

SCOTTS MIRACLE-GRO CO
Form 10-Q
August 07, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 001-11593

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

OHIO
(State or other jurisdiction of incorporation or organization)

31-1414921
(I.R.S. Employer Identification No.)

14111 SCOTTSLAWN ROAD,
MARYSVILLE, OHIO
(Address of principal executive offices)
(937) 644-0011
(Registrant's telephone number, including area code)

43041
(Zip Code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

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

Outstanding at August 5, 2014
61,211,495 common shares

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Statements of Operations

(In millions, except per common share data)

(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
Net sales	\$1,116.4	\$1,137.1	\$2,387.0	\$2,340.1
Cost of sales	693.1	695.3	1,496.0	1,490.4
Cost of sales—impairment, restructuring and other	—	1.5	—	1.6
Gross profit	423.3	440.3	891.0	848.1
Operating expenses:				
Selling, general and administrative	189.0	189.2	525.6	519.9
Impairment, restructuring and other	39.2	7.0	45.6	6.7
Other income, net	(5.8)	(4.9)	(8.5)	(7.5)
Income from operations	200.9	249.0	328.3	329.0
Costs related to refinancing	—	—	10.7	—
Interest expense	12.8	16.8	38.7	47.9
Income from continuing operations before income taxes	188.1	232.2	278.9	281.1
Income tax expense from continuing operations	67.4	84.5	98.3	102.5
Income from continuing operations	120.7	147.7	180.6	178.6
Income from discontinued operations, net of tax	1.0	0.5	1.1	1.9
Net income	\$121.7	\$148.2	\$181.7	\$180.5
Basic income per common share:				
Income from continuing operations	\$1.97	\$2.39	\$2.93	\$2.89
Income from discontinued operations	0.02	0.01	0.02	0.03
Basic income per common share	\$1.99	\$2.40	\$2.95	\$2.92
Weighted-average common shares outstanding during the period	61.3	61.7	61.7	61.7
Diluted income per common share:				
Income from continuing operations	\$1.93	\$2.36	\$2.88	\$2.86
Income from discontinued operations	0.02	0.01	0.02	0.03
Diluted income per common share	\$1.95	\$2.37	\$2.90	\$2.89
Weighted-average common shares outstanding during the period plus dilutive potential common shares	62.4	62.6	62.8	62.5
Dividends declared per common share	\$0.438	\$0.325	\$1.313	\$0.975

See notes to condensed consolidated financial statements.

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In millions)

(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
Net income	\$121.7	\$148.2	\$181.7	\$180.5
Other comprehensive income (loss), net of tax:				
Net foreign currency translation adjustment	4.2	(3.6)	) 0.1	(8.5)
Net unrealized (loss) gain on derivative instruments, net of tax of \$2.4, \$1.1, \$4.2 and \$0.8, respectively	(3.9)	) 1.7	(6.8)	) (1.2)
Reclassification of net unrealized loss on derivatives to net income, net of tax of \$2.0, \$2.0, \$6.3 and \$4.8, respectively	3.2	3.1	10.2	7.6
Net unrealized loss in pension and other post-retirement benefits, net of tax of \$0, \$0, \$0.2 and \$0, respectively	—	—	(0.3)) —
Reclassification of net pension and post-retirement benefit loss to net income, net of tax of \$0.5, \$0.6, \$1.4 and \$3.2, respectively	0.8	0.9	2.3	5.1
Total other comprehensive income	4.3	2.1	5.5	3.0
Comprehensive income	\$126.0	\$150.3	\$187.2	\$183.5
See notes to condensed consolidated financial statements.				

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

	NINE MONTHS ENDED		
	JUNE 28, 2014	JUNE 29, 2013	
OPERATING ACTIVITIES			
Net income	\$ 181.7	\$ 180.5	
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment, restructuring and other	33.7	4.6	
Costs related to refinancing	3.5	—	
Share-based compensation expense	8.7	10.4	
Depreciation	37.8	41.0	
Amortization	10.2	8.1	
(Gain) loss on sale of assets	(1.3	) 0.8
Equity in (income) loss of unconsolidated affiliates	(1.8	) 0.1
Changes in assets and liabilities, net of acquired businesses:			
Accounts receivable	(433.7) (356.5)
Inventories	(63.3	) 24.3
Prepaid and other assets	(15.0) (15.4)
Accounts payable	145.8	97.1	
Other current liabilities	147.1	176.8	
Restructuring reserves	2.6	(5.0)
Other non-current items	(22.8) (17.1)
Other, net	1.1	(6.6)
Net cash provided by operating activities	34.3	143.1	
INVESTING ACTIVITIES			
Proceeds from sale of long-lived assets	0.2	3.5	
Proceeds from sale of business, net of transaction costs	7.2	—	
Investments in property, plant and equipment	(68.5) (42.7)
Investment in unconsolidated affiliates	—	(4.5)
Investment in acquired business, net of cash acquired	(60.0) (3.2)
Net cash used in investing activities	(121.1) (46.9)
FINANCING ACTIVITIES			
Borrowings under revolving and bank lines of credit	1,740.5	1,284.9	
Repayments under revolving and bank lines of credit	(1,282.4) (1,347.5)
Repayment of 7.25% Senior Notes	(200.0) —	
Financing and issuance fees	(6.1) —	
Dividends paid	(81.3) (60.7)
Purchase of common shares	(89.5) —	
Payments on seller notes	(0.8) (0.8)
Excess tax benefits from share-based payment arrangements	5.4	1.0	
Cash received from the exercise of stock options	14.3	5.3	
Net cash provided by (used in) financing activities	100.1	(117.8)
Effect of exchange rate changes on cash	4.1	(4.9)
Net increase (decrease) in cash and cash equivalents	17.4	(26.5)
Cash and cash equivalents, beginning of period	129.8	131.9	

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Cash and cash equivalents, end of period	\$147.2	\$105.4
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SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$(42.4) \$(45.6)
Call premium on 7.25% Senior Notes	\$(7.3) \$—)
Income taxes (paid) refunded	\$(14.5) \$29.4)

See notes to condensed consolidated financial statements.

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Balance Sheets

(In millions, except stated value per share)

(Unaudited)

	JUNE 28, 2014	JUNE 29, 2013	SEPTEMBER 30, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	\$147.2	\$105.4	\$ 129.8
Accounts receivable, less allowances of \$11.4, \$10.0 and \$9.5, respectively	512.3	482.4	206.6
Accounts receivable pledged	237.8	199.9	106.7
Inventories	387.8	385.8	324.9
Prepaid and other current assets	125.9	135.0	113.0
Total current assets	1,411.0	1,308.5	881.0
Property, plant and equipment, net of accumulated depreciation of \$606.4, \$579.1 and \$573.4, respectively	443.4	409.8	422.3
Goodwill	333.3	315.2	315.1
Intangible assets, net	281.3	297.6	284.4
Other assets	37.4	31.2	34.4
Total assets	\$2,506.4	\$2,362.3	\$ 1,937.2
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of debt	\$200.5	\$165.5	\$ 92.4
Accounts payable	279.3	230.7	137.7
Other current liabilities	428.6	450.2	279.7
Total current liabilities	908.4	846.4	509.8
Long-term debt	628.7	548.1	478.1
Other liabilities	214.1	226.0	238.8
Total liabilities	1,751.2	1,620.5	1,226.7
Contingencies (note 11)			
Shareholders' equity:			
Common shares and capital in excess of \$.01 stated value per share; 61.2, 61.8 and 62.0 shares issued and outstanding, respectively	390.5	401.8	397.5
Retained earnings	803.0	750.0	703.4
Treasury shares, at cost; 7.0, 6.4 and 6.1 shares, respectively	(366.0)	) (325.7	) (312.6
Accumulated other comprehensive loss	(72.3	) (84.3	) (77.8
Total shareholders' equity	755.2	741.8	710.5
Total liabilities and shareholders' equity	\$2,506.4	\$2,362.3	\$ 1,937.2

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Organization and Basis of Presentation

The Company’s unaudited condensed consolidated financial statements for the three and nine months ended June 28, 2014 and June 29, 2013 are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The condensed consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company’s consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, this report should be read in conjunction with Scotts Miracle-Gro’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013, which includes a complete set of footnote disclosures, including the Company’s significant accounting policies.

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and related disclosures. Although these estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from the estimates.

Long-lived Assets

The Company had noncash investing activities of \$1.5 million and \$1.0 million representing unpaid liabilities incurred during the nine months ended June 28, 2014 and June 29, 2013, respectively, to acquire property, plant and equipment.

RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, Revenue from Contracts with Customers. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The provisions are effective for the Company’s financial statements for the fiscal year beginning October 1, 2017. The standard allows for either a full retrospective or a modified retrospective transition method. The Company is currently evaluating the impact of this standard on its consolidated results of operations, financial position and cash flows.

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Discontinued Operations Reporting

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

Balance Sheet Offsetting

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

NOTE 2. DISCONTINUED OPERATIONS

In March 2014, the Company completed the sale of its U.S. and Canadian wild bird food business, including intangible assets, certain on-hand inventory and fixed assets, for \$4.1 million in cash and an estimated \$1.0 million in future earn-out payments. As a result, effective in the second quarter of fiscal 2014, the Company classified its results of operations for all periods presented to reflect the wild bird food business as a discontinued operation. In addition, in the third quarter of fiscal 2014, the Company received \$3.1 million for the sale of the remaining wild bird food manufacturing facilities resulting in a gain of \$1.2 million.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
	(In millions)			
Net sales	\$—	\$11.0	\$18.0	\$33.4
Operating (income) costs	(0.3	) 9.8	17.3	30.1
Gain on sale of assets	(1.2	) —	(1.4) —
Income from discontinued operations before income taxes	1.5	1.2	2.1	3.3
Income tax expense from discontinued operations	0.5	0.7	1.0	1.4
Income from discontinued operations, net of tax	\$1.0	\$0.5	\$1.1	\$1.9

NOTE 3. ACQUISITIONS

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

that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return. Net sales for the Tomcat[®] rodent control business for the three and nine months ended June 28, 2014 were \$6.5 million and \$18.7 million, respectively.

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During the first quarter of fiscal 2013, Scotts LawnService® completed the acquisition of two franchise businesses that individually and in the aggregate were not significant. The aggregate purchase price of these acquisitions was \$7.2 million.

The condensed consolidated financial statements include the results of operations from these business combinations from the date of each acquisition.

NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER

Activity described herein is classified within the “Impairment, restructuring and other” lines in the Condensed Consolidated Statements of Operations.

The following table details impairment, restructuring and other for the periods presented:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
	(In millions)			
Restructuring and other	\$5.5	\$8.5	\$11.9	\$4.0
Goodwill and intangible asset impairments	33.7	—	33.7	4.3
Total impairment, restructuring and other	\$39.2	\$8.5	\$45.6	\$8.3

The following table summarizes the activity related to liabilities associated with the restructuring and other charges during the nine months ended June 28, 2014 (in millions):

Amounts reserved for restructuring and other charges at September 30, 2013	\$11.1
Restructuring and other charges	11.9
Payments and other	(9.3)
Amounts reserved for restructuring and other charges at June 28, 2014	\$13.7

Payments and other for the three months ended June 28, 2014 were \$2.0 million. Included in the restructuring reserves as of June 28, 2014 is \$3.0 million that is classified as long-term. Payments against the long-term reserves will be incurred as the employees covered by the 2012 restructuring plan retire. The remaining amounts reserved will continue to be paid out over the course of the next twelve months.

Fiscal 2014

During the three months ended June 28, 2014, as a result of an impairment review, the Company recognized an impairment charge for a non-recurring fair value adjustment of \$33.7 million within the Global Consumer segment related to the Ortho® brand. The fair value was calculated based upon the evaluation of the historical performance and future growth expectations of the Ortho® business.

During the three and nine months ended June 28, 2014, the Company recognized \$5.8 million and \$9.7 million, respectively, in restructuring costs related to termination benefits provided to U.S. personnel as part of the Company's restructuring of its U.S. administrative and overhead functions. In addition, for the nine months ended June 28, 2014, the Company recognized \$2.0 million in additional ongoing monitoring and remediation costs for the Company's turfgrass biotechnology program. The Company also recognized \$(0.3) million and \$0.2 million of international restructuring and other adjustments during the three and nine months ended June 28, 2014, respectively, for the continuation of the 2013 international restructuring plan.

Fiscal 2013

The Company recognized \$8.5 million and \$8.7 million during the three and nine months ended June 29, 2013, respectively, for termination benefits provided to international employees as part of the profitability improvement initiative announced in December 2012, associated with the international restructuring plan to reduce headcount and streamline management decision making within the Global Consumer segment.

During the first quarter of fiscal 2013, the Company recognized income of \$4.7 million related to the reimbursement by a vendor of a portion of the costs incurred for the development and commercialization of products including the

active ingredient MAT 28 for the Global Consumer segment. During the first quarter of fiscal 2013, the Company also recognized a \$4.3 million asset impairment charge as a result of issues with the commercialization of an insect repellent technology for the Global Consumer segment.

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NOTE 5. INVENTORIES

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

	JUNE 28, 2014 (In millions)	JUNE 29, 2013	SEPTEMBER 30, 2013
Finished goods	\$257.3	\$235.0	\$ 182.6
Work-in-process	36.4	39.5	42.7
Raw materials	94.1	111.3	99.6
Total inventories	\$387.8	\$385.8	\$ 324.9

Adjustments to reflect inventories at net realizable values were \$21.0 million at June 28, 2014, \$20.1 million at June 29, 2013 and \$19.7 million at September 30, 2013.

NOTE 6. MARKETING AGREEMENT

The Company is Monsanto's exclusive agent for the marketing and distribution of consumer Roundup® herbicide products (with additional rights to new products containing glyphosate or other similar non-selective herbicides) in the consumer lawn and garden market within the United States and other specified countries, including Australia, Austria, Belgium, Canada, France, Germany, the Netherlands and the United Kingdom. Under the terms of the Marketing Agreement, the Company is entitled to receive an annual commission from Monsanto as consideration for the performance of the Company's duties as agent. The annual gross commission under the Marketing Agreement is calculated as a percentage of the actual earnings before interest and income taxes of the consumer Roundup® business in the markets covered by the Marketing Agreement and is based on the achievement of two earnings thresholds, as defined in the Marketing Agreement. The Marketing Agreement also requires the Company to make annual payments to Monsanto as a contribution against the overall expenses of the consumer Roundup® business. The annual contribution payment is defined in the Marketing Agreement as \$20 million.

In consideration for the rights granted to the Company under the Marketing Agreement for North America, the Company was required to pay a marketing fee of \$32 million to Monsanto. The Company has deferred this amount on the basis that the payment will provide a future benefit through commissions that will be earned under the Marketing Agreement. The economic useful life over which the marketing fee is being amortized is 20 years, with a remaining amortization period of less than five years as of June 28, 2014.

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

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 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
	(In millions)			
Gross commission	\$34.4	\$40.5	\$67.5	\$67.9
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	29.2	35.3	51.9	52.3
Reimbursements associated with Marketing Agreement	15.5	16.9	49.3	51.5

Total net sales associated with Marketing Agreement	\$44.7	\$52.2	\$101.2	\$103.8
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The Marketing Agreement has no definite term except as it relates to the European Union countries (the "EU term"). The EU term extends through September 30, 2015. Thereafter, the Marketing Agreement provides that the parties may agree to renew the EU term for an additional three years.

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The Marketing Agreement provides Monsanto with the right to terminate the Marketing Agreement upon an event of default (as defined in the Marketing Agreement) by the Company, a change in control of Monsanto or the sale of the consumer Roundup® business. The Marketing Agreement provides the Company with the right to terminate the Marketing Agreement in certain circumstances, including an event of default by Monsanto or the sale of the consumer Roundup® business. Unless Monsanto terminates the Marketing Agreement due to an event of default by the Company, Monsanto is required to pay a termination fee to the Company that varies by program year. The termination fee is calculated as a percentage of the value of the Roundup® business exceeding a certain threshold, but in no event will the termination fee be less than \$16 million. If Monsanto were to terminate the Marketing Agreement for cause, the Company would not be entitled to any termination fee. Monsanto may also be able to terminate the Marketing Agreement within a given region, including North America, without paying a termination fee if unit volume sales to consumers in that region decline: (1) over a cumulative three-fiscal-year period; or (2) by more than 5% for each of two consecutive years. If the Marketing Agreement was terminated for any reason, the Company would also lose all, or a substantial portion, of the significant source of earnings and overhead expense absorption the Marketing Agreement provides.

Under the Marketing Agreement, Monsanto must provide the Company with notice of any proposed sale of the consumer Roundup business, allow the Company to participate in the sale process and negotiate in good faith with the Company with respect to any such proposed sale. In the event the Company acquires the consumer Roundup® business in such a sale, the Company would receive as a credit against the purchase price the amount of the termination fee that would have been paid to the Company if Monsanto had exercised its right to terminate the Marketing Agreement in connection with a sale to another party. If Monsanto decides to sell the consumer Roundup® business to another party, the Company must let Monsanto know whether the Company intends to terminate the Marketing Agreement and forfeit any right to a termination fee.

NOTE 7. DEBT

The components of long-term debt are as follows:

	JUNE 28, 2014	JUNE 29, 2013	SEPTEMBER 30, 2013
	(In millions)		
Credit facility – Revolving loans	\$425.1	\$142.9	\$73.0
Senior Notes – 7.25%	—	200.0	200.0
Senior Notes – 6.625%	200.0	200.0	200.0
Master Accounts Receivable Purchase Agreement	190.3	159.9	85.3
Other	13.8	10.8	12.2
	829.2	713.6	570.5
Less current portions	200.5	165.5	92.4
Total long-term debt	\$628.7	\$548.1	\$478.1

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

On December 20, 2013, the Company entered into a third amended and restated senior secured credit agreement (“credit facility”), providing the Company and certain of its subsidiaries with a five-year senior secured revolving loan facility in the aggregate principal amount of up to \$1.7 billion. The third amended and restated senior secured credit agreement also provides the Company with the right to seek to increase the credit facility by an aggregate amount of up to \$450.0 million, subject to certain specified conditions. The credit agreement replaces the Company's second

amended and restated senior secured credit agreement, which was entered into on June 30, 2011, and would have terminated on June 30, 2016 if it had not been terminated early pursuant to the credit facility.

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

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

As of June 28, 2014, there was \$1,251.6 million of availability under the Company's credit facility, including availability under letters of credit. At June 28, 2014, the Company had letters of credit in the aggregate face amount of \$23.3 million outstanding on the credit facility.

The third amended and restated credit agreement contains, among other obligations, an affirmative covenant regarding the Company's leverage ratio, calculated as average total indebtedness, as described in the Company's credit facility, relative to the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted pursuant to the terms of the credit facility ("Adjusted EBITDA"). Under the terms of the credit facility, the maximum leverage ratio was 4.00 as of June 28, 2014. The Company's leverage ratio was 1.91 at June 28, 2014. The Company's credit facility also includes an affirmative covenant regarding its interest coverage ratio. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the credit facility, and excludes costs related to refinancings. Under the terms of the credit facility, the minimum interest coverage ratio was 3.50 for the twelve months ended June 28, 2014. The Company's interest coverage ratio was 7.39 for the twelve months ended June 28, 2014. The Company may make restricted payments (as defined in the third amended and restated credit agreement); provided that if after giving effect to any such restricted payment the leverage ratio is not greater than 3.00. Otherwise the Company may only make restricted payments in an aggregate amount for each fiscal year not to exceed the amount set forth for such fiscal year (\$150.0 million for 2014 and 2015 and \$175.0 million for 2016 and in each fiscal year thereafter).

The Company accounts for the sale of receivables under the Master Accounts Receivable Purchase Agreement ("MARPA Agreement") as short-term debt and continues to carry the receivables on its Consolidated Balance Sheet, primarily as a result of the Company's right to repurchase receivables sold. Refer to "NOTE 10. DEBT" in the Company's Form 10-K for the year ended September 30, 2013 for more information regarding the MARPA Agreement. There were \$190.3 million in borrowings under the MARPA Agreement as of June 28, 2014 and \$159.9 million in borrowings as of June 29, 2013. The carrying value of the receivables pledged as collateral was \$237.8 million as of June 28, 2014 and \$199.9 million as of June 29, 2013. As of June 28, 2014, there was \$90.8 million of availability under the MARPA Agreement.

Estimated Fair Values

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

Credit Facility

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

6.625% Senior Notes

The fair value of Scotts Miracle-Gro's 6.625% Senior Notes due 2020 (the "6.625% Senior Notes") can be determined based on the trading of the 6.625% Senior Notes in the open market. The difference between the carrying value and the fair value of the 6.625% Senior Notes represents the premium or discount on that date. Based on the trading value on or around June 28, 2014, June 29, 2013 and September 30, 2013, the fair value of the 6.625% Senior Notes was approximately \$216.8 million, \$211.5 million and \$213.5 million, respectively. The fair value measurement for the 6.625% Senior Notes was classified in Level 1 of the fair value hierarchy.

Accounts Receivable Pledged

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

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Interest Rate Swap Agreements

At June 28, 2014, June 29, 2013 and September 30, 2013, the Company had outstanding interest rate swap agreements with major financial institutions that effectively converted a portion of the Company's variable-rate debt to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of \$1,300.0 million at June 28, 2014, and \$1,100.0 million at June 29, 2013 and September 30, 2013. Interest payments made between the effective date and expiration date are hedged by the swap agreements, except as noted below. The notional amount, effective date, expiration date and rate of each of these swap agreements are shown in the table below.

Notional Amount (in millions)	Effective Date (a)	Expiration Date	Fixed Rate
\$50	2/14/2012	2/14/2016	3.78%
200	2/7/2014	11/7/2017	1.28%
150	(b) 2/7/2012	5/7/2016	2.42%
150	(c) 11/16/2009	5/16/2016	3.26%
50	(b) 2/16/2010	5/16/2016	3.05%
100	(b) 2/21/2012	5/23/2016	2.40%
150	(c) 12/20/2011	6/20/2016	2.61%
50	(d) 12/6/2012	9/6/2017	2.96%
150	(b) 2/7/2017	5/7/2019	2.12%
50	(c) 2/7/2017	5/7/2019	2.25%
200	(c) 12/20/2016	6/20/2019	2.12%

- (a) The effective date refers to the date on which interest payments were, or will be, first hedged by the applicable swap agreement.
- (b) Interest payments made during the three-month period of each year that begins with the month and day of the effective date are hedged by the swap agreement.
- (c) Interest payments made during the six-month period of each year that begins with the month and day of the effective date are hedged by the swap agreement.
- (d) Interest payments made during the nine-month period of each year that begins with the month and day of the effective date are hedged by the swap agreement.

Weighted Average Interest Rate

The weighted average interest rates on average debt were 5.0% and 5.9% for the nine months ended June 28, 2014 and June 29, 2013, respectively.

NOTE 8. RETIREMENT AND RETIREE MEDICAL PLANS

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

	THREE MONTHS ENDED					
	JUNE 28, 2014			JUNE 29, 2013		
	U.S. Pension (In millions)	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
Service cost	\$—	\$0.5	\$0.1	\$—	\$0.4	\$0.1
Interest cost	1.1	3.3	0.3	0.9	2.8	0.4
Expected return on plan assets	(1.3) (3.7) —	(1.3) (3.0) —
Net amortization	0.9	0.5	—	1.2	0.5	—
Net periodic benefit cost	\$0.7	\$0.6	\$0.4	\$0.8	\$0.7	\$0.5

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	NINE MONTHS ENDED			JUNE 29, 2013		
	JUNE 28, 2014		U.S.	JUNE 29, 2013		U.S.
	U.S.	International	U.S.	U.S.	International	U.S.
	Pension	Pension	Medical	Pension	Pension	Medical
	(In millions)					
Service cost	\$—	\$1.3	\$0.3	\$—	\$1.2	\$0.3
Interest cost	3.3	8.4	1.0	2.9	7.8	1.0
Expected return on plan assets	(3.9	) (9.5	) —	(3.9	) (8.4) —
Net amortization	2.8	1.3	—	3.6	1.3	0.2
Net periodic benefit cost	\$2.2	\$1.5	\$1.3	\$2.6	\$1.9	\$1.5

NOTE 9. SHAREHOLDERS' EQUITY

During the nine months ended June 28, 2014, Scotts Miracle-Gro repurchased 1.6 million of its common shares (the “Common Shares”) for \$91.5 million, of which \$2.0 million settled shortly after June 28, 2014. These repurchases were made pursuant to the \$700 million share repurchase program approved by the Scotts Miracle-Gro Board of Directors. Since the inception of the program in the fourth quarter of fiscal 2010 through June 28, 2014, Scotts Miracle-Gro has repurchased approximately 9.4 million Common Shares for \$492.6 million to be held in treasury.

Share-Based Awards

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

	NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013
Employees		
Restricted stock units	112,311	178,030
Performance units	161,229	178,321
Board of Directors		
Deferred stock units	32,071	30,473
Total share-based awards	305,611	386,824
Aggregate fair value at grant dates (in millions)	\$18.2	\$17.4

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
	(In millions)			
Share-based compensation	\$2.3	\$1.9	\$8.7	\$10.4
Tax benefit recognized	0.9	0.7	3.3	4.0

NOTE 10. INCOME TAXES

The effective tax rate related to continuing operations for the nine months ended June 28, 2014 was 35.2%, compared to 36.5% for the nine months ended June 29, 2013. The Company recognized discrete tax benefits of \$0.5 million and \$2.6 million for the three and nine months ended June 28, 2014, respectively. 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.

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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 2011. The Company is currently under examination by the Internal Revenue Service and certain foreign and U.S. state and local tax authorities. The U.S. federal examination is limited to fiscal year 2011. Regarding the foreign jurisdictions, an audit is currently underway in France covering fiscal years 2010 through 2012. In regard to the multiple U.S., state and local audits, the tax periods under examination are limited to fiscal years 2007 through 2012. In addition to the aforementioned audits, certain other tax deficiency notices and refund claims for previous years remain unresolved.

The Company currently anticipates that few of its open and active audits will be resolved within the next 12 months. The Company is unable to make a reasonably reliable estimate as to when or if cash settlements with taxing authorities may occur. Although audit outcomes and the timing of audit payments are subject to significant uncertainty, the Company does not anticipate that the resolution of these tax matters or any events related thereto will result in a material change to its consolidated financial position, results of operations or cash flows.

NOTE 11. CONTINGENCIES

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

Regulatory Matters

At June 28, 2014, \$5.6 million was accrued in the "Other liabilities" line in the Consolidated Balance Sheet for environmental actions, the majority of which are for site remediation. The amounts accrued are believed to be adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is reasonably possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

Other

The Company has been named as a defendant in a number of cases alleging injuries that the lawsuits claim resulted from exposure to asbestos-containing products, apparently based on the Company's historic use of vermiculite in certain of its products. In many of these cases, the complaints are not specific about the plaintiffs' contacts with the Company or its products. The Company believes that the claims against it are without merit and is vigorously defending against them. It is not currently possible to reasonably estimate a probable loss, if any, associated with these cases and, accordingly, no reserves have been recorded in the Company's Consolidated Financial Statements. The Company is reviewing agreements and policies that may provide insurance coverage or indemnity as to these claims and is pursuing coverage under some of these agreements and policies, although there can be no assurance of the results of these efforts. There can be no assurance that these cases, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material effect on the Company's financial condition, results of operations or cash flows.

In connection with the sale of wild bird food products that were the subject of a voluntary recall in 2008, the Company has been named as a defendant in four putative class actions filed on and after June 27, 2012, which have now been consolidated in the United States District Court for the Southern District of California as *In re Morning Song Bird Food Litigation*, Lead Case No. 3:12-cv-01592-JAH-RBB. The plaintiffs allege various statutory and common law claims associated with the Company's sale of wild bird food products and a plea agreement entered into in previously pending government proceedings associated with such sales. The plaintiffs allege, among other things, a purported

class action on behalf of all persons and entities in the United States who purchased certain bird food products. The plaintiffs seek monetary damages (actual, compensatory, consequential, punitive, and treble); reimbursement, restitution, and disgorgement for benefits unjustly conferred; injunctive and declaratory relief; pre-judgment and post-judgment interest; and costs and attorneys' fees. The Company intends to vigorously defend the consolidated action. Given the early stages of the action, the Company cannot make a determination as to whether it could have a material effect on the Company's financial condition, results of operations or cash flows and the Company has not recorded any accruals with respect thereto.

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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.

NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

Exchange Rate Risk Management

The Company periodically uses foreign currency forward contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. At June 28, 2014, the notional amount of outstanding foreign currency forward contracts was \$68.0 million, with a negative fair value of \$0.2 million. At June 29, 2013, the notional amount of outstanding foreign currency forward contracts was \$230.8 million, with a fair value of \$4.5 million. At September 30, 2013, the notional amount of outstanding foreign currency forward contracts was \$80.4 million, with a negative fair value of \$2.1 million. The fair value of foreign currency forward contracts is determined based on changes in spot rates. The outstanding contracts will mature over the next fiscal year.

Interest Rate Risk Management

The Company enters into interest rate swap agreements as a means to hedge its variable interest rate risk on debt instruments. The fair values are reflected in the Company's Condensed Consolidated Balance Sheets. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. Since the interest rate swap agreements have been designated as hedging instruments, unrealized gains or losses resulting from adjusting these swaps to fair value are recorded as elements of accumulated other comprehensive income (loss) ("AOCI") within the Condensed Consolidated Balance Sheets except for any ineffective portion of the change in fair value, which is immediately recorded in interest expense. The fair value of the swap agreements is determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. On December 20, 2013, in conjunction with entering into the third amended and restated senior secured credit facility, the Company recognized hedge ineffectiveness of \$2.0 million which was recorded to interest expense.

At June 28, 2014, June 29, 2013 and September 30, 2013, the Company had outstanding interest rate swap agreements with major financial institutions that effectively converted a portion of the Company's variable-rate debt to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of \$1,300.0 million at June 28, 2014 and \$1,100.0 million at June 29, 2013 and September 30, 2013, respectively. Included in the AOCI balance at June 28, 2014 was a loss of \$6.0 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 28, 2014 designed to fix the price of a portion of its projected future urea requirements. The contracts are designated as hedges of the Company's exposure to future cash flow fluctuations associated with the cost of urea. The objective of the hedges is to mitigate the earnings and cash flow volatility attributable to the risk of changing prices. Unrealized gains or losses in the fair value of these contracts are recorded to 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 28, 2014 was a gain of \$0.2 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 28, 2014 was a gain of \$0.2 million related to fuel derivatives that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

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

Commodity	JUNE 28, 2014	JUNE 29, 2013	SEPTEMBER 30, 2013
Urea	19,000 tons	27,000 tons	49,500 tons
Diesel	2,394,000 gallons	1,890,000 gallons	3,528,000 gallons
Gasoline	672,000 gallons	868,000 gallons	630,000 gallons
Heating Oil	1,428,000 gallons	588,000 gallons	2,940,000 gallons

Fair Values of Derivative Instruments

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

		ASSETS / (LIABILITIES)		
		JUNE 28, 2014	JUNE 29, 2013	SEPTEMBER 30, 2013
DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS	BALANCE SHEET LOCATION	FAIR VALUE		
		(In millions)		
Interest rate swap agreements	Other assets	\$2.6	\$—	\$ 3.7
	Other current liabilities	(10.4)	(8.0)	(8.3)
	Other liabilities	(6.6)	(7.1)	(12.1)
Commodity hedging instruments	Prepaid and other current assets	0.5	0.1	0.1
	Other current liabilities	—	(1.4)	(2.0)
Total derivatives designated as hedging instruments		\$(13.9)	\$(16.4)	\$(18.6)
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS				
		BALANCE SHEET LOCATION		
Foreign currency forward contracts	Prepaid and other current assets	\$—	\$4.5	\$ —
	Other current liabilities	(0.2)	—	(2.1)
Commodity hedging instruments	Prepaid and other current assets	0.1	—	—
	Other current liabilities	—	(0.1)	(0.3)
Total derivatives not designated as hedging instruments		\$(0.1)	\$4.4	\$ (2.4)
Total derivatives		\$(14.0)	\$(12.0)	\$(21.0)

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

		AMOUNT OF GAIN / (LOSS) RECOGNIZED IN AOCI			
		THREE MONTHS ENDED		NINE MONTHS ENDED	
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS		JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
		(In millions)			
Interest rate swap agreements		\$(4.1)	\$2.7	\$(8.9)	\$0.8
Commodity hedging instruments		0.2	(1.0)	2.1	(2.0)
Total		\$(3.9)	\$1.7	\$(6.8)	\$(1.2)

		AMOUNT OF GAIN / (LOSS)			
		THREE MONTHS ENDED		NINE MONTHS ENDED	
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS	RECLASSIFIED FROM AOCI INTO STATEMENT OF OPERATIONS	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
		(In millions)			

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Interest rate swap agreements	Interest expense	\$(3.6)	\$(3.0)	\$(10.7)	\$(7.7)
Commodity hedging instruments	Cost of sales	0.4		(0.1)	0.5		0.1	
Total		\$(3.2)	\$(3.1)	\$(10.2)	\$(7.6)

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DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS	RECOGNIZED IN STATEMENT OF OPERATIONS	AMOUNT OF GAIN / (LOSS)				
		THREE MONTHS ENDED		NINE MONTHS ENDED		
		JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013	
		(In millions)				
Foreign currency forward contracts	Interest expense	\$0.3	\$2.6	\$(2.1	) \$12.2
Commodity hedging instruments	Cost of sales	0.1	(0.3) 0.4	(0.4)
Total		\$0.4	\$2.3	\$(1.7	) \$11.8

NOTE 13. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Derivatives

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

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

Cash Equivalents

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

Other

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

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The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at June 28, 2014:

	Quoted Prices in Active Markets for Identical Assets (Level 1) (In millions)	Significant Observable Inputs (Level 2)	Other Inputs (Level 3)	Unobservable Inputs (Level 3)	Total
Assets					
Cash equivalents	\$88.8	\$—		\$—	\$88.8
Derivatives					
Interest rate swap agreements	—	2.6		—	2.6
Commodity hedging instruments	—	0.6		—	0.6
Other	8.8	—		—	8.8
Total	\$97.6	\$3.2		\$—	\$100.8
Liabilities					
Derivatives					
Interest rate swap agreements	\$—	\$(17.0)	)	\$—	\$(17.0)
Foreign currency forward contracts	—	(0.2)	)	—	(0.2)
Total	\$—	\$(17.2)	)	\$—	\$(17.2)

The following presents the Company's non-financial assets and liabilities measured at fair value on a non-recurring basis at June 28, 2014 and describes the valuation methodologies used for non-financial assets and liabilities measured at fair value, as well as the general classification within the valuation hierarchy:

	Quoted Prices in Active Markets for Identical Assets (Level 1) (In millions)	Significant Observable Inputs (Level 2)	Other Inputs (Level 3)	Unobservable Inputs (Level 3)	Total Losses
Ortho [®] brands and sub-brands	\$—	\$—		\$92.4	\$33.7

As a result of the Company's impairment review performed in the third quarter of fiscal 2014, the Company recognized an impairment charge for a non-recurring fair value adjustment of \$33.7 million within the Global Consumer segment related to the Ortho[®] brand. The remaining fair value of the indefinite-lived Ortho[®] brand and sub-brands is \$92.4 million. The fair value was calculated based upon the evaluation of the historical performance and future growth expectations of the Ortho[®] business using a royalty savings methodology similar to that employed when the associated business was acquired with updated estimates of sales, cash flow and profitability.

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The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at June 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 forward contracts	—	4.5	—	4.5
Commodity hedging instruments	—	0.1	—	0.1
Other	6.7	—	—	6.7
Total	\$86.0	\$4.6	\$—	\$90.6
Liabilities				
Derivatives				
Interest rate swap agreements	\$—	\$(15.1)	\$—	\$(15.1)
Commodity hedging instruments	—	(1.5)	—	(1.5)
Total	\$—	\$(16.6)	\$—	\$(16.6)

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

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

NOTE 14. SEGMENT INFORMATION

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

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

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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.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
	(In millions)			
Net sales:				
Global Consumer	\$1,012.8	\$1,041.2	\$2,197.2	\$2,146.6
Scotts LawnService®	92.8	89.9	168.0	167.6
Segment total	1,105.6	1,131.1	2,365.2	2,314.2
Corporate & Other	10.8	6.0	21.8	25.9
Consolidated	\$1,116.4	\$1,137.1	\$2,387.0	\$2,340.1
Income (loss) from continuing operations before income taxes:				
Global Consumer	\$244.5	\$260.5	\$446.6	\$410.7
Scotts LawnService®	20.7	22.3	3.0	4.4
Segment total	265.2	282.8	449.6	415.1
Corporate & Other	(21.4	) (22.8	) (66.1	) (70.3
Intangible asset amortization	(3.7	) (2.5	) (9.6	) (7.5
Impairment, restructuring and other	(39.2	) (8.5	) (45.6	) (8.3
Costs related to refinancing	—	—	(10.7) —
Interest expense	(12.8	) (16.8	) (38.7	) (47.9
Consolidated	\$188.1	\$232.2	\$278.9	\$281.1
		JUNE 28, 2014	JUNE 29, 2013	SEPTEMBER 30, 2013
		(In millions)		
Total assets:				
Global Consumer		\$2,140.1	\$1,977.3	\$1,564.2
Scotts LawnService®		194.8	191.4	189.8
Corporate & Other		171.5	193.6	183.2
Consolidated		\$2,506.4	\$2,362.3	\$1,937.2

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The 6.625% Senior Notes (the “Senior Notes”) issued by Scotts Miracle-Gro on December 16, 2010 are guaranteed at June 28, 2014 by certain of its domestic subsidiaries and, therefore, the Company has disclosed condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered. On January 15, 2014, the Company redeemed all of its outstanding \$200 million aggregate principal amount of the 7.25% Senior Notes which were previously guaranteed by certain of its domestic subsidiaries. The guarantees are “full and unconditional,” as those terms are used in Regulation S-X Rule 3-10, except that a subsidiary’s guarantee will be automatically released in certain customary circumstances, such as (1) upon any sale or other disposition of all or substantially all of the assets of the subsidiary (including by way of merger or consolidation) to any person other than Scotts Miracle-Gro or any “restricted subsidiary” under the applicable indenture; (2) if the subsidiary merges with and into Scotts Miracle-Gro, with Scotts Miracle-Gro surviving such merger; (3) if the subsidiary is designated an “unrestricted subsidiary” in accordance with the applicable indenture or otherwise ceases to be a “restricted subsidiary” (including by way of liquidation or dissolution) in a transaction permitted by such indenture; (4) upon legal or covenant defeasance; (5) upon satisfaction and discharge of the Senior Notes; or (6) if the subsidiary ceases to be a “wholly owned restricted subsidiary” and the subsidiary is not otherwise required to provide a guarantee of the Senior Notes pursuant to the applicable indenture. The following 100% directly or indirectly owned subsidiaries fully and unconditionally guarantee at June 28, 2014 the Senior Notes on a joint and several basis: EG Systems, Inc., dba Scotts LawnService®; Gutwein & Co., Inc.; Hyponex Corporation; Miracle-Gro Lawn Products, Inc.; OMS Investments, Inc.; Rod McLellan Company; Sanford Scientific, Inc.; Scotts Temecula Operations, LLC; Scotts Manufacturing Company; Scotts Products Co.; Scotts Professional Products Co.; Scotts-Sierra Investments LLC; SMG Growing Media, Inc.; Swiss Farms Products, Inc.; SMGM LLC; SLS Franchise Systems, LLC; and The Scotts Company LLC (collectively, the “Guarantors”). SLS Franchise Systems, LLC was added as a guarantor to The Scotts Miracle-Gro Company indenture governing its 6.625% Notes on February 25, 2014. Accordingly, SLS Franchise Systems, LLC has been added as a Guarantor effective in the three month period ending March 29, 2014 and all periods presented.

The following information presents Condensed Consolidating Statements of Operations for the three and nine months ended June 28, 2014 and June 29, 2013, Condensed Consolidating Statements of Comprehensive Income (Loss) for the three and nine months ended June 28, 2014 and June 29, 2013, Condensed Consolidating Statements of Cash Flows for the nine months ended June 28, 2014 and June 29, 2013, and Condensed Consolidating Balance Sheets as of June 28, 2014, June 29, 2013 and September 30, 2013. The condensed consolidating financial information presents, in separate columns, financial information for: Scotts Miracle-Gro on a Parent-only basis, carrying its investment in subsidiaries under the equity method; Guarantors on a combined basis, carrying their investments in subsidiaries which do not guarantee the debt (collectively, the “Non-Guarantors”) under the equity method; Non-Guarantors on a combined basis; and eliminating entries. The eliminating entries primarily reflect intercompany transactions, such as interest expense, accounts receivable and payable, short and long-term debt, and the elimination of equity investments, return on investments and income in subsidiaries. Because the Parent is obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors or Non-Guarantors under the credit facility (and was obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors and Non-Guarantors under the previous senior secured five-year revolving loan facility), the borrowings and related interest expense for the loans outstanding of the Guarantors and Non-Guarantors are also presented in the accompanying Parent-only financial information, and are then eliminated. Included in the Parent Condensed Consolidating Statement of Cash Flow for June 28, 2014 and June 29, 2013, respectively are \$223.3 million and \$60.7 million of dividends paid by the Guarantors to the Parent representing return on investments and as such are classified within cash flows from operating activities.

In the Condensed Consolidating Statement of Cash Flows for the nine months ended June 29, 2013 (which was previously presented in our Form 10-Q dated August 7, 2013 and is presented herein), the Company reclassified intercompany dividends received by Parent from Guarantors from “Net Cash (Used In) Provided By Financing Activities” to “Net Cash (Used In) Provided By Operating Activities.” In the Condensed Consolidating Balance Sheet as

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

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

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended June 28, 2014
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated	
Net sales	\$—	\$897.0	\$219.4	\$—	\$ 1,116.4	
Cost of sales	—	546.0	147.1	—	693.1	
Gross profit	—	351.0	72.3	—	423.3	
Operating expenses:						
Selling, general and administrative	—	143.6	45.4	—	189.0	
Impairment, restructuring and other	—	39.5	(0.3	) —	39.2
Other income, net	—	(4.7) (1.1) —	(5.8)
Income from operations	—	172.6	28.3	—	200.9	
Equity income in subsidiaries	(125.9	) (9.4	)	135.3	—
Other non-operating income	(7.3	) —	(5.5	) 12.8	—
Interest expense	13.8	11.1	0.7	(12.8	) 12.8
Income from continuing operations before income taxes	119.4	170.9	33.1	(135.3	) 188.1
Income tax expense (benefit) from continuing operations	(2.3	) 57.8	11.9	—	67.4
Income from continuing operations	121.7	113.1	21.2	(135.3	) 120.7
Income from discontinued operations, net of tax	—	0.7	0.3	—	1.0	
Net income	\$121.7	\$113.8	\$21.5	\$(135.3) \$ 121.7	

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the nine months ended June 28, 2014
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated	
Net sales	\$—	\$1,940.6	\$446.4	\$—	\$ 2,387.0	
Cost of sales	—	1,191.1	304.9	—	1,496.0	
Gross profit	—	749.5	141.5	—	891.0	
Operating expenses:						
Selling, general and administrative	—	411.9	113.7	—	525.6	
Impairment, restructuring and other	—	45.5	0.1	—	45.6	
Other income, net	—	(6.9) (1.6) —	(8.5)
Income from operations	—	299.0	29.3	—	328.3	
Equity income in subsidiaries	(204.4	) (13.0	) —	217.4	—
Other non-operating income	(18.1	) —	(16.6	) 34.7	—
Costs related to refinancing	10.7	—	—	—	10.7	
Interest expense	42.5	29.8	1.1	(34.7	) 38.7
Income from continuing operations before income taxes	169.3	282.2	44.8	(217.4	) 278.9
Income tax expense from continuing operations	(12.4	) 94.9	15.8	—	98.3
Income from continuing operations	181.7	187.3	29.0	(217.4	) 180.6
Income from discontinued operations, net of tax	—	0.4	0.7	—	1.1	
Net income	\$181.7	\$187.7	\$29.7	\$(217.4) \$ 181.7	

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Statement of Comprehensive Income (Loss)

for the three months ended June 28, 2014

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
Net income	\$ 121.7	\$ 113.8	\$ 21.5	\$ (135.3)	\$ 121.7
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	4.2	—	4.2	(4.2)	4.2
Net change in derivatives	(0.7)	0.1	—	(0.1)	(0.7)
Net change in pension and other post retirement benefits	0.8	0.6	0.2	(0.8)	0.8
Total other comprehensive income	4.3	0.7	4.4	(5.1)	4.3
Comprehensive income	\$ 126.0	\$ 114.5	\$ 25.9	\$ (140.4)	\$ 126.0

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statement of Comprehensive Income (Loss)
for the nine months ended June 28, 2014
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
Net income	\$ 181.7	\$ 187.7	\$ 29.7	\$ (217.4)	\$ 181.7
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	0.1	—	0.1	(0.1)	0.1
Net change in derivatives	3.4	1.9	—	(1.9)	3.4
Net change in pension and other post retirement benefits	2.0	1.7	0.3	(2.0)	2.0
Total other comprehensive income	5.5	3.6	0.4	(4.0)	5.5
Comprehensive income	\$ 187.2	\$ 191.3	\$ 30.1	\$ (221.4)	\$ 187.2

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the nine months ended June 28, 2014
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES ^(a)	\$ 195.6	\$ 117.9	\$ (55.9)	\$ (223.3)	\$ 34.3
INVESTING ACTIVITIES					
Proceeds from sale of long-lived assets	—	0.2	—	—	0.2
Proceeds from sale of business, net of transaction costs	—	6.6	0.6	—	7.2
Investments in property, plant and equipment	—	(64.1)	(4.4)	—	(68.5)
Investment in acquired business, net of cash acquired	—	(60.0)	—	—	(60.0)
Net cash used in investing activities	—	(117.3)	(3.8)	—	(121.1)
FINANCING ACTIVITIES					
Borrowings under revolving and bank lines of credit	—	1,407.7	332.8	—	1,740.5
Repayments under revolving and bank lines of credit	—	(1,009.9)	(272.5)	—	(1,282.4)
Repayment of 7.25% Senior Notes	(200.0)	—	—	—	(200.0)
Financing and issuance fees	(6.1)	—	—	—	(6.1)
Dividends paid	(81.3)	(223.3)	—	223.3	(81.3)
Purchase of common shares	(89.5)	—	—	—	(89.5)
Payments on seller notes	—	(0.8)	—	—	(0.8)
Excess tax benefits from share-based payment arrangements	—	5.4	—	—	5.4
Cash received from the exercise of stock options	14.3	—	—	—	14.3
Intercompany financing	167.0	(175.5)	8.5	—	—
Net cash (used in) provided by financing activities	(195.6)	3.6	68.8	223.3	100.1
Effect of exchange rate changes on cash	—	—	4.1	—	4.1
Net increase in cash and cash equivalents	—	4.2	13.2	—	17.4
Cash and cash equivalents, beginning of period	—	2.6	127.2	—	129.8
Cash and cash equivalents, end of period	\$ —	\$ 6.8	\$ 140.4	\$ —	\$ 147.2

(a) Cash received by the Parent from its subsidiaries in the form of dividends in the amount of \$223.3 million represent return on investments and are included in cash flows from operating activities.

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Balance Sheet

As of June 28, 2014

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$—	\$6.8	\$140.4	\$—	\$147.2
Accounts receivable, net	—	280.5	231.8	—	512.3
Accounts receivable pledged	—	237.8	—	—	237.8
Inventories	—	299.5	88.3	—	387.8
Prepaid and other current assets	—	88.7	37.2	—	125.9
Total current assets	—	913.3	497.7	—	1,411.0
Property, plant and equipment, net	—	399.4	44.0	—	443.4
Goodwill	—	332.7	0.6	—	333.3
Intangible assets, net	—	245.2	36.1	—	281.3
Other assets	23.6	19.9	26.8	(32.9)	37.4
Equity investment in subsidiaries	520.5	—	—	(520.5)	—
Intercompany assets	855.3	—	—	(855.3)	—
Total assets	\$1,399.4	\$1,910.5	\$605.2	\$(1,408.7)	\$2,506.4
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt	\$—	\$191.8	\$8.7	\$—	\$200.5
Accounts payable	—	196.5	82.8	—	279.3
Other current liabilities	12.7	300.8	115.1	—	428.6
Total current liabilities	12.7	689.1	206.6	—	908.4
Long-term debt	625.1	360.4	68.4	(425.2)	628.7
Other liabilities	6.4	198.6	42.0	(32.9)	214.1
Equity investment in subsidiaries	—	158.4	—	(158.4)	—
Intercompany liabilities	—	269.4	160.7	(430.1)	—
Total liabilities	644.2	1,675.9	477.7	(1,046.6)	1,751.2
Shareholders' equity	755.2	234.6	127.5	(362.1)	755.2
Total liabilities and shareholders' equity	\$1,399.4	\$1,910.5	\$605.2	\$(1,408.7)	\$2,506.4

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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	\$—	\$942.2	\$194.9	\$—	\$ 1,137.1
Cost of sales	—	563.3	132.0	—	695.3
Cost of sales—impairment, restructuring and other	—	—	1.5	—	1.5
Gross profit	—	378.9	61.4	—	440.3
Operating expenses:					
Selling, general and administrative	—	134.4	54.8	—	189.2
Impairment, restructuring and other	—	—	7.0	—	7.0
Other income, net	—	(3.0)	(1.9)	—	(4.9)
Income from operations	—	247.5	1.5	—	249.0
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	239.9	1.3	(156.9)	232.2
Income tax expense (benefit) from continuing operations	(0.3)	84.2	0.6	—	84.5
Income from continuing operations	148.2	155.7	0.7	(156.9)	147.7
Income from discontinued operations, net of tax	—	0.2	0.3	—	0.5
Net income	\$148.2	\$155.9	\$1.0	\$(156.9)	\$ 148.2

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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	\$—	\$1,920.0	\$420.1	\$—	\$ 2,340.1
Cost of sales	—	1,200.9	289.5	—	1,490.4
Cost of sales—impairment, restructuring, and other charges	—	—	1.6	—	1.6
Gross profit	—	719.1	129.0	—	848.1
Operating expenses:					
Selling, general and administrative	—	396.7	123.2	—	519.9
Impairment, restructuring and other	—	(0.4)	7.1	—	6.7
Other income, net	—	(4.6)	(2.9)	—	(7.5)
Income (loss) from operations	—	327.4	1.6	—	329.0
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 (loss) from continuing operations before income taxes	179.7	305.7	(0.5)	(203.8)	281.1
Income tax expense (benefit) from continuing operations	(0.8)	103.2	0.1	—	102.5
Income (loss) from continuing operations	180.5	202.5	(0.6)	(203.8)	178.6
Income from discontinued operations, net of tax	—	1.2	0.7	—	1.9
Net income	\$180.5	\$203.7	\$0.1	\$(203.8)	\$ 180.5

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Statement of Comprehensive Income (Loss)

for the three months ended June 29, 2013

(In millions)

(Unaudited)

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

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Statement of Comprehensive Income (Loss)

for the nine months ended June 29, 2013

(In millions)

(Unaudited)

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

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

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
NET CASH PROVIDED BY OPERATING ACTIVITIES ^(a)	\$39.1	\$118.0	\$46.7	\$(60.7)	\$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)	—	60.7	(60.7)
Payment 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	16.3	(203.1)	186.8	—	—
Net cash used in financing activities	(39.1)	(72.6)	(66.8)	60.7	(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

^(a) Cash received by the Parent from its subsidiaries in the form of dividends in the amount of \$60.7 million represent return on investments and are included in cash flows from operating activities.

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Balance Sheet

As of June 29, 2013

(In millions)

(Unaudited)

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

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Balance Sheet

As of September 30, 2013

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$—	\$2.6	\$127.2	\$—	\$129.8
Accounts receivable, net	—	119.7	86.9	—	206.6
Accounts receivable pledged	—	106.7	—	—	106.7
Inventories	—	247.2	77.7	—	324.9
Prepaid and other current assets	—	76.4	36.6	—	113.0
Total current assets	—	552.6	328.4	—	881.0
Property, plant and equipment, net	—	377.9	44.4	—	422.3
Goodwill	—	314.4	0.7	—	315.1
Intangible assets, net	—	244.8	39.6	—	284.4
Other assets	22.4	19.5	26.5	(34.0)	34.4
Equity investment in subsidiaries	317.1	—	—	(317.1)	—
Intercompany assets	871.7	—	—	(871.7)	—
Total assets	\$1,211.2	\$1,509.2	\$439.6	\$(1,222.8)	\$1,937.2
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt	\$—	\$87.3	\$5.1	\$—	\$92.4
Accounts payable	—	83.9	53.8	—	137.7
Other current liabilities	16.0	183.4	80.3	—	279.7
Total current liabilities	16.0	354.6	139.2	—	509.8
Long-term debt	473.0	67.9	10.2	(73.0)	478.1
Other liabilities	11.7	213.3	47.8	(34.0)	238.8
Equity investment in subsidiaries	—	173.3	—	(173.3)	—
Intercompany liabilities	—	652.1	146.6	(798.7)	—
Total liabilities	500.7	1,461.2	343.8	(1,079.0)	1,226.7
Shareholders' equity	710.5	48.0	95.8	(143.8)	710.5
Total liabilities and shareholders' equity	\$1,211.2	\$1,509.2	\$439.6	\$(1,222.8)	\$1,937.2

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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, 2013.

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 to create retail demand. We have successfully applied this model for a number of years by focusing on research and development and investing approximately 5 - 6% of our annual net sales 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, advertising and marketing investments in the future, with the continuing objective of driving category growth and profitably increasing market share.

Due to the seasonal 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			
	2013	2012	2011	
First Quarter	7.0	% 6.8	% 7.7	%
Second Quarter	36.3	% 41.6	% 40.3	%
Third Quarter	41.1	% 37.5	% 37.7	%
Fourth Quarter	15.6	% 14.1	% 14.3	%

Common Shares Repurchases and Dividends

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 28, 2014, Scotts Miracle-Gro has repurchased 9.4 million Common Shares for \$492.6 million to be held in treasury, leaving \$207.4

million authorized for repurchases through September 30, 2014.

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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.

As of June 28, 2014, the Company can make additional restricted payments (as defined in the third amended and restated credit agreement), including increased or one-time dividend payments and common share repurchases, before reaching a leverage ratio of 3.00. In the fourth quarter of fiscal 2014 the Company expects to make additional one-time payments of approximately \$125 million to shareholders.

RESULTS OF OPERATIONS

We classified our wild bird food business as discontinued operations, for all periods presented, beginning in our second quarter of fiscal 2014. As a result, and unless specifically stated otherwise, all discussions regarding results for the three and nine months ended June 28, 2014 and June 29, 2013, 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 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
Net sales	100.0	% 100.0	% 100.0	% 100.0
Cost of sales	62.1	61.2	62.7	63.7
Cost of sales—impairment, restructuring and other	—	0.1	—	0.1
Gross profit	37.9	38.7	37.3	36.2
Operating expenses:				
Selling, general and administrative	16.9	16.6	22.0	22.2
Impairment, restructuring and other	3.5	0.6	1.9	0.3
Other income, net	(0.5)	) (0.4)	) (0.4)	) (0.4)
Income from operations	18.0	21.9	13.8	14.1
Costs related to refinancing	—	—	0.5	—
Interest expense	1.2	1.5	1.6	2.1
Income from continuing operations before income taxes	16.8	20.4	11.7	12.0
Income tax expense from continuing operations	6.0	7.4	4.1	4.4
Income from continuing operations	10.8	13.0	7.6	7.6
Income from discontinued operations, net of tax	0.1	—	—	0.1
Net Income	10.9	% 13.0	% 7.6	% 7.7
Net Sales				

Net sales for the three months ended June 28, 2014 were \$1,116.4 million, a decrease of 1.8% from net sales of \$1,137.1 million for the three months ended June 29, 2013. Net sales for the nine months ended June 28, 2014 were \$2,387.0 million, an increase of 2.0% from net sales of \$2,340.1 million for the nine months ended June 29, 2013. The change in net sales was attributable to the following:

	THREE MONTHS ENDED	NINE MONTHS ENDED
	JUNE 28, 2014	JUNE 28, 2014
Volume	(3.1)% —
Pricing	0.3	0.9
Acquisitions	0.6	0.8
Foreign exchange rates	0.4	0.3
Change in net sales	(1.8	)% 2.0

The decrease in net sales for the three months ended June 28, 2014, was primarily driven by:

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decreased volume in our Global Consumer segment, driven by timing of shipments to retailers earlier in the lawn and garden season; and

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a decrease in net sales attributable to our marketing agreement with Monsanto driven by timing of shipments to retailers earlier in the lawn and garden season;
 partially offset by the favorable impact of increased pricing in the Global Consumer segment, primarily in the U.S.;
 net sales from the Tomcat® acquisition within our Global Consumer segment; and
 favorable impact of foreign exchange rates as a result of the slight weakening of the U.S. dollar relative to other currencies.

The increase in net sales for the nine months ended June 28, 2014, was primarily driven by:
 favorable impact of increased pricing in the Global Consumer segment, primarily in the U.S.;
 net sales from the Tomcat® acquisition within our Global Consumer segment and acquisitions within our Scotts LawnService® segment; and
 favorable impact of foreign exchange rates as a result of the slight weakening of the U.S. dollar relative to other currencies;

Cost of Sales

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
	(In millions)			
Materials	\$413.8	\$433.2	\$888.7	\$914.2
Manufacturing labor and overhead	123.5	122.1	265.4	257.6
Distribution and warehousing	140.3	123.1	292.6	267.1
Roundup® reimbursements	15.5	16.9	49.3	51.5
	\$693.1	\$695.3	\$1,496.0	\$1,490.4
Impairment, restructuring and other	—	1.5	—	1.6
	\$693.1	\$696.8	\$1,496.0	\$1,492.0

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014		JUNE 28, 2014	
	(In millions)			
Material costs	\$(9.6	)	\$(21.5)
Volume and product mix	6.1	)	25.1)
Roundup® reimbursements	(1.4	)	(2.2)
Foreign exchange rates	2.7	)	4.2)
Change in cost of sales	\$(2.2	)	\$5.6)
Impairment, restructuring and other	(1.5	)	(1.6)
Change in cost of sales	\$(3.7	)	\$4.0)

The decrease in cost of sales, for the three months ended June 28, 2014, was primarily driven by:

a decline in material costs in our Global Consumer and Scotts LawnService® segments due to product cost-out initiatives including growing media material costs and packaging and decreased prices of fertilizer inputs; and
 lower reimbursements attributable to our Marketing Agreement with Monsanto;
 partially offset by higher distribution costs and increased sales volume of our mulch products in our Global Consumer segment; and
 unfavorable impact of foreign exchange rates as a result of a slight weakening of the U.S. dollar relative to other currencies.

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The increase in cost of sales, for the nine months ended June 28, 2014, was primarily driven by:

- unfavorable product mix due to increased sales of our mulch products and higher distribution costs in our Global Consumer segment; and
- unfavorable impact of foreign exchange rates as a result of a slight weakening of the U.S. dollar relative to other currencies;

partially offset by a decline in material costs in our Global Consumer and Scotts LawnService® segments due to product cost-out initiatives including growing media material costs and packaging and decreased prices of fertilizer inputs; and

lower reimbursements attributable to our Marketing Agreement with Monsanto.

Gross Profit

As a percentage of net sales, our gross profit rate was 37.9% and 38.7% for the three months ended June 28, 2014 and June 29, 2013, respectively. As a percentage of net sales, our gross profit rate was 37.3% and 36.2% for the nine months ended June 28, 2014 and June 29, 2013, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	THREE MONTHS ENDED JUNE 28, 2014		NINE MONTHS ENDED JUNE 28, 2014	
Pricing	0.3	%	0.6	%
Material costs	0.9		0.8	
Product mix and volume:				
Roundup® commissions and reimbursements	(0.3)	—	
Acquisitions	(0.1	)	(0.1)
Corporate & Other	(0.1	)	0.1	
Scotts LawnService®	0.1		0.1	
Global Consumer mix and volume	(1.6	)	(0.5)
Change in gross profit rate	(0.8	)%	1.0	%
Impairment, restructuring and other	—		0.1	
Change in gross profit rate	(0.8	)%	1.1	%

The decrease in the gross profit rate, for the three months ended June 28, 2014, was primarily driven by:

- unfavorable product mix within our Global Consumer segment due to increased sales of mulch products;
- increased distribution costs within our Global Consumer segment; and
- decreased commission income associated with our Marketing Agreement with Monsanto due to lower sales of Roundup® herbicide products compared to the same period in the prior year;

partially offset by decreased material costs within our Global Consumer segment due to product cost-out initiatives including growing media material costs and packaging and decreased prices of fertilizer inputs; and

favorable impact of increased pricing for the Global Consumer segment, primarily in the U.S.

The increase in the gross profit rate, for the nine months ended June 28, 2014, was primarily driven by:

- decreased material costs within our Global Consumer segment due to product cost-out initiatives including growing media material costs and packaging and decreased prices of fertilizer inputs; and
- favorable impact of increased pricing for the Global Consumer segment, primarily in the U.S.;

partially offset by unfavorable product mix within our Global Consumer segment due to increased sales of our mulch products and higher distribution costs.

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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 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
	(In millions)			
Advertising	\$53.4	\$59.3	\$123.4	\$124.6
Share-based compensation	2.3	1.9	8.7	10.4
Research and development	12.2	11.5	34.3	33.9
Amortization of intangibles	2.7	1.9	7.6	5.9
Other selling, general and administrative	118.4	114.6	351.6	345.1
	\$189.0	\$189.2	\$525.6	\$519.9

Selling, general and administrative (“SG&A”) expenses decreased \$0.2 million, or 0.1%, to \$189.0 million for the third quarter of fiscal 2014 compared to the same period of fiscal 2013. Advertising decreased \$5.9 million driven by timing and mix of Global Consumer media spending. Increase in other SG&A is due to increased marketing spending including package design costs.

SG&A expenses increased \$5.7 million, or 1.1%, to \$525.6 million for the first nine months of fiscal 2014 compared to the same period of fiscal 2013. The decrease in advertising of \$1.2 million was primarily driven by delayed timing of media and marketing purchases within Scotts LawnService® partially offset by an increase in Global Consumer annual media and marketing investments. Amortization of intangibles increased by \$1.6 million due to the acquisition of the Tomcat® business within the Global Consumer segment. Increase in other SG&A is due to increased marketing spending including package design costs.

Impairment, Restructuring and Other

During the three and nine months ended June 28, 2014, we recognized \$5.8 million and \$9.7 million, respectively, in restructuring costs related to termination benefits provided to U.S. personnel as part of our restructuring of the U.S. administrative and overhead functions in order to reinvest in other areas. Further, during the third quarter of fiscal 2014, we recognized a \$33.7 million impairment charge for a non-recurring fair value adjustment within the Global Consumer segment related to the Ortho brand. In addition, for the three and nine months ended June 28, 2014, we recognized \$(0.3) million and \$0.2 million, respectively, for employee severance charges, related to termination benefits provided to international employees as part of the profitability improvement initiative announced in December 2012, associated with the international restructuring plan to reduce headcount and streamline management decision making within the Global Consumer segment, and \$2.0 million in additional ongoing monitoring and remediation costs for the Company's turfgrass biotechnology program.

For the three and nine months ended June 29, 2013, we recognized expense of \$8.5 million related to international employee severance within the Global Consumer segment. Further, during the first quarter of fiscal 2013 we 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. We also recognized a \$4.3 million asset impairment charge during the first quarter of fiscal 2013 as a result of issues with the commercialization of an insect repellent technology for the Global Consumer segment.

Other Income, net

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, equity income (loss) on unconsolidated affiliates and gains/losses from the sale of non-inventory assets. Other income was \$5.8 million for the three months ended June 28, 2014 compared to \$4.9 million for the three months ended June 29, 2013. Other income was \$8.5 million for the nine months ended June 28, 2014 compared to \$7.5 million for the nine months ended June 29, 2013.

Costs Related to Refinancing

Costs related to refinancing were \$10.7 million for the nine months ended June 28, 2014. The costs incurred were associated with the redemption of the 7.25% Senior Notes.

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Interest Expense

Interest expense was \$12.8 million for the three months ended June 28, 2014 compared to \$16.8 million for the three months ended June 29, 2013. The decrease in interest expense of \$4.0 million was driven by a decline in our weighted average interest rate during the three months ended June 28, 2014, as compared to the same prior year period. The decrease in our weighted average interest rate of 143 basis points was due to the reduced rates under our third amended and restated credit agreement and the redemption of the 7.25% Senior Notes.

Interest expense was \$38.7 million for the nine months ended June 28, 2014 compared to \$47.9 million for the nine months ended June 29, 2013. The decrease in interest expense of \$9.2 million was driven by a decline in average borrowings of \$58.6 million, excluding the impact of foreign exchange rates, during the nine months ended June 28, 2014, as compared to the same prior year period. The decline in average borrowings was driven by the carryover impact of a reduction in inventories in fiscal year 2013. Additionally, there was a decrease in our weighted average interest rate of 87 basis points primarily due to the reduced rates under our third amended and restated credit agreement and due to the redemption of the 7.25% Senior Notes.

Income Tax Expense

The effective tax rate related to continuing operations for the three months ended June 28, 2014 was 35.8% compared to 36.4% for the three months ended June 29, 2013. The effective tax rate related to continuing operations for the nine months ended June 28, 2014 was 35.2% compared to 36.5% for the nine months ended June 29, 2013. The Company recognized discrete tax benefits of \$0.5 million and \$2.6 million for the three and nine months ended June 28, 2014, respectively. 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 \$120.7 million, or \$1.93 per diluted share, for the third quarter of fiscal 2014 compared to \$147.7 million, or \$2.36 per diluted share, for the third quarter of fiscal 2013 and \$180.6 million or \$2.88 per diluted share for the first nine months of fiscal 2014 compared to \$178.6 million or \$2.86 per diluted share for the first nine months of fiscal 2013. The decrease in our income from continuing operations for the three months ended June 28, 2014 was primarily driven by decreased sales in our Global Consumer segment, a lower gross profit rate and impairment, restructuring and other charges, partially offset by lower income tax and interest expenses. The increase in our income from continuing operations for the nine months ended June 28, 2014 was primarily driven by increased sales in our Global Consumer segment, higher gross profit rate and lower interest expense, partially offset by costs related to refinancing and impairment, restructuring and other charges. Diluted average common shares used in the diluted net income per common share calculation were 62.4 million for the third quarter of fiscal 2014 compared to 62.6 million for the same period a year ago. Diluted average common shares used in the diluted net income per common share calculation were 62.8 million for the nine months ended June 28, 2014 compared to 62.5 million for the nine months ended June 29, 2013. The decrease in dilutive average common shares for the three months ended June 28, 2014 was a result of share repurchases, partially offset by the exercise and issuance of share-based compensation awards. The increase in dilutive average common shares for the nine months ended June 28, 2014 was a result of the exercise and issuance of share-based compensation awards partially offset by share repurchases.

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 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.

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The following table sets forth net sales by segment:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
	(In millions)			
Global Consumer	\$1,012.8	\$1,041.2	\$2,197.2	\$2,146.6
Scotts LawnService®	92.8	89.9	168.0	167.6
Segment total	1,105.6	1,131.1	2,365.2	2,314.2
Corporate & Other	10.8	6.0	21.8	25.9
Consolidated	\$1,116.4	\$1,137.1	\$2,387.0	\$2,340.1

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
	(In millions)			
Global Consumer	\$244.5	\$260.5	\$446.6	\$410.7
Scotts LawnService®	20.7	22.3	3.0	4.4
Segment total	265.2	282.8	449.6	415.1
Corporate & Other	(21.4	) (22.8	) (66.1	) (70.3
Intangible asset amortization	(3.7	) (2.5	) (9.6	) (7.5
Impairment, restructuring and other	(39.2	) (8.5	) (45.6	) (8.3
Costs related to refinancing	—	—	(10.7) —
Interest expense	(12.8	) (16.8	) (38.7	) (47.9
Consolidated	\$188.1	\$232.2	\$278.9	\$281.1

Global Consumer

Global Consumer segment net sales were \$1,012.8 million in the third quarter of fiscal 2014, a decrease of 2.7%, from the third quarter of fiscal 2013 sales of \$1,041.2 million and were \$2,197.2 million for the first nine months of fiscal 2014, an increase of 2.4%, from the first nine months of fiscal 2013 sales of \$2,146.6 million. For the three months ended June 28, 2014, volume unfavorably impacted net sales by 4.2%, which was partially offset by favorable impacts from pricing, acquisitions and foreign exchange rates of 0.5%, 0.6% and 0.4%, respectively. For the nine months ended June 28, 2014, volume, pricing, acquisitions and foreign exchange rates favorably impacted net sales by 0.2%, 1.0%, 0.9% and 0.3%, respectively.

Net sales in the U.S. decreased \$49.8 million, or 5.9%, for the third quarter of fiscal 2014 as compared to the same period in fiscal 2013 and increased \$23.0 million, or 1.3%, for the first nine months of fiscal 2014 as compared to the same period in fiscal 2013. The decrease in U.S. net sales for the third quarter was driven by timing of shipments to retailers earlier in the lawn and garden season. The increase in U.S. net sales for the first nine months was driven by an increase in pricing and the acquisition of Tomcat®.

Excluding the impact of changes in foreign exchange rates, net sales internationally increased by \$17.9 million, or 9.3%, and \$21.9 million, or 5.4%, respectively, for the third quarter and the first nine months of fiscal 2014. The increase in sales internationally was primarily driven by higher sales volume within Europe.

Global Consumer segment operating income decreased by \$16.0 million, or 6.1%, and increased by \$35.9 million, or 8.7%, in the third quarter and the first nine months of fiscal 2014, respectively, as compared to the same periods of fiscal 2013. Excluding the impact of changes in foreign exchange rates, the decrease was 6.4% and the increase was 8.6%, for the third quarter and the first nine months of fiscal 2014, respectively. The decrease for the third quarter of fiscal 2014 was primarily driven by lower net sales and gross profit rate, whereas the increase for the first nine months of fiscal 2014 was primarily driven by the favorable impact of pricing, acquisitions and improved gross profit rate.

Scotts LawnService®

Scotts LawnService® net sales increased by \$2.9 million, or 3.2%, and \$0.4 million, or 0.2% in the third quarter and the first nine months of fiscal 2014, respectively, as compared to the same periods of fiscal 2013. The increase in net sales in the third quarter of fiscal 2014 was driven by unfavorable weather conditions that delayed net sales from our second to our third quarter of fiscal 2014, and which resulted in net sales being flat for the first nine months of fiscal

2014.

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The operating income for Scotts LawnService® decreased by \$1.6 million, or 7.2%, to \$20.7 million in the third quarter of fiscal 2014, as compared to the same period of fiscal 2013. The decreased income was primarily driven by higher SG&A costs, primarily for planned increases in selling costs. The operating income for Scotts LawnService® decreased by \$1.4 million, or 31.8%, to \$3.0 million in the first nine months of fiscal 2014, as compared to the same period of fiscal 2013 primarily driven by higher SG&A costs partially offset by an improved gross profit rate.

Corporate & Other

The net operating loss for Corporate & Other was \$21.4 million and \$66.1 million for the three and nine months ended June 28, 2014, respectively, compared to \$22.8 million and \$70.3 million for the three and nine months ended June 29, 2013, respectively. The decreases for the three and nine months ended June 28, 2014 were primarily related to lower employee related expenses, including compensation and benefits.

LIQUIDITY AND CAPITAL RESOURCES**Operating Activities**

Cash provided by operating activities totaled \$34.3 million and \$143.1 million for the nine months ended June 28, 2014 and June 29, 2013, respectively. Cash provided by operating activities declined \$108.8 million primarily due to an increase in cash used for working capital of \$137.8 million. The increase in cash used for working capital was primarily due to increased inventory production in the third quarter of fiscal 2014 and an increase in accounts receivable due to higher net sales in the month of June of fiscal 2014 compared to the same period of fiscal 2013.

Investing Activities

Cash used in investing activities totaled \$121.1 million and \$46.9 million for the nine months ended June 28, 2014 and June 29, 2013, respectively. Cash used for investments in property, plant and equipment during the first nine months of fiscal 2014 and fiscal 2013 was \$68.5 million and \$42.7 million, respectively. The increase was primarily related to \$35.0 million of down payments on a purchase order to acquire a new corporate aircraft and investments to increase efficiencies at existing production facilities. We anticipate entering into a lease arrangement once we take title to the new corporate aircraft, which is expected to be completed in late fiscal 2014. Additionally, during the nine months ended June 28, 2014, within our Global Consumer segment, we completed the \$60.0 million all-cash acquisition of the Tomcat® consumer rodent control business from Bell Laboratories, Inc. In fiscal 2014, we completed the sale of the U.S. and Canada wild bird food business for \$7.2 million in cash. For the nine months ended June 29, 2013, we completed acquisitions of two franchisee businesses within our Scotts LawnService® segment for \$3.2 million in cash.

Financing Activities

Financing activities provided cash of \$100.1 million and used cash of \$117.8 million for the nine months ended June 28, 2014 and June 29, 2013, respectively. The increase of \$217.9 million in cash provided by financing activities during the first nine months of fiscal 2014 as compared to fiscal 2013 was the result of higher net borrowings under our credit facility of \$520.7 million and an increase in net cash received from stock option activity of \$13.4 million, partially offset by the repayment of our 7.25% Senior Notes of \$200.0 million, an increase in repurchases of our Common Shares of \$89.5 million, additional dividends paid of \$20.6 million and financing fees associated with our new credit facility of \$6.1 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 \$147.2 million as of June 28, 2014, compared to \$105.4 million as of June 29, 2013. The cash and cash equivalents balance at June 28, 2014 included \$137.3 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.

Table of Contents**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 December 20, 2013, the Company entered into a third amended and restated senior secured credit facility, providing the Company and certain of its subsidiaries with a five-year senior secured revolving loan facility in the aggregate principal amount of up to \$1.7 billion. The third amended and restated senior secured credit facility also provides the Company with the right to seek to increase the credit facility by an aggregate amount of up to \$450 million, subject to certain specified conditions. Borrowings may be made in various currencies, including U.S. dollars, Euros, British Pounds, Australian dollars, and Canadian dollars. The credit facility replaces the Company's second amended and restated senior secured credit agreement, which was entered into on June 30, 2011. The credit facility will terminate on December 20, 2018. The second amended and restated senior secured credit agreement would have terminated on June 30, 2016, if it had not been terminated early pursuant to the credit facility.

Under our credit facility, we have the ability to obtain letters of credit up to \$75 million. At June 28, 2014, we had letters of credit in the aggregate face amount of \$23.3 million outstanding and \$1,251.6 million of availability under our credit facility, subject to our continued compliance with covenants discussed below.

The Company maintains a Master Accounts Receivable Purchase Agreement ("MARPA Agreement"), which is uncommitted and 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 account debtors in an aggregate amount not to exceed \$400 million. On October 25, 2013, the Company signed an amendment to the existing MARPA Agreement which extended the termination date to August 29, 2014, or such later date as may be mutually agreed by the Company and the banks party thereto. Under the amended terms of the MARPA Agreement, the banks have the opportunity to purchase those accounts receivable offered by the Company at a discount (from the agreed base value thereof) effectively equal to the one-week LIBOR plus 0.75%. There were \$190.3 million of short-term borrowings as of June 28, 2014 and \$159.9 million of short-term borrowings as of June 29, 2013 under the MARPA Agreement. The carrying value of the receivables pledged as collateral was \$237.8 million as of June 28, 2014. As of June 28, 2014, there was \$90.8 million of availability under the MARPA Agreement.

On January 15, 2014, the Company used a portion of its available credit facility borrowings to redeem all of its outstanding \$200 million aggregate principal amount of 7.25% Senior Notes, paying a redemption price of \$214.5 million to extinguish the outstanding 7.25% Senior Notes, which included \$7.25 million of accrued and unpaid interest, \$7.25 million of call premium, and \$200 million for outstanding principal amount.

As of June 28, 2014, 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 4.00 as of June 28, 2014. Our leverage ratio was 1.91 at June 28, 2014. 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 28, 2014. Our interest coverage ratio was 7.39 for the twelve months ended June 28, 2014. As of June 28, 2014, the Company can make additional restricted payments (as defined in the third amended and restated credit agreement), including increased or one-time dividend payments and common share repurchases, before reaching a leverage ratio of 3.00. In the fourth quarter of fiscal 2014 the Company expects to make additional one-time payments of approximately \$125 million to shareholders.

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 2014. 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.

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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 2013 and through June 28, 2014.

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, 2013, under "ITEM 1. BUSINESS — Regulatory Considerations" and "ITEM 3. LEGAL PROCEEDINGS."

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, 2013 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, 2013.

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.

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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 28, 2014 that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

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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, 2013.

ITEM 1A. RISK FACTORS

The Company's risk factors as of June 28, 2014 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, 2013.

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, 2013. 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.

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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 third amended and restated credit agreement restricts future dividend payments to an aggregate of \$150 million annually through fiscal 2014 and 2015 and \$175 million annually beginning in fiscal 2016 if our leverage ratio, after giving effect to any such annual dividend payment, exceeds 3.0. Our leverage ratio was 1.91 at June 28, 2014.

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 three months ended June 28, 2014:

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 Plans or Programs(3)
March 30, 2014 through April 26, 2014	147,688	\$ 60.33	147,688	\$ 230,277,059
April 27, 2014 through May 24, 2014	164,467	\$ 60.80	164,317	\$ 220,287,562
May 25, 2014 through June 28, 2014	221,406	\$ 58.55	220,763	\$ 207,363,017
Total	533,561	\$ 59.73	532,768	

All of the Common Shares purchased during the quarter were purchased in open market transactions. The total number of Common Shares purchased during the quarter includes 793 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 (1) 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.

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ITEM 6. EXHIBITS

See Index to Exhibits at page 51 for a list of the exhibits included herewith.

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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, 2014

/s/ THOMAS RANDAL COLEMAN
Printed Name: Thomas Randal Coleman
Title: Executive Vice President and Chief Financial
Officer

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THE SCOTTS MIRACLE-GRO COMPANY
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2014

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION
10.1	Separation Agreement and Release of All Claims, entered into and effective as of April 17, 2014, by and between The Scotts Company LLC and Lawrence A. Hilsheimer	Incorporated herein by reference to the Current Report on Form 8-K of the Registrant filed April 17, 2014 (File No. 1-11593) [Exhibit 10.1]
10.2	Special form of Deferred Stock Unit Award Agreement for Nonemployee Directors (with Related Dividend Equivalents) used to evidence grants of Deferred Stock Units made on May 1, 2014 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 29, 2014 (File No. 1-11593) [Exhibit 10.11]
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	