreign exchange rates, the increase was 52.9% and 9.7% for the third quarter and first nine months of fiscal 2013, respectively. The increase was primarily driven by the favorable impact of pricing, decreased material costs due to our product cost-out initiatives and a decrease in SG&A expenses.

Scotts LawnService®

Scotts LawnService® net sales increased by \$2.1 million, or 2.4%, and \$6.3 million, or 3.9% in the third quarter and first nine months of fiscal 2013, respectively, as compared to the same periods of fiscal 2012. The increase in net sales in the third quarter of fiscal 2013 was driven by increased customer count. The increase in net sales for the first nine months of fiscal 2013 was due to an increase in customer count and a weather driven delay of sales from the fourth quarter of fiscal 2012 into the first quarter of 2013.

The operating income for Scotts LawnService® decreased by \$0.1 million, or 0.4%, and by \$0.5 million, or 10.2%, in the third quarter and first nine months of fiscal 2013, respectively, as compared to the same period of fiscal 2012. The decline in performance was primarily driven by a planned increase in SG&A spending in media and marketing.

Corporate & Other

The net operating loss for Corporate & Other was \$22.8 million and \$70.3 million for the three and nine months ended June 29, 2013, respectively compared to \$18.1 million and \$72.4 million for the three and nine months ended June 30, 2012, respectively. The increase for the three months ended June 29, 2013 was primarily related to higher employee

related costs, including severance and incentive compensation partially offset by reductions in our outside consulting expenditures due to our cost

40

Table of Contents

productivity initiatives. The decrease for the nine months ended June 29, 2013 was primarily related to reductions in our outside consulting expenditures as part of our cost productivity initiatives, partially offset by higher employee related costs, including severance and incentive compensation.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities totaled \$143.1 million and \$115.1 million for the nine months ended June 29, 2013 and June 30, 2012, respectively. Cash provided by operating activities increased \$28.0 million primarily due to an increase in net income of \$33.9 million, partially offset by an increase in cash used for working capital of \$8.2 million. The increase in cash used for working capital was primarily due to increased sales volume in the third quarter of fiscal 2013 due to a shift from the second quarter to the third quarter in net sales as a result of the delay in the start of the spring lawn and garden selling season.

Investing Activities

Cash used in investing activities totaled \$46.9 million and \$45.5 million for the nine months ended June 29, 2013 and June 30, 2012, respectively. Cash used for investments in property, plant and equipment during the first nine months of fiscal 2013 and fiscal 2012 was \$42.7 million and \$39.0 million, respectively, primarily related to investments to increase efficiencies at existing production facilities. Additionally, during the nine months ended June 29, 2013, we completed the acquisition of two franchisee businesses within our Scotts LawnService® segment for \$3.2 million and an investment of an unconsolidated affiliate for \$4.5 million. In addition, during the third quarter of fiscal 2013 we received cash proceeds of \$3.5 million for the sale of long-lived assets, primarily associated with the sale of peat bog land in the United Kingdom. For the nine months ended June 30, 2012, we completed acquisitions of \$7.0 million, primarily consisting of an acquisition of a controls business within our Global Consumer segment.

Financing Activities

Financing activities used cash of \$117.8 million and \$68.9 million for the nine months ended June 29, 2013 and June 30, 2012, respectively. The increase in cash used in financing activities was primarily the result of lower net borrowings under our credit facility of \$45.1 million during the first three quarters of fiscal 2013 and a decrease in net cash received from stock option activity of \$15.3 million, partially offset by a decrease in repurchases of our common shares in fiscal 2013 of \$17.5 million.

Cash and Cash Equivalents

Our cash and cash equivalents were held in cash depository accounts with major financial institutions around the world or invested in high quality, short-term liquid investments with a balance of \$105.4 million as of June 29, 2013, compared to \$132.3 million as of June 30, 2012. The cash and cash equivalents balance at June 29, 2013 included \$100.7 million held by controlled foreign corporations. Our current plans do not demonstrate a need to, nor do we have plans to, repatriate the retained earnings from these foreign corporations as the earnings are indefinitely reinvested. However, in the future, if we determine it is necessary to repatriate these funds, or we sell or liquidate any of these foreign corporations, we may be required to pay associated taxes on the repatriation.

Borrowing Agreements

Our primary sources of liquidity are cash generated by operations and borrowings under our credit agreement, which is guaranteed by substantially all of Scotts Miracle-Gro's domestic subsidiaries. On June 30, 2011, Scotts Miracle-Gro and certain of its subsidiaries entered into a second amended and restated senior secured credit facility, providing for revolving loans in the aggregate principal amount of up to \$1.7 billion over a five-year term. Borrowings may be made in various currencies including U.S. dollars, Euros, British pounds, Australian dollars and Canadian dollars. Under this credit facility, we may request up to an additional \$450 million in revolving and/or term commitments, subject to certain specified conditions, including approval from our lenders.

Under our credit facility, we have the ability to obtain letters of credit up to \$75 million outstanding. At June 29, 2013, we had letters of credit in the aggregate face amount of \$23.3 million outstanding and \$1,533.8 million of availability under our credit facility, subject to our continued compliance with covenants discussed below.

On November 15, 2012, we entered into a new Master Accounts Receivable Purchase Agreement (the "2012 MARP Agreement"), with an initial stated termination date of October 30, 2013, or such later date as may be mutually agreed by the Company and the banks party thereto. The 2012 MARP Agreement, which is uncommitted, provides for the

discretionary sale by the Company, and the discretionary purchase by the banks, on a revolving basis, of accounts receivable generated by sales to three specified debtors in an aggregate amount not to exceed \$400 million, with debtor sublimits ranging from \$100 million to \$200 million. Under the terms of the 2012 MARP Agreement, the banks have the opportunity, but not the obligation, to purchase those

Table of Contents

accounts receivable offered by us at a discount (from the agreed base value thereof) effectively equal to the greater of 7-day or 3-month LIBOR plus 0.75%.

We account for the sale of receivables under the 2012 MARP Agreement as short-term debt and continue to carry the receivables on our Consolidated Balance Sheet, primarily as a result of our right to repurchase receivables sold. There were short-term borrowings under the 2012 MARP Agreement of \$159.9 million as of June 29, 2013 and \$87.5 million as of June 30, 2012.

As of June 29, 2013, we were in compliance with all debt covenants. Our credit facility contains, among other obligations, an affirmative covenant regarding our leverage ratio, calculated as indebtedness relative to our earnings before interest, taxes, depreciation and amortization. Under the terms of the credit facility, the maximum leverage ratio was 3.50 as of June 29, 2013. Our leverage ratio was 2.46 at June 29, 2013. Our credit facility also includes an affirmative covenant regarding our interest coverage. Under the terms of the credit facility, the minimum interest coverage ratio was 3.50 for the twelve months ended June 29, 2013. Our interest coverage ratio was 5.79 for the twelve months ended June 29, 2013.

We continue to monitor our compliance with the leverage ratio, interest coverage ratio and other covenants contained in the credit facility and, based upon our current operating assumptions, we expect to remain in compliance with the permissible leverage ratio and interest coverage ratio throughout fiscal 2013. However, an unanticipated charge to earnings, an increase in debt or other factors could materially affect our ability to remain in compliance with the financial or other covenants of our credit facility, potentially causing us to have to seek an amendment or waiver from our lending group which could result in repricing of our credit facility. While we believe we have good relationships with our banking group, we can provide no assurance that such a request would result in a modified or replacement credit facility on reasonable terms, if at all.

In our opinion, cash flows from operations and borrowings under our credit agreement will be sufficient to meet debt service and working capital needs, capital expenditures, cash dividends and purchases of our common shares for the foreseeable future. However, we cannot ensure that our business will generate sufficient cash flow from operations or that future borrowings will be available under our credit facility in amounts sufficient to pay indebtedness or fund other liquidity needs. Actual results of operations will depend on numerous factors, many of which are beyond our control.

Judicial and Administrative Proceedings

We are party to various pending judicial and administrative proceedings arising in the ordinary course of business, including, among others, proceedings based on accidents or product liability claims and alleged violations of environmental laws. We have reviewed these pending judicial and administrative proceedings, including the probable outcomes, reasonably anticipated costs and expenses, and the availability and limits of our insurance coverage, and have established what we believe to be appropriate reserves. We do not believe that any liabilities that may result from these pending judicial and administrative proceedings are reasonably likely to have a material effect on our financial condition, results of operations or cash flows; however, there can be no assurance that future quarterly or annual operating results will not be materially affected by final resolution of these matters.

Contractual Obligations

There have been no material changes outside of the ordinary course of business, in our outstanding contractual obligations since the end of fiscal 2012 and through June 29, 2013.

REGULATORY MATTERS

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking actions aimed at ensuring compliance with, such laws and regulations. We are involved in several legal actions with various governmental agencies related to environmental matters. While it is difficult to quantify the potential financial impact of actions involving these environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established reserves, should not have a material effect on our financial condition, results of operations or cash flows. However, there can be no assurance that the resolution of these matters will not materially affect our future quarterly or annual results of operations, financial condition or cash flows.

Additional information on environmental matters affecting us is provided in Scotts Miracle Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2012, under "ITEM 1. BUSINESS — Regulatory Considerations" and "ITEM 3. LEGAL PROCEEDINGS."

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preceding discussion and analysis of our consolidated results of operations and financial condition should be read in conjunction with our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2012 includes additional information about us, our operations, our financial condition, our critical accounting policies and accounting estimates, and should be read in conjunction with this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks have not changed significantly from those disclosed in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

ITEM 4. CONTROLS AND PROCEDURES

The Scotts Miracle-Gro Company (the "Registrant") maintains "disclosure controls and procedures," as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in the Registrant's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Registrant's management, including its principal executive officer and its principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, the Registrant's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, the Registrant's management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

With the participation of the principal executive officer and principal financial officer of the Registrant, the Registrant's management has evaluated the effectiveness of the Registrant's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Registrant's principal executive officer and principal financial officer have concluded that the Registrant's disclosure controls and procedures were effective at the reasonable assurance level.

In addition, there were no changes in the Registrant's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Registrant's fiscal quarter ended June 29, 2013 that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than as discussed in “NOTE 11. CONTINGENCIES” of the Notes to Condensed Consolidated Financial Statements, pending material legal proceedings have not changed significantly since those disclosed in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

ITEM 1A. RISK FACTORS

The Company's risk factors as of June 29, 2013 have not changed materially from those described in “ITEM 1A. RISK FACTORS” in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the exhibits hereto and the information incorporated by reference herein, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. Other than statements of historical fact, information regarding activities, events and developments that we expect or anticipate will or may occur in the future, including, but not limited to, information relating to our future growth and profitability targets and strategies designed to increase total shareholder value, are forward-looking statements based on management's estimates, assumptions and projections. Forward-looking statements also include, but are not limited to, statements regarding our future economic and financial condition and results of operations, the plans and objectives of management and our assumptions regarding our performance and such plans and objectives, as well as the amount and timing of repurchases of Scotts Miracle-Gro common shares. These forward-looking statements generally can be identified through the use of words such as “guidance,” “outlook,” “projected,” “believe,” “target,” “predict,” “estimate,” “forecast,” “strategy,” “may,” “goal,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will,” similar words and variations.

Forward-looking statements contained in this Quarterly Report on Form 10-Q are predictions only and actual results could differ materially from management's expectations due to a variety of factors, including those described in “ITEM 1A. RISK FACTORS” in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2012. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

The forward-looking statements that we make in this Quarterly Report on Form 10-Q are based on management's current views and assumptions regarding future events and speak only as of their dates. We disclaim any obligation to update developments of these risk factors or to announce publicly any revisions to any of the forward-looking statements that we make, or to make corrections to reflect future events or developments, except as required by the federal securities laws.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The Company's credit facility restricts future dividend payments to an aggregate of \$125 million annually through fiscal 2013 and \$150 million annually beginning in fiscal 2014 if our leverage ratio, after giving effect to any such annual dividend payment, exceeds 2.50. Our leverage ratio was 2.46 at June 29, 2013.

(a) Issuer Purchases of Equity Securities

The following table shows the purchases of Common Shares made by or on behalf of Scotts Miracle-Gro or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each fiscal month in the nine months ended June 29, 2013:

Period	Total Number of Common Shares Purchased(1)	Average Price Paid per Common Share(2)	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs(3)
March 31, 2013 through April 27, 2013	238	\$ 44.16	—	\$ 298,816,786
April 28, 2013 through May 25, 2013	—	\$ —	—	\$ 298,816,786
May 26, 2013 through June 29, 2013	1,434	\$ 47.24	—	\$ 298,816,786
Total	1,672	\$ —	—	

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

(2) The average price paid per Common Share is calculated on a settlement basis and includes commissions.

- (3) In August 2010, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to \$500 million of the Common Shares over a four-year period (through September 30, 2014). On May 4, 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. The dollar amounts in the "Approximate Dollar Value" column reflect the total \$700 million authorized repurchase program.

Table of Contents

ITEM 6. EXHIBITS

See Index to Exhibits at page 48 for a list of the exhibits included herewith.

46

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SCOTTS MIRACLE-GRO COMPANY

Date: August 7, 2013

/s/ LAWRENCE A. HILSHEIMER

Lawrence A. Hilsheimer

Executive Vice President and Chief Financial Officer

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED JUNE 29, 2013

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION
10.1	Specimen form of Restricted Stock Unit Award Agreement for Employees (with Related Dividend Equivalents) used to evidence grants of Restricted Stock Units made on April 1, 2013 to Lawrence A. Hilsheimer under The Scotts Miracle-Gro Company Long-Term Incentive Plan	Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2013 (File No. 1-11593) [Exhibit 10.6]
10.2	Separation Agreement and Release of All Claims, entered into and effective as of July 10, 2013, by and between The Scotts Company LLC and Vincent C. Brockman	Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed July 11, 2013 (File No. 1-11593) [Exhibit 10.1]
10.3	Consulting Agreement, dated as of May 9, 2013, between The Scotts Miracle-Gro Company and Dr. Michael Porter	*
31.1	Rule 13a-14(a)/15d-14(a) Certifications (Principal Executive Officer)	*
31.2	Rule 13a-14(a)/15d-14(a) Certifications (Principal Financial Officer)	*
32	Section 1350 Certifications (Principal Executive Officer and Principal Financial Officer)	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase	*
101.LAB	XBRL Taxonomy Extension Label Linkbase	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	*

* Included herewith

