SCOTTS MIRACLE-GRO CO
Form 10-Q
August 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-11593

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

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

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

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

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

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

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

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

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

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

Class	Outstanding at August 06, 2012
Common Shares, $0.01 stated value, no par value	61,156,686 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 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Net sales	$1,062.2	$1,058.7	$2,446.9	$2,418.5
Cost of sales	695.5	657.5	1,592.4	1,503.4
Cost of sales – product registration and recall matters	0.2	1.1	0.4	3.2
Gross profit	366.5	400.1	854.1	911.9
Operating expenses:				
Selling, general and administrative	197.5	192.4	557.5	551.8
Impairment, restructuring and other charges	(0.4)	13.8	7.8	13.8
Product registration and recall matters	3.8	5.7	7.4	7.8
Other income, net	(2.4)	(4.2)	(4.6)	(5.0)
Income from operations	168.0	192.4	286.0	343.5
Costs related to refinancing	—	1.2	—	1.2
Interest expense	16.6	14.0	49.8	37.3
Income from continuing operations before income taxes	151.4	177.2	236.2	305.0
Income tax expense from continuing operations	56.4	65.5	87.9	111.4
Income from continuing operations	95.0	111.7	148.3	193.6
Income (loss) from discontinued operations, net of tax	(1.7)	(0.1)	(1.7)	27.7
Net income	$93.3	$111.6	$146.6	$221.3
Basic income per common share:				
Income from continuing operations	$1.55	$1.73	$2.43	$2.95
Income (loss) from discontinued operations	(0.02)	—	(0.03)	0.42
Basic income per common share	$1.53	$1.73	$2.40	$3.37
Weighted-average common shares outstanding during the period	61.1	64.5	61.0	65.6
Diluted income per common share:				
Income from continuing operations	$1.53	$1.69	$2.39	$2.89
Income (loss) from discontinued operations	(0.03)	—	(0.03)	0.41
Diluted income per common share	$1.50	$1.69	$2.36	$3.30
Weighted-average common shares outstanding during the period plus dilutive potential common shares	62.2	66.2	62.0	67.1
Dividends declared per common share	$0.30	$0.25	$0.90	$0.75

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 30, 2012	JULY 2, 2011
OPERATING ACTIVITIES		
Net income	$146.6	$221.3
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Impairment and other charges	5.3	12.4
Costs related to refinancing	—	1.2
Share-based compensation expense	10.6	14.3
Depreciation	39.6	37.3
Amortization	7.3	8.7
Gain on sale of long-lived assets	(0.1)	(0.1)
Gain on sale of business	—	(93.0)
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(293.5)	(352.9)
Inventories	(79.5)	(87.8)
Prepaid and other assets	12.2	(8.0)
Accounts payable	97.6	113.9
Other current liabilities	178.4	121.8
Restructuring reserves	(14.2)	(0.3)
Other non-current items	(4.8)	(2.7)
Other, net	9.6	0.4
Net cash provided by (used in) operating activities	115.1	(13.5)
INVESTING ACTIVITIES		
Proceeds from sale of long-lived assets	0.5	0.2
Proceeds from sale of business, net of transaction costs	—	253.9
Investments in property, plant and equipment	(39.0)	(53.3)
Payment of contingent consideration and related	—	(20.0)
Investment in acquired business, net of cash acquired	(7.0)	(0.8)
Net cash (used in) provided by investing activities	(45.5)	180.0
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit	1,531.9	1,419.2
Repayments under revolving and bank lines of credit	(1,549.4)	(1,459.2)
Proceeds from issuance of Senior Notes	—	200.0
Financing and issuance fees	—	(18.5)
Dividends paid	(55.5)	(49.4)
Purchase of common shares	(17.5)	(218.7)
Excess tax benefits from share-based payment arrangements	5.0	5.4
Cash received from the exercise of stock options	16.6	29.4
Net cash used in financing activities	(68.9)	(91.8)
Effect of exchange rate changes on cash	0.7	1.5
Net increase in cash and cash equivalents	1.4	76.2

Cash and cash equivalents, beginning of period	130.9	88.1
Cash and cash equivalents, end of period	$132.3	$164.3
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$(48.8)	$(33.6)
Income taxes paid	(18.6)	(63.1)

See notes to condensed consolidated financial statements.

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Balance Sheets
(In Millions, Except Stated Value Per Share)

	JUNE 30, 2012 (UNAUDITED)	JULY 2, 2011	SEPTEMBER 30, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	$132.3	$164.3	$ 130.9
Accounts receivable, less allowances of $6.2, $13.6 and $12.9, respectively	516.7	693.9	323.5
Accounts receivable pledged	97.2	—	—
Inventories	469.3	442.2	387.0
Prepaid and other current assets	130.6	137.3	151.1
Total current assets	1,346.1	1,437.7	992.5
Property, plant and equipment, net of accumulated depreciation of $533.7, $496.8 and $510.5, respectively	387.7	394.3	394.7
Goodwill	309.1	306.5	309.1
Intangible assets, net	308.7	343.2	319.6
Other assets	32.5	45.5	36.3
Total assets	$2,384.1	$2,527.2	$ 2,052.2
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of debt	$90.8	$2.1	$ 3.2
Accounts payable	242.8	258.8	150.0
Other current liabilities	476.6	490.2	315.4
Total current liabilities	810.2	751.1	468.6
Long-term debt	680.4	782.1	791.8
Other liabilities	219.5	225.7	232.0
Total liabilities	1,710.1	1,758.9	1,492.4
Commitments and contingencies (notes 3 and 12)			
Shareholders' equity:			
Common shares and capital in excess of $.01 stated value per share, 61.2, 63.7 and 60.8 shares issued and outstanding, respectively	413.6	426.7	427.1
Retained earnings	690.3	671.3	599.2
Treasury shares, at cost: 7.0, 4.6 and 7.5 shares, respectively	(359.2)	(252.6)	(388.5)
Accumulated other comprehensive loss	(70.7)	(77.1)	(78.0)
Total shareholders' equity	674.0	768.3	559.8
Total liabilities and shareholders' equity	$2,384.1	$2,527.2	$ 2,052.2

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.

On February 28, 2011, the Company completed the sale of a significant majority of the assets of its Global Professional business (excluding the non-European professional seed business, "Global Pro") to Israel Chemicals Ltd. ("ICL"). As a result of the then-pending sale, effective in the Company's first quarter of fiscal 2011, the Company classified Global Pro as discontinued operations. See "NOTE 2. DISCONTINUED OPERATIONS" for additional details regarding the sale of Global Pro.

Organization and Basis of Presentation

The Company's unaudited condensed consolidated financial statements for the three and nine months ended June 30, 2012 and July 2, 2011 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, 2011, which includes a complete set of footnote disclosures, including the Company's significant accounting policies.

Use of Estimates

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

RECENT ACCOUNTING PRONOUNCEMENTS

Fair Value Measurement

In May 2011, the Financial Accounting Standards Board (the "FASB") issued amended accounting guidance to improve comparability of fair value measures between GAAP and the International Financial Reporting Standards. The amended guidance clarifies how to apply the existing fair value measurement and disclosure requirements. The provisions were effective for the Company's financial statements for the interim period beginning January 1, 2012. The adoption of the amended guidance did not have a significant impact on the Company's financial statements and related disclosures.

Comprehensive Income

In June 2011, the FASB issued amended accounting guidance on the presentation of comprehensive income. The amended guidance requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions will be effective for the Company's financial statements for the fiscal year beginning October 1, 2012. The Company is in the process of evaluating the impact that the amended guidance may have on its financial statements and related disclosures.

Testing for Goodwill Impairment

In September 2011, the FASB issued new accounting guidance that permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The entity is not required to calculate the

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fair value of a reporting unit unless the entity determines that it is more likely than not that the reporting unit's fair value is less than its carrying value. The guidance will be effective for the Company's financial statements for the fiscal year beginning October 1, 2012. The Company is in the process of evaluating the impact that the guidance may have on its financial statements and related disclosures.

Testing for Indefinite-Lived Intangible Asset Impairment

In July 2012, the FASB issued new accounting guidance that permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount as a basis for determining whether it is necessary to calculate the fair value of the asset. The entity is not required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines that it is more likely than not that the indefinite-lived intangible asset's fair value is less than its carrying value. The guidance will be effective for the Company's financial statements for the fiscal year beginning October 1, 2012. The Company is in the process of evaluating the impact that the guidance may have on its financial statements and related disclosures.

NOTE 2. DISCONTINUED OPERATIONS

On February 28, 2011, the Company completed the sale of Global Pro to ICL for $270 million. After agreed upon adjustments (including post-closing adjustments), the Company received $270.9 million net proceeds, or $253.6 million after transaction costs. Results from discontinued operations for fiscal 2011 include an after-tax gain on the sale of Global Pro of $39.5 million, which includes transaction costs. In addition, in the third quarter of fiscal 2012, the Company recorded an adjustment of $1.7 million as a change in estimate on the tax due on the sale of Global Pro. Pursuant to the terms of the indenture governing the Company's 7.25% Senior Notes due 2018 and the indenture governing the Company's 6.625% Senior Notes due 2020, the Company had a period of 360 days to apply an amount equal to the net proceeds received from the sale of Global Pro to repay indebtedness, acquire equity interests in certain entities, make capital expenditures, acquire other assets useful in a related business and/or make investments in certain joint ventures. Any amount not so applied must be used to make an offer to repurchase the Senior Notes, provided that such repurchase offer may be deferred until such time as the unutilized proceeds exceed $50 million. As of June 30, 2012, the Company had applied all but approximately $45 million of the net proceeds to one or more of the uses permitted by the indentures.

The Company's decision to exit the professional ornamental horticulture, turf and specialty agriculture markets and sell Global Pro was another step in its strategy to evolve its business portfolio to better leverage growth opportunities within its Global Consumer and Scotts LawnService® business segments.

In conjunction with the transaction, The Scotts Company LLC ("Scotts LLC"), a wholly owned subsidiary of Scotts Miracle-Gro, and ICL entered into several product supply agreements which are generally up to five years in duration, as well as various trademark and technology licensing agreements with varying durations. The purpose of these agreements is to allow each party to continue leveraging existing production capabilities and intellectual property to meet customer demand for their respective products. Scotts LLC estimates that it will supply ICL with approximately $50 million of product under these agreements, as well as purchase approximately $15 million of materials from ICL, each on an annualized basis.

The Company's continuing cash inflows and outflows related to these agreements are not considered to be significant in relation to the overall cash flows of Global Pro. Furthermore, none of these agreements permit the Company to influence the operating or financial policies of Global Pro under the ownership of ICL. Therefore, Global Pro met the criteria for presentation as discontinued operations. As such, effective in the first quarter of fiscal 2011, the Company classified Global Pro as discontinued operations for all periods presented. The Global Pro results from discontinued operations include an allocation of interest expense relating to the amount of our then existing credit facilities that was required to be repaid from the sale proceeds.

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The following table summarizes the results of Global Pro within discontinued operations for the periods presented (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Net sales	$—	$—	$—	$88.7
Operating costs	—	—	—	78.1
Gain on sale of Global Pro business	—	(2.4)	—	(93.0)
Global Pro sale related transaction costs	—	2.2	—	17.0
Other expense, net	—	(0.3)	—	(0.2)
Interest expense	—	—	—	1.7
Income from discontinued operations before income taxes	—	0.5	—	85.1
Income tax expense from discontinued operations	1.7	0.6	1.7	57.4
Income (loss) from discontinued operations	$(1.7)	$(0.1)	$(1.7)	$27.7

NOTE 3. PRODUCT REGISTRATION AND RECALL MATTERS

In April 2008, the Company became aware that a former associate apparently deliberately circumvented the Company's policies and U.S. Environmental Protection Agency ("U.S. EPA") regulations under the Federal Insecticide, Fungicide, and Rodenticide Act of 1947, as amended ("FIFRA"), by failing to obtain valid registrations for certain products and/or causing certain invalid product registration forms to be submitted to regulators. Since that time, the Company has been cooperating with both the U.S. EPA and the U.S. Department of Justice (the "U.S. DOJ") in related civil and criminal investigations into the pesticide product registration issues as well as a state civil investigation into related allegations arising under state pesticide registration laws and regulations.

In late April 2008, in connection with the U.S. EPA's investigation, the Company conducted a consumer-level recall of certain consumer lawn and garden products and a Scotts LawnService® product. Subsequently, the Company and the U.S. EPA agreed upon a Compliance Review Plan for conducting a comprehensive, independent review of the Company's product registration records. Pursuant to the Compliance Review Plan, an independent third-party firm, Quality Associates Incorporated ("QAI"), reviewed substantially all of the Company's U.S. pesticide product registrations and associated advertisements, some of which were historical in nature and no longer related to sales of the Company's products. The U.S. EPA investigation and the QAI review process resulted in the temporary suspension of sales and shipments of certain products. In addition, as the QAI review process or the Company's internal review identified potential FIFRA registration issues (some of which appear unrelated to the actions of the former associate), the Company endeavored to stop selling or distributing the affected products until the issues could be resolved. QAI's review of the Company's U.S. pesticide product registrations and associated advertisements is now substantially complete. The results of the QAI review process did not materially affect the Company's fiscal 2009, fiscal 2010 or fiscal 2011 sales and are not expected to materially affect the Company's fiscal 2012 sales.

In fiscal 2008, the Company conducted a voluntary recall of certain of its wild bird food products due to a formulation issue. Certain wild bird food products had been treated with pest control additives to avoid insect infestation, especially at retail stores. While the pest control additives had been labeled for use on certain stored grains that can be processed for human and/or animal consumption, they were not labeled for use on wild bird food products. In October 2008, the U.S. Food & Drug Administration concluded that the recall had been completed and that there had been proper disposition of the recalled products. The wild bird food recall did not materially affect the Company's fiscal 2009, fiscal 2010 or fiscal 2011 financial condition, result of operations or cash flows and are not expected to affect the Company's fiscal 2012 financial condition, result of operations or cash flows.

Settlement discussions relating to potential fines and/or penalties are a frequent outgrowth of governmental investigations. In that regard, on or about June 30, 2011, the Company received a Notice of Intent to File Administrative Complaint ("Notice") from the U.S. EPA Region 5 with respect to the alleged FIFRA violations. The Notice, which did not set forth a proposed penalty amount, offered the Company an opportunity to present any

information that it believed the U.S. EPA should consider prior to filing the complaint and indicated that the U.S. EPA was prepared to meet with the Company to discuss the alleged violations. The Company made a timely response to the Notice and settlement discussions between the Company and the U.S. EPA are ongoing.

As previously disclosed, the Company has also been engaged in settlement discussions with the U.S. DOJ regarding its criminal investigation. On January 25, 2012, a plea agreement (the “Plea Agreement”), executed by both Scotts Miracle-Gro and

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the U.S. DOJ, was filed with the United States District Court for the Southern District of Ohio. Under the terms of the Plea Agreement, Scotts Miracle-Gro agreed to plead guilty to 11 counts of violating FIFRA and the regulations promulgated thereunder, to pay a $4 million penalty to the United States and to provide $0.1 million to each of the following programs designed to enhance and protect the natural environment, particularly habitats for the bird populations that the U.S. EPA's regulation of pesticides is designed to protect: (1) Ohio Audubon's Important Bird Area Program; (2) Ohio Department of Natural Resources' Urban Forestry Program; (3) Columbus Metro-Parks Bird Habitat Enhancement Program; (4) Cornell University Ornithology Laboratory; and (5)The Nature Conservancy of Ohio. In exchange for Scotts Miracle-Gro's guilty plea and the other promises contained in the Plea Agreement, the U.S. DOJ agreed not to criminally prosecute the Company for any other federal crimes relating to any potential FIFRA violations known to the government as of the date of the Plea Agreement. On March 13, 2012, the court accepted the Company's guilty plea, but delayed sentencing thereon to an unspecified later date. The Company's previously established accrual includes the full amount of the proposed criminal penalty and other amounts payable under the Plea Agreement.

The U.S. EPA and related state investigations continue and the court has not yet issued its sentence with respect to the Plea Agreement between Scotts Miracle-Gro and the U.S. DOJ. In addition, the Company may be subject to additional judgments, settlements, fines and/or penalties as a result of federal, state or private actions with respect to known or potential additional product registration issues. Accordingly, the Company cannot reasonably estimate the total scope or magnitude of all possible liabilities that could result from known or potential product registration issues. Based on the facts and circumstances known to the Company at this time (including settlement discussions that have taken place to date and the Plea Agreement), the Company has established what it believes to be an appropriate accrual. It is possible that any fines and/or penalties with respect to the investigations, as well as any judgments, litigation costs or other liabilities relating to such known or potential product registration issues, could exceed the amount of the accrual and could have an adverse effect on the Company's financial condition, results of operations or cash flows.

As a result of these registration and recall matters, the Company has recorded charges for affected inventory and other registration and recall-related costs. The Company expects that future charges will include costs associated with the rework of certain finished goods inventories, the potential disposal of certain products and ongoing third-party professional services related to the U.S. EPA, U.S. DOJ and state investigations. It may also be appropriate to establish additional accruals as settlement discussions continue or in connection with other actions or potential liabilities arising in connection with the product registration and recall issues.

The following tables summarize the impact of the product registration and recall matters on the Company's results of operations and other current liabilities for the periods presented (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Cost of sales — other charges	$0.2	$1.1	$0.4	$3.2
Gross loss	(0.2)	(1.1)	(0.4)	(3.2)
Selling, general and administrative	3.8	5.7	7.4	7.8
Loss from operations	(4.0)	(6.8)	(7.8)	(11.0)
Income tax (expense) benefit	(0.1)	0.8	0.6	2.2
Net loss	$(4.1)	$(6.0)	$(7.2)	$(8.8)

	SEPTEMBER 30, 2011	ADDITIONAL COSTS AND CHANGES IN ESTIMATE	ACCRUALS USED	JUNE 30, 2012
Other costs of sales	$ 0.7	$0.4	$(0.6)	$0.5
Other general and administrative costs	7.8	7.4	(1.9)	13.3
Total cost accrued	$ 8.5	$7.8	$(2.5)	$13.8

NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES

On August 8, 2011, the Company announced a restructuring plan (the "2011 restructuring plan") designed to streamline management decision making and continue the regionalization of the Company's operating structure, with the objective of reinvesting the savings generated in innovation and growth initiatives. During fiscal 2011, the Company incurred $24.2 million in restructuring costs related to termination benefits provided to employees who were involuntarily terminated and special termination benefits provided to certain employees upon future separation, as well as $2.3 million related to curtailment charges for its U.S. defined benefit pension and U.S. retiree medical plans. A majority of these costs that were incurred were in relation to the Global Consumer segment and Corporate & Other. In continuation of the 2011 restructuring plan, during the nine months

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ended June 30, 2012, the Company incurred an additional $1.7 million in restructuring costs related to termination benefits provided to employees who accepted voluntary retirement and special termination benefits provided to certain employees upon future separation as well as $0.2 million related to curtailment charges for its U.S. defined benefit pension and U.S retiree medical plans. A significant portion of the amounts reserved as of June 30, 2012, will be paid out over the course of fiscal 2012. Included in the restructuring reserves is $7.4 million that is classified as long-term. Payments against the long-term reserves will start once the employees covered by the 2011 restructuring plan retire.

The following table summarizes the activity related to liabilities associated with the restructuring and other charges during the nine months ended June 30, 2012 (in millions):

Amounts reserved for restructuring and other charges at September 30, 2011	$29.6
Restructuring and other charges	1.9
Payments and other	(14.2)
Amounts reserved for restructuring and other charges at June 30, 2012	$17.3

For the nine months ended June 30, 2012, the Company recognized a $5.3 million asset impairment charge as a result of issues with commercialization of products including the active ingredient MAT 28 for the Global Consumer segment. Also included is a $0.5 million impairment charge related to the investment in Turf-Seed (Europe) Limited.

NOTE 5. INVENTORIES

Inventories consisted of the following for each of the periods presented (in millions):

	JUNE 30, 2012	JULY 2, 2011	SEPTEMBER 30, 2011
Finished goods	$284.6	$258.7	$130.7
Work-in-process	37.1	27.7	34.3
Raw materials	147.6	155.8	222.0
Total inventories	$469.3	$442.2	$387.0

Adjustments to reflect inventories at net realizeable values were $26.3 million at June 30, 2012, $31.4 million at July 2, 2011 and $31.4 million at September 30, 2011.

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 (EBIT) 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 seven years as of June 30, 2012.

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

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The gross commission earned under the Marketing Agreement, the contribution payments to Monsanto and the amortization of the initial marketing fee paid to Monsanto are included in the calculation of net sales in the Company's Consolidated Statements of Operations. The elements of the net commission and reimbursements earned under the Marketing Agreement and included in "Net sales" are as follows (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Gross commission	$38.2	$32.9	$71.6	$65.9
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	33.0	27.7	56.0	50.3
Reimbursements associated with Marketing Agreement	27.8	17.7	69.0	51.9
Total net sales associated with Marketing Agreement	$60.8	$45.4	$125.0	$102.2

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

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

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

NOTE 7. DEBT

The components of long-term debt are as follows (in millions):

	JUNE 30, 2012	JULY 2, 2011	SEPTEMBER 30, 2011
Credit facility – revolving loans	$278.3	$377.0	$387.2
Senior Notes – 7.25%	200.0	200.0	200.0
Senior Notes – 6.625%	200.0	200.0	200.0
MARP Agreement	87.5	—	—
Other	5.4	7.2	7.8

	771.2	784.2	795.0
Less current portions	90.8	2.1	3.2
Total long-term debt	$680.4	$782.1	$791.8

As of June 30, 2012, there was $1.4 billion of availability under the Company's senior secured credit facility, including availability under letters of credit. Under the credit facility, the Company has the ability to issue letter of credit commitments up

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to $75 million. At June 30, 2012, the Company had letters of credit in the aggregate face amount of $25.4 million outstanding.

The Company was in compliance with the terms of all debt covenants at June 30, 2012. The credit facility contains, among other obligations, an affirmative covenant regarding the Company's leverage ratio, calculated as average total indebtedness, as described in the Company's credit facility, relative to the Company's earnings before interest, taxes, deprecation and amortization ("EBITDA"), as adjusted pursuant to the terms of the credit facility ("Adjusted EBITDA"). Under the terms of the credit facility, the maximum leverage ratio was 3.50 as of June 30, 2012. The Company's leverage ratio was 2.86 at June 30, 2012. The Company's credit facility also includes an affirmative covenant regarding its interest coverage ratio. 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 30, 2012. The Company's interest coverage ratio was 4.89 for the twelve months ended June 30, 2012.

The Company accounts for the sale of receivables under the Master Accounts Receivable Purchase Agreement ("MARP Agreement") as short-term debt and continues to carry the receivables on its Consolidated Balance Sheet, primarily as a result of the Company's right to repurchase receivables sold. There were $87.5 million in borrowings under the MARP Agreement as of June 30, 2012.

Estimated Fair Values

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

Credit Facility

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

7.25% Senior Notes

The fair value of Scotts Miracle-Gro's 7.25% Senior Notes due 2018 (the "7.25% Senior Notes") can be determined based on the trading of the 7.25% Senior Notes in the open market. The difference between the carrying value and the fair value of the 7.25% Senior Notes represents the premium or discount on that date. Based on the trading value on or around June 30, 2012, July 2, 2011 and September 30, 2011, the fair value of the 7.25% Senior Notes was approximately $216.8 million, $218.0 million and $206.0 million, respectively. The fair value measurement for the 7.25% Senior Notes was classified in Level 1 of the fair value hierarchy.

6.625% Senior Notes

The fair value of Scotts Miracle-Gro's 6.625% Senior Notes due 2020 (the "6.625% Senior Notes") can be determined based on the trading of the 6.625% Senior Notes in the open market. The difference between the carrying value and the fair value of the 6.625% Senior Notes represents the premium or discount on that date. Based on the trading value on or around June 30, 2012, July 2, 2011 and September 30, 2011, the fair value of the 6.625% Senior Notes was approximately $215.0 million, $204.0 million and $198.1 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, which are the prevailing market rates, 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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NOTE 8. COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) ("OCI") were as follows (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Net income	$93.3	$111.6	$146.6	$221.3
Other comprehensive income (loss):				
Net unrealized (loss) gain on derivative instruments	(2.0)	(3.5)	0.3	4.6
Net change in pension and other postretirement related items	1.5	1.0	3.6	7.9
Foreign currency translation adjustments	4.4	(3.2)	(0.5)	(12.5)
Total comprehensive income	$97.2	$105.9	$150.0	$221.3

NOTE 9. 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 (in millions):

	THREE MONTHS ENDED					
	JUNE 30, 2012			JULY 2, 2011		
	U.S. Pension	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
Service cost	$—	$0.3	$0.2	$—	$0.4	$0.1
Interest cost	1.1	2.5	0.4	1.2	2.6	0.4
Expected return on plan assets	(1.3)	(2.4)	—	(1.3)	(2.4)	—
Net amortization	1.2	0.2	—	1.2	0.3	—
Net periodic benefit cost	$1.0	$0.6	$0.6	$1.1	$0.9	$0.5

	NINE MONTHS ENDED					
	JUNE 30, 2012			JULY 2, 2011		
	U.S. Pension	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
Service cost	$—	$1.0	$0.4	$—	$1.2	$0.3
Interest cost	3.4	7.8	1.2	3.6	8.0	1.2
Expected return on plan assets	(4.1)	(7.5)	—	(3.9)	(7.6)	—
Net amortization	3.7	0.7	—	3.7	1.1	—
Curtailment loss	0.2	—	0.1	—	—	—
Net periodic benefit cost	$3.2	$2.0	$1.7	$3.4	$2.7	$1.5

NOTE 10. SHAREHOLDERS' EQUITY

During the nine months ended June 30, 2012, Scotts Miracle-Gro repurchased 0.4 million of its common shares (the "Common Shares") for $17.5 million. These repurchases were made pursuant to the $700 million share repurchase program approved by the Scotts Miracle-Gro Board of Directors. Since the inception of the program in the fourth quarter of fiscal 2010 through June 30, 2012, Scotts Miracle-Gro has repurchased approximately 7.9 million Common Shares for $401.2 million to be held in treasury.

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Share-Based Awards

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

	NINE MONTHS ENDED	
	June 30, 2012	July 2, 2011
Employees		
Options	464,061	429,700
Restricted stock units	106,844	69,419
Performance units	110,079	53,874
Board of Directors		
Deferred stock units	28,317	26,151
Total share-based awards	709,301	579,144
Aggregate fair value at grant dates (in millions)	$17.0	$13.8

Total share-based compensation recognized was as follows for the periods indicated (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Share-based compensation	$1.7	$3.4	$10.6	$14.3
Tax benefit recognized	0.7	1.3	4.1	5.5

NOTE 11. INCOME TAXES

The effective tax rate related to continuing operations for the nine months ended June 30, 2012, was 37.2%, compared to 36.5% for the nine months ended July 2, 2011. The effective tax rate used for interim reporting purposes is based on management's best estimate of factors impacting the effective tax rate for the full fiscal year. An allocation of the income tax expense has been separately determined to report the discontinued operations, net of tax. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

Scotts Miracle-Gro or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. With few exceptions, which are discussed below, the Company is no longer subject to examinations by these tax authorities for fiscal years prior to 2009. The Company is currently under examination by certain foreign and U.S. state and local tax authorities. In regard to the local German audit, the tax periods under examination are limited to fiscal years 2004 through 2008. In regard to the local Canadian audit, the tax periods under examination are limited to fiscal years 2009 through 2010. In regard to the U.S. state and local audits, the tax periods under examinations are limited to fiscal years 1997 through 2009. In addition to these 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 12. CONTINGENCIES

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

the matters set out below.

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FIFRA Compliance, Corresponding Governmental Investigations and Related Litigation

For a description of the Company's ongoing FIFRA compliance efforts, the corresponding governmental investigations and related matters, see "NOTE 3. PRODUCT REGISTRATION AND RECALL MATTERS."

Other Regulatory Matters

At June 30, 2012, $3.9 million was accrued in the "Other liabilities" line in the Condensed Consolidated Balance Sheet for non-FIFRA compliance-related environmental actions, the majority of which is for site remediation. The amounts accrued are believed to be adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is 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. None of the claims seek damages from the Company alone. 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 accrual or reserves have been recorded in the Company's condensed consolidated financial statements. The Company is reviewing agreements and policies that may provide insurance coverage or indemnity as to these claims and is pursuing coverage under some of these agreements and policies, although there can be no assurance of the results of these efforts. There can be no assurance that these cases, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material effect on the Company's financial condition, results of operations or cash flows.

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

NOTE 13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

Exchange Rate Risk Management

The Company periodically uses foreign currency swap contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. At June 30, 2012, the notional amount of outstanding foreign currency swap contracts was $146.7 million, with a negative fair value of $1.6 million. At July 2, 2011, the notional amount of outstanding foreign currency swap contracts was $382.4 million, with a fair value of $0.8 million. The fair value of foreign currency swap contracts is determined based on changes in spot rates. The contracts will mature over the next fiscal year.

Interest Rate Risk Management

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

At June 30, 2012 and July 2, 2011, 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 $700 million and $900 million at June 30, 2012 and July 2, 2011, respectively. Included in the AOCI balance at June 30, 2012 was a loss of $4.4 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.

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Commodity Price Risk Management

The Company had outstanding hedging arrangements at June 30, 2012 designed to fix the price of a portion of its projected future urea requirements. The contracts are designated as hedges of the Company's exposure to future cash flow fluctuations associated with the cost of urea. The objective of the hedges is to mitigate the earnings and cash flow volatility attributable to the risk of changing prices. Unrealized gains or losses in the fair value of these contracts are recorded to the AOCI component of shareholders' equity. 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 30, 2012 was a gain of $0.3 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 OCI 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 30, 2012 was a gain of $0.1 million related to fuel derivatives that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

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

Commodity	JUNE 30, 2012		JULY 2, 2011	
Urea	13,500	tons	7,500	tons
Diesel	2,016,000	gallons	1,344,000	gallons
Gasoline	336,000	gallons	—	
Heating Oil	210,000	gallons	—	

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Fair Values of Derivative Instruments

The fair values of the Company's derivative instruments were as follows (in millions):

		ASSETS / (LIABILITIES)		
DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS		JUNE 30, 2012	JULY 2, 2011	SEPTEMBER 30, 2011
	BALANCE SHEET LOCATION	FAIR VALUE		
Interest rate swap agreements	Other assets	$—	$0.8	$ —
	Other current liabilities	(7.2)	(13.0)	(10.7)
	Other liabilities	(17.9)	(4.6)	(17.4)
Commodity hedging instruments	Prepaid and other current assets	—	0.6	0.1
	Other current liabilities	(0.3)	—	(0.3)
Total derivatives designated as hedging instruments		$(25.4)	$(16.2)	$ (28.3)
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS				
Foreign currency swap contracts	Prepaid and other current assets	$—	$3.1	$ 2.7
	Other current liabilities	(1.6)	(2.3)	—
Commodity hedging instruments	Prepaid and other current assets	—	0.3	—
	Other current liabilities	(0.2)	—	(0.5)
Total derivatives not designated as hedging instruments		$(1.8)	$1.1	$ 2.2
Total derivatives		$(27.2)	$(15.1)	$ (26.1)

The effect of derivative instruments on OCI and the Condensed Consolidated Statements of Operations was as follows (in millions):

	AMOUNT OF GAIN / (LOSS) RECOGNIZED IN OCI			
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Interest rate swap agreements	$(3.7)	$(6.4)	$(8.3)	$(5.1)
Commodity hedging instruments	—	0.3	0.8	1.7
Total	$(3.7)	$(6.1)	$(7.5)	$(3.4)

		AMOUNT OF GAIN / (LOSS) RECLASSIFIED FROM AOCI INTO EARNINGS			
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS	LOCATION OF GAIN / (LOSS) RECLASSIFIED FROM AOCI INTO EARNINGS	THREE MONTHS ENDED		NINE MONTHS ENDED	
		JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Interest rate swap agreements	Interest expense	$(2.4)	$(3.3)	$(9.5)	$(10.1)
Commodity hedging instruments	Cost of sales	0.7	0.7	1.7	2.1
Total		$(1.7)	$(2.6)	$(7.8)	$(8.0)

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DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS	LOCATION OF GAIN / (LOSS) RECOGNIZED IN EARNINGS	AMOUNT OF GAIN / (LOSS) RECOGNIZED IN EARNINGS			
		THREE MONTHS ENDED		NINE MONTHS ENDED	
		JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Foreign currency swap contracts	Interest expense	$(5.4)	$0.3	$(3.7)	$5.9
Commodity hedging instruments	Cost of sales	(0.9)	(0.3)	1.0	2.0
Total		$(6.3)	$—	$(2.7)	$7.9

NOTE 14. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Derivatives

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

These derivative instruments are classified within Level 2 of the valuation hierarchy and are included within other assets and other liabilities in the Company’s Condensed Consolidated Balance Sheets, except for derivative instruments expected to be settled within the next 12 months, which are included within prepaid and other 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 30, 2012 (in millions):

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

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at July 2, 2011 (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets				
Derivatives				
Interest rate swap agreements	$ —	$0.8	$—	$0.8
Foreign currency swap contracts	—	3.1	—	3.1
Commodity hedging instruments	—	0.9	—	0.9
Other	7.5	—	—	7.5
Total	$ 7.5	$4.8	$—	$12.3
Liabilities				
Derivatives				
Interest rate swap agreements	$ —	$(17.6)	$—	$(17.6)
Foreign currency swap contracts	—	(2.3)	—	(2.3)
Total	$ —	$(19.9)	$—	$(19.9)

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at September 30, 2011 (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets				
Cash equivalents	$ 83.6	$—	$—	$83.6
Derivatives				
Commodity hedging instruments	—	0.1	—	0.1
Foreign currency swap contracts	—	2.7	—	2.7
Other	6.3	—	—	6.3
Total	$ 89.9	$2.8	$—	$92.7
Liabilities				

Derivatives							
Interest rate swap agreements	$	—		$(28.1	)	$—	$(28.1)
Commodity hedging instruments		—		(0.8	)	—	(0.8)
Total	$	—		$(28.9	)	$—	$(28.9)

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NOTE 15. SEGMENT INFORMATION

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

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

Corporate & Other consists of the Company's professional seed business, revenues and expenses associated with the Company's supply agreements with 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 (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Net sales:				
Global Consumer	$960.7	$951.6	$2,229.4	$2,225.2
Scotts LawnService®	87.8	82.4	161.3	152.2
Segment total	1,048.5	1,034.0	2,390.7	2,377.4
Corporate & Other	13.7	24.7	56.2	41.1
Consolidated	$1,062.2	$1,058.7	$2,446.9	$2,418.5
Income from continuing operations before income taxes:				
Global Consumer	$171.7	$209.9	$377.4	$453.8
Scotts LawnService®	22.4	22.4	4.9	2.7
Segment total	194.1	232.3	382.3	456.5
Corporate & Other	(20.3)	(16.2)	(74.0)	(80.1)
Intangible asset amortization	(2.2)	(3.1)	(6.7)	(8.1)
Product registration and recall matters	(4.0)	(6.8)	(7.8)	(11.0)
Impairment, restructuring and other charges	0.4	(13.8)	(7.8)	(13.8)
Costs related to refinancing	—	(1.2)	—	(1.2)
Interest expense	(16.6)	(14.0)	(49.8)	(37.3)
Consolidated	$151.4	$177.2	$236.2	$305.0

	JUNE 30, 2012	JULY 2, 2011	SEPTEMBER 30, 2011
Total assets:			
Global Consumer	$1,967.3	$2,037.9	$ 1,552.4
Scotts LawnService®	183.2	180.2	184.3
Corporate & Other	233.6	309.1	315.5
Consolidated	$2,384.1	$2,527.2	$ 2,052.2

NOTE 16. FINANCIAL INFORMATION FOR SUBSIDIARY GUARANTORS AND NON-GUARANTORS

The 7.25% and 6.625% Senior Notes (collectively, the “Senior Notes”) issued by Scotts Miracle-Gro on January 14, 2010 and December 16, 2010, respectively, are guaranteed by certain of its domestic subsidiaries and, therefore, the Company has disclosed condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, Financial Statements

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of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered. The following 100% directly or indirectly owned subsidiaries fully and unconditionally guarantee the Senior Notes on a joint and several basis: EG Systems, Inc., dba Scotts LawnService®; Gutwein & Co., Inc.; Hyponex Corporation; Miracle-Gro Lawn Products, Inc.; OMS Investments, Inc.; Rod McLellan Company; Sanford Scientific, Inc.; Scotts Temecula Operations, LLC; Scotts Manufacturing Company; Scotts Products Co.; Scotts Professional Products Co.; Scotts-Sierra Investments, Inc.; SMG Brands, Inc.; SMG Growing Media, Inc.; Swiss Farms Products, Inc.; and The Scotts Company LLC (collectively, the "Guarantors"). SMG Brands, Inc. was added as a Guarantor of the Senior Notes on September 28, 2011. Accordingly, SMG Brands, Inc. has been classified as a Guarantor for all periods presented in the condensed consolidating financial information accompanying this Note 16.

The following information presents Condensed Consolidating Statements of Operations for the three and nine months ended June 30, 2012 and July 2, 2011, Condensed Consolidating Statements of Cash Flows for the nine months ended June 30, 2012 and July 2, 2011, and Condensed Consolidating Balance Sheets as of June 30, 2012, July 2, 2011 and September 30, 2011. The condensed consolidating financial information presents, in separate columns, financial information for: Scotts Miracle-Gro on a Parent-only basis, carrying its investment in subsidiaries under the equity method; Guarantors on a combined basis, carrying their investments in subsidiaries which do not guarantee the debt (collectively, the "Non-Guarantors") under the equity method; Non-Guarantors on a combined basis; and eliminating entries. The eliminating entries primarily reflect intercompany transactions, such as interest expense, accounts receivable and payable, short and long-term debt, and the elimination of equity investments and income in subsidiaries. Because the Parent is obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors or Non-Guarantors under the credit facility (and was obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors and Non-Guarantors under the previous senior secured five-year revolving loan facility), the borrowings and related interest expense for the loans outstanding of the Guarantors and Non-Guarantors are also presented in the accompanying Parent-only financial information, and are then eliminated.

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

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$—	$895.6	$166.6	$—	$ 1,062.2
Cost of sales	—	577.5	118.0	—	695.5
Cost of sales – product registration and recall matters	—	0.2	—	—	0.2
Gross profit	—	317.9	48.6	—	366.5
Operating expenses:					
Selling, general and administrative	—	150.2	47.3	—	197.5
Impairment, restructuring and other charges	—	—	(0.4)	—	(0.4)
Product registration and recall matters	—	3.8	—	—	3.8
Other income, net	—	(2.1)	(0.3)	—	(2.4)
Income from operations	—	166.0	2.0	—	168.0
Equity income in subsidiaries	(101.0)	(0.3)	—	101.3	—
Other non-operating income	(6.8)	—	—	6.8	—
Interest expense	14.8	7.1	1.5	(6.8)	16.6
Income from continuing operations before income taxes	93.0	159.2	0.5	(101.3)	151.4
Income tax expense (benefit) from continuing operations	(0.3)	56.5	0.2	—	56.4
Income from continuing operations	93.3	102.7	0.3	(101.3)	95.0
Loss from discontinued operations, net of tax	—	(1.7)	—	—	(1.7)
Net income	$93.3	$101.0	$0.3	$ (101.3)	$ 93.3

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

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$—	$2,015.3	$431.6	$—	$ 2,446.9
Cost of sales	—	1,296.5	295.9	—	1,592.4
Cost of sales – product registration and recall matters	—	0.4	—	—	0.4
Gross profit	—	718.4	135.7	—	854.1
Operating expenses:					
Selling, general and administrative	—	435.2	122.3	—	557.5
Impairment, restructuring and other charges	—	8.6	(0.8)	—	7.8
Product registration and recall matters	—	7.4	—	—	7.4
Other income, net	—	(3.5)	(1.1)	—	(4.6)
Income from operations	—	270.7	15.3	—	286.0
Equity income in subsidiaries	(169.7)	(7.5)	—	177.2	—
Other non-operating income	(22.4)	—	—	22.4	—
Interest expense	46.3	22.4	3.5	(22.4)	49.8
Income from continuing operations before income taxes	145.8	255.8	11.8	(177.2)	236.2
Income tax expense (benefit) from continuing operations	(0.8)	84.4	4.3	—	87.9
Income from continuing operations	146.6	171.4	7.5	(177.2)	148.3
Loss from discontinued operations, net of tax	—	(1.7)	—	—	(1.7)
Net income	$146.6	$169.7	$7.5	$ (177.2)	$ 146.6

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

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

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

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$3.0	$129.3	$—	$132.3
Accounts receivable, net	—	354.4	162.3	—	516.7
Accounts receivable pledged	—	97.2	—	—	97.2
Inventories	—	377.9	91.4	—	469.3
Prepaid and other current assets	—	86.7	43.9	—	130.6
Total current assets	—	919.2	426.9	—	1,346.1
Property, plant and equipment, net	—	339.1	48.6	—	387.7
Goodwill	—	308.4	0.7	—	309.1
Intangible assets, net	—	265.3	43.4	—	308.7
Other assets	29.5	12.4	27.5	(36.9)	32.5
Equity investment in subsidiaries	935.9	—	—	(935.9)	—
Intercompany assets	417.3	92.6	—	(509.9)	—
Total assets	$1,382.7	$1,937.0	$547.1	$(1,482.7)	$2,384.1
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt	$—	$88.7	$2.1	$—	$90.8
Accounts payable	—	174.9	67.9	—	242.8
Other current liabilities	15.1	342.7	118.8	—	476.6
Total current liabilities	15.1	606.3	188.8	—	810.2
Long-term debt	676.3	84.2	196.1	(276.2)	680.4
Other liabilities	17.3	199.6	39.5	(36.9)	219.5
Equity investment in subsidiaries	—	281.3	—	(281.3)	—
Intercompany liabilities	—	—	233.7	(233.7)	—
Total liabilities	708.7	1,171.4	658.1	(828.1)	1,710.1
Shareholders' equity	674.0	765.6	(111.0)	(654.6)	674.0
Total liabilities and shareholders' equity	$1,382.7	$1,937.0	$547.1	$(1,482.7)	$2,384.1

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended July 2, 2011
(in millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$—	$852.9	$205.8	$ —	$ 1,058.7
Cost of sales	—	528.8	128.7	—	657.5
Cost of sales—product registration and recall matters	—	1.1	—	—	1.1
Gross profit	—	323.0	77.1	—	400.1
Operating expenses:					
Selling, general and administrative	—	134.1	58.3	—	192.4
Impairment, restructuring and other charges	—	13.8	—	—	13.8
Product registration and recall matters	—	5.7	—	—	5.7
Other income, net	—	(4.1)	(0.1)	—	(4.2)
Income from operations	—	173.5	18.9	—	192.4
Equity income in subsidiaries	(120.3)	(4.6)	—	124.9	—
Other non-operating income	(5.4)	—	—	5.4	—
Costs related to refinancing	1.2	—	—	—	1.2
Interest expense	13.1	5.3	1.0	(5.4)	14.0
Income from continuing operations before income taxes	111.4	172.8	17.9	(124.9)	177.2
Income tax expense (benefit) from continuing operations	(0.2)	59.2	6.5	—	65.5
Income from continuing operations	111.6	113.6	11.4	(124.9)	111.7
Income (loss) from discontinued operations, net of tax	—	6.7	(6.8)	—	(0.1)
Net income	$111.6	$120.3	$4.6	$ (124.9)	$ 111.6

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the nine months ended July 2, 2011
(in millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$—	$1,961.1	$457.4	$—	$ 2,418.5
Cost of sales	—	1,208.5	294.9	—	1,503.4
Cost of sales—product registration and recall matters	—	3.2	—	—	3.2
Gross profit	—	749.4	162.5	—	911.9
Operating expenses:					
Selling, general and administrative	—	420.7	131.1	—	551.8
Impairment, restructuring and other charges	—	13.8	—	—	13.8
Product registration and recall matters	—	7.8	—	—	7.8
Other income, net	—	(3.9)	(1.1)	—	(5.0)
Income from operations	—	311.0	32.5	—	343.5
Equity income in subsidiaries	(242.5)	(5.1)	—	247.6	—
Other non-operating income	(15.0)	—	—	15.0	—
Costs related to refinancing	1.2	—	—	—	1.2
Interest expense	35.6	14.4	2.3	(15.0)	37.3
Income from continuing operations before income taxes	220.7	301.7	30.2	(247.6)	305.0
Income tax expense (benefit) from continuing operations	(0.6)	101.0	11.0	—	111.4
Income from continuing operations	221.3	200.7	19.2	(247.6)	193.6
Income (loss) from discontinued operations, net of tax	—	41.8	(14.1)	—	27.7
Net income	$221.3	$242.5	$5.1	$ (247.6)	$ 221.3

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the nine months ended July 2, 2011
(in millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$(16.0)	$54.4	$(51.9)	$—	$(13.5)
INVESTING ACTIVITIES					
Proceeds from sale of long-lived assets	—	0.2	—	—	0.2
Proceeds from sale of business, net of transaction costs	—	159.0	94.9	—	253.9
Investments in property, plant and equipment	—	(49.7)	(3.6)	—	(53.3)
Payment of contingent consideration and related	—	(20.0)	—	—	(20.0)
Investment in acquired business, net of cash acquired	—	(0.8)	—	—	(0.8)
Net cash provided by investing activities	—	88.7	91.3	—	180.0
FINANCING ACTIVITIES					
Borrowings under revolving and bank lines of credit	—	860.5	558.7	—	1,419.2
Repayments under revolving and bank lines of credit	(302.4)	(494.6)	(662.2)	—	(1,459.2)
Proceeds from issuance of Senior Notes	200.0	—	—	—	200.0
Financing and issuance fees	(18.5)	—	—	—	(18.5)
Dividends paid	(49.4)	—	—	—	(49.4)
Purchase of common shares	(218.7)	—	—	—	(218.7)
Excess tax benefits from share-based payment arrangements	—	5.4	—	—	5.4
Cash received from the exercise of stock options	29.4	—	—	—	29.4
Intercompany financing	375.6	(500.0)	124.4	—	—
Net cash provided by (used in) financing activities	16.0	(128.7)	20.9	—	(91.8)
Effect of exchange rate changes on cash	—	—	1.5	—	1.5
Net increase in cash and cash equivalents	—	14.4	61.8	—	76.2
Cash and cash equivalents, beginning of period	—	5.1	83.0	—	88.1
Cash and cash equivalents, end of period	$—	$19.5	$144.8	$—	$164.3

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of July 2, 2011
(in millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$19.5	$144.8	$—	$164.3
Accounts receivable, net	—	500.4	193.5	—	693.9
Inventories	—	362.9	79.3	—	442.2
Prepaid and other current assets	—	93.7	43.6	—	137.3
Total current assets	—	976.5	461.2	—	1,437.7
Property, plant and equipment, net	—	347.1	47.2	—	394.3
Goodwill	—	305.8	0.7	—	306.5
Intangible assets, net	—	288.6	54.6	—	343.2
Other assets	28.1	21.6	43.4	(47.6)	45.5
Equity investment in subsidiaries	1,012.3	—	—	(1,012.3)	—
Intercompany assets	523.8	314.0	—	(837.8)	—
Total assets	$1,564.2	$2,253.6	$607.1	$(1,897.7)	$2,527.2
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt	$—	$2.1	$—	$—	$2.1
Accounts payable	—	185.5	73.3	—	258.8
Other current liabilities	18.8	335.2	136.2	—	490.2
Total current liabilities	18.8	522.8	209.5	—	751.1
Long-term debt	777.0	380.1	2.0	(377.0)	782.1
Other liabilities	—	209.8	63.4	(47.5)	225.7
Equity investment in subsidiaries	—	298.9	—	(298.9)	—
Intercompany liabilities	—	—	460.8	(460.8)	—
Total liabilities	795.8	1,411.6	735.7	(1,184.2)	1,758.9
Shareholders' equity	768.4	842.0	(128.6)	(713.5)	768.3
Total liabilities and shareholders' equity	$1,564.2	$2,253.6	$607.1	$(1,897.7)	$2,527.2

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of September 30, 2011
(in millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$4.3	$126.6	$—	$130.9
Accounts receivable, net	—	248.2	75.3	—	323.5
Inventories	—	313.7	73.3	—	387.0
Prepaid and other current assets	—	107.9	43.2	—	151.1
Total current assets	—	674.1	318.4	—	992.5
Property, plant and equipment, net	—	347.3	47.4	—	394.7
Goodwill	—	308.4	0.7	—	309.1
Intangible assets, net	—	270.3	49.3	—	319.6
Other assets	33.1	13.3	27.6	(37.7)	36.3
Equity investment in subsidiaries	794.3	—	—	(794.3)	—
Intercompany assets	553.7	115.4	—	(669.1)	—
Total assets	$1,381.1	$1,728.8	$443.4	$(1,501.1)	$2,052.2
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt	$—	$2.8	$0.4	$—	$3.2
Accounts payable	—	103.9	46.1	—	150.0
Other current liabilities	17.2	202.5	95.7	—	315.4
Total current liabilities	17.2	309.2	142.2	—	468.6
Long-term debt	787.2	261.3	130.5	(387.2)	791.8
Other liabilities	16.9	205.6	47.2	(37.7)	232.0
Equity investment in subsidiaries	—	328.7	—	(328.7)	—
Intercompany liabilities	—	—	281.9	(281.9)	—
Total liabilities	821.3	1,104.8	601.8	(1,035.5)	1,492.4
Shareholders' equity	559.8	624.0	(158.4)	(465.6)	559.8
Total liabilities and shareholders' equity	$1,381.1	$1,728.8	$443.4	$(1,501.1)	$2,052.2

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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, 2011.

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®.

We undertook a number of important initiatives in fiscal 2012 to stimulate growth in the lawn and garden category and increase our market share. The most significant of those initiatives were: (1) increased support of our brands through increased advertising, and (2) a decision to hold prices to our customers flat, despite increased commodity costs. While we have seen some response to our initiatives, the resulting growth in consumer demand, and sales in our Global Consumer segment, have fallen materially short of expectations. At the beginning of the year, income from operations in fiscal 2012 was expected to remain relatively flat to prior year, with expected growth in sales offsetting the impact of our initiatives. As category growth has fallen short of expectations in fiscal 2012, we now expect income from operations to decline relative to fiscal 2011. Management has moderated expectations for near-term growth and is planning actions, including price increases, to recover a portion of the decline in operating income from fiscal 2011.

On February 28, 2011, we completed the sale of a significant majority of the assets of our Global Professional business (excluding our non-European professional seed business, "Global Pro") to Israel Chemicals Ltd. ("ICL") for $270 million in an all-cash transaction, subject to certain adjustments, resulting in $270.9 million net proceeds. Effective in our first quarter of fiscal 2011, we classified Global Pro as discontinued operations. Prior to being reported as discontinued operations, Global Pro was included as part of our former Global Professional business segment. Results for our professional seed business have been classified to Corporate & Other.

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

	Percent of Net Sales from Continuing Operations by Quarter					
	2011		2010		2009	
First Quarter	8.1	%	8.7	%	8.5	%
Second Quarter	39.9	%	36.2	%	32.0	%
Third Quarter	37.3	%	40.5	%	42.5	%
Fourth Quarter	14.7	%	14.6	%	17.0	%

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The Scotts Miracle-Gro Board of Directors has authorized the repurchase of up to $700 million of our Common Shares through September 30, 2014. Further, on August 9, 2012, we announced that the Scotts Miracle-Gro Board of Directors had increased our quarterly dividend from $0.30 to $0.325 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. From the inception of the share repurchase program in the fourth quarter of fiscal 2010 through the third quarter of fiscal 2012, we have repurchased approximately 7.9 million of our Common Shares in open market transactions for $401.2 million.

Product Registration and Recall Matters

In April 2008, we became aware that a former associate apparently deliberately circumvented our policies and U.S. EPA regulations under FIFRA by failing to obtain valid registrations for certain products and/or causing certain invalid product registration forms to be submitted to regulators. Since that time, we have been cooperating with both the U.S. EPA and the U.S. DOJ in related civil and criminal investigations into the pesticide product registration issues as well as a state civil investigation into related allegations arising under state pesticide registration laws and regulations.

In late April of 2008, in connection with the U.S. EPA's investigation, we conducted a consumer-level recall of certain consumer lawn and garden products and a Scotts LawnService® product. Subsequently, the Company and the U.S. EPA agreed upon a Compliance Review Plan for conducting a comprehensive, independent review of our product registration records. Pursuant to the Compliance Review Plan, an independent third-party firm, QAI, reviewed substantially all of our U.S. pesticide product registrations and associated advertisements, some of which were historical in nature and no longer related to sales of our products. The U.S. EPA investigation and the QAI review process resulted in the temporary suspension of sales and shipments of certain products. In addition, as the QAI review process or our internal review identified potential FIFRA registration issues (some of which appear unrelated to the actions of the former associate), we endeavored to stop selling or distributing the affected products until the issues could be resolved. QAI's review of our U.S. pesticide product registrations and associated advertisements is now substantially complete. The results of the QAI review process did not materially affect our fiscal 2009, fiscal 2010 or fiscal 2011 sales and are not expected to materially affect our fiscal 2012 sales.

In fiscal 2008, we conducted a voluntary recall of certain of our wild bird food products due to a formulation issue. Certain wild bird food products had been treated with pest control additives to avoid insect infestation, especially at retail stores. While the pest control additives had been labeled for use on certain stored grains that can be processed for human and/or animal consumption, they were not labeled for use on wild bird food products. In October 2008, the U.S. Food & Drug Administration concluded that the recall had been completed and that there had been proper disposition of the recalled products. The wild bird food recall did not materially affect our fiscal 2009, fiscal 2010 or fiscal 2011 financial condition, results of operations or cash flows and are not expected to affect the Company's fiscal 2012 financial condition, result of operations or cash flows.

Settlement discussions relating to potential fines and/or penalties are a frequent outgrowth of governmental investigations. In that regard, on or about June 30, 2011, we received a Notice of Intent to File Administrative Complaint from the U.S. EPA Region 5 with respect to the alleged FIFRA violations. The Notice, which did not set forth a proposed penalty amount, offered us an opportunity to present any information that we believed the U.S. EPA should consider prior to filing the complaint and indicated that the U.S. EPA was prepared to meet with us to discuss the alleged violations. We made a timely response to the Notice and settlement discussions between us and the U.S. EPA are ongoing.

As previously disclosed, we have also been engaged in settlement discussions with the U.S. DOJ regarding its criminal investigation. On January 25, 2012, a Plea Agreement, executed by us and the U.S. DOJ, was filed with the United States District Court for the Southern District of Ohio. Under the terms of the Plea Agreement, we agreed to plead guilty to 11 counts of violating FIFRA and the regulations promulgated thereunder, to pay a $4 million penalty to the United States and to provide $0.1 million to each of the following programs designed to enhance and protect the natural environment, particularly habitats for the bird populations that the U.S. EPA's regulation of pesticides is designed to protect: (1) Ohio Audubon's Important Bird Area Program; (2) Ohio Department of Natural Resources' Urban Forestry Program; (3) Columbus Metro-Parks Bird Habitat Enhancement Program; (4) Cornell University

Ornithology Laboratory; and (5) The Nature Conservancy of Ohio. In exchange for our guilty plea and the other promises contained in the Plea Agreement, the U.S. DOJ agreed not to criminally prosecute us for any other federal crimes relating to any potential FIFRA violations known to the government as of the date of the Plea Agreement. On March 13, 2012, the court accepted our guilty plea, but delayed sentencing thereon to an unspecified later date. Our previously established accrual includes the full amount of the proposed criminal penalty and other amounts payable under the Plea Agreement.

The U.S. EPA and related state investigations continue and the court has not yet issued its sentence with respect to the Plea Agreement between us and the U.S. DOJ. In addition, we may be subject to additional judgments, settlements, fines and/or penalties as a result of federal, state or private actions with respect to known or potential additional product registration issues. Accordingly, we cannot reasonably estimate the total scope or magnitude of all possible liabilities that could result from known or potential product registration issues. Based on the facts and circumstances known to us at this time (including settlement discussions that have taken place to date and the Plea Agreement), we have established what we believe to be an appropriate accrual. It is possible

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that any fines and/or penalties with respect to the investigations, as well as any judgments, litigation costs or other liabilities relating to such known or potential product registration issues, could exceed the amount of the accrual and could have an adverse effect on our financial condition, results of operations or cash flows.

As a result of these registration and recall matters, we have recorded charges for affected inventory and other registration and recall-related costs. The effects of these adjustments, including the accruals noted above, were pre-tax charges of $4.0 million and $6.8 million for the three month periods, and $7.8 million and $11.0 million for the nine month periods, ended June 30, 2012 and July 2, 2011, respectively. We expect that future charges will include costs associated with the rework of certain finished goods inventories, the potential disposal of certain products and ongoing third-party professional services related to the U.S. EPA, U.S. DOJ and state investigations. It may also be appropriate to establish additional accruals as settlement discussions continue or in connection with other actions or potential liabilities arising in connection with the product registration and recall issues.

We are committed to providing our customers and consumers with products of superior quality and value to enhance their lawns, gardens and overall outdoor living environments. We believe consumers have come to trust our brands based on the superior quality and value they deliver, and that trust is highly valued. We also are committed to conducting business with the highest degree of ethical standards and in adherence to the law. While we are disappointed in these events, we believe we have made significant progress in addressing the issues and restoring customer and consumer confidence in our products.

RESULTS OF OPERATIONS

We classified Global Pro as discontinued operations, for all periods presented, beginning in our first quarter of fiscal 2011. As a result, and unless specifically stated, all discussions regarding results for the three and nine months ended June 30, 2012 and July 2, 2011, 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 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	65.5	62.1	65.1	62.2
Cost of sales – product registration and recall matters	—	0.1	—	0.1
Gross profit	34.5	37.8	34.9	37.7
Operating expenses:				
Selling, general and administrative	18.6	18.2	22.8	22.8
Impairment, restructuring and other charges	—	1.3	0.3	0.6
Product registration and recall matters	0.3	0.5	0.3	0.3
Other income, net	(0.2)	(0.4)	(0.2)	(0.2)
Income from operations	15.8	18.2	11.7	14.2
Costs related to refinancing	—	0.1	—	—
Interest expense	1.6	1.4	2.0	1.5
Income from continuing operations before income taxes	14.2	16.7	9.7	12.7
Income tax expense from continuing operations	5.3	6.2	3.6	4.6
Income from continuing operations	8.9	10.5	6.1	8.1
Income (loss) from discontinued operations, net of tax	(0.1)	—	(0.1)	1.1
Net income	8.8 %	10.5 %	6.0 %	9.2 %

Net Sales

Net sales for the three months ended June 30, 2012, were $1.062 billion, an increase of 0.3% from net sales of $1.059 billion for the three months ended July 2, 2011. Net sales for the nine months ended June 30, 2012, were $2.447 billion, an increase of 1.2% from net sales of $2.419 billion for the nine months ended July 2, 2011. The change in net sales was attributable to the following:

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	THREE MONTHS ENDED JUNE 30, 2012	NINE MONTHS ENDED JUNE 30, 2012
Volume	1.6 %	1.2 %
Pricing	(0.3)	0.6
Foreign exchange rates	(1.1)	(0.7)
Acquisitions	0.1	0.1
Net sales increase	0.3 %	1.2 %

The increase in net sales for the three and nine months ended June 30, 2012, was primarily driven by:

- increased volume in our Global Consumer segment, driven by an increase in U.S. Consumer sales of mulch and controls products, partially offset by a decline in Europe and grass seed products;
- increases in sales within Corporate & Other for the nine months ended June 30, 2012, related to ICL supply agreements, which were entered into in connection with the sale of Global Pro in February 2011;
- partially offset by the unfavorable impact of foreign exchange rates as a results of the strengthening of the U.S. dollar relative to other currencies.

Cost of Sales

The following table shows the major components of cost of sales (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Materials	$424.0	$405.2	$975.9	$920.7
Manufacturing labor and overhead	119.5	119.8	275.0	272.3
Distribution and warehousing	124.2	114.8	272.5	258.5
Roundup reimbursements	27.8	17.7	69.0	51.9
	695.5	657.5	1,592.4	1,503.4
Product registration and recall matters	0.2	1.1	0.4	3.2
	$695.7	$658.6	$1,592.8	$1,506.6

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

	THREE MONTHS ENDED JUNE 30, 2012	NINE MONTHS ENDED JUNE 30, 2012
Material costs	$23.1	$68.9
Volume and product mix	12.7	14.9
Roundup® reimbursements	10.2	17.2
Foreign exchange rates	(8.0)	(12.0)
	38.0	89.0
Product registration and recall matters	(0.9)	(2.8)
Change in cost of sales	$37.1	$86.1

The increase in cost of sales, excluding product registration and recall matters, for the three and nine months ended June 30, 2012, was primarily driven by:

- the increase in material costs primarily related to packaging for products and fertilizer inputs;
- the impact of higher sales volume, including increased costs for distribution and warehousing as a result of an early season surge in consumer activity and continued and unplanned surge in mulch volume;
- higher reimbursements attributable to our marketing agreement with Monsanto;
- partially offset by the favorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to other currencies.

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Gross Profit

As a percentage of net sales, our gross profit rate was 34.5% and 37.8% for the three months ended June 30, 2012 and July 2, 2011 respectively. As a percentage of net sales, our gross profit rate was 34.9% and 37.7% for the nine months ended June 30, 2012 and July 2, 2011 respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	THREE MONTHS ENDED JUNE 30, 2012		NINE MONTHS ENDED JUNE 30, 2012	
Pricing	—	%	0.4	%
Material costs	(2.0)		(2.6)	
Product mix and volume:				
Roundup® commissions and reimbursements	(0.1)		(0.2)	
Corporate & Other	—		(0.3)	
Global Consumer mix and volume	(1.3)		(0.2)	
	(3.4)		(2.9)	
Product registration and recall matters	0.1		0.1	
Change in gross profit rate	(3.3)	%	(2.8)	%

The decrease in the gross profit rate, excluding product registration and recall matters, for the three and nine months ended June 30, 2012, was primarily driven by:

- increased material costs attributable primarily to packaging for products and fertilizer inputs;
- negative product mix within the U.S., driven by increased sales of mulch products, and international;
- increased costs for distribution and warehousing as a result of an early season surge in consumer activity and continued and unplanned surge in mulch volume; and
- increased sales for the nine-month period associated with our supply agreements with ICL, which commenced with the sale of Global Pro in February 2011 and do not generate profit.

Selling, General and Administrative Expenses

The following table sets forth the components of selling, general and administrative expenses (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Advertising	$64.4	$56.7	$147.2	$121.8
Share-based compensation	1.7	3.4	10.6	14.3
Research and development	13.2	11.8	37.4	37.6
Amortization of intangibles	1.8	2.6	5.4	7.4
Other selling, general and administrative	116.4	117.9	356.9	370.7
	$197.5	$192.4	$557.5	$551.8

Selling, general and administrative (“SG&A”) expenses increased $5.1 million, or 2.7%, to $197.5 million for the third quarter and $5.7 million, or 1.0%, to $557.5 million for the first nine months of fiscal 2012 compared to the same periods of fiscal 2011. Our planned increase in media and marketing initiatives resulted in higher advertising expenses of $7.7 million and $25.4 million for the three and nine months ended June 30, 2012, respectively. The decrease in other SG&A for the first nine months of fiscal 2012 was driven by a $6.7 million decrease in severance expenses and a $6.5 million decrease in bad debt expense associated with a customer bankruptcy in 2011.

Product Registration and Recall Matters

We recorded $3.8 million and $7.4 million of SG&A-related product registration and recall costs during the three and nine months ended June 30, 2012, respectively. These costs primarily related to additional accruals made within fiscal 2012 for potential fines and penalties in connection with the U.S. EPA investigation, as well as legal and consulting fees. For the three and nine months ended July 2, 2011, we recorded $5.7 million and $7.8 million of SG&A-related

product registration and recall costs, respectively, primarily related to accruals established in the third quarter of fiscal 2011 in connection with the U.S. EPA and U.S. DOJ investigations, as well as third-party compliance review, legal and consultant fees.

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Impairment, Restructuring and Other Charges

For the three months ended June 30, 2012, we recognized income of $0.4 million associated with the resolution of certain international restructuring activities. For the nine months ended June 30, 2012, we incurred $7.8 million of impairment, restructuring and other charges. In continuation of the restructuring plan we initiated in fiscal 2011, we incurred $1.9 million in restructuring costs in the first nine months of fiscal 2012. These costs consisted primarily of $1.3 million of termination benefits provided to employees who accepted voluntary retirement, $0.5 million of special termination benefits to be provided to certain employees upon future separation and $0.2 million related to curtailment charges for our U.S. defined benefit pension and U.S retiree medical plans. Further, for the nine months ended June 30, 2012, we recognized a $5.3 million asset impairment charge as a result of issues with commercialization of products including the active ingredient MAT28 for the Global Consumer segment. Also included is a $0.5 million impairment charge related to our investment in Turf-Seed (Europe) Limited.

Other Income, net

Other income was $2.4 million and $4.6 million for the three and nine months ended June 30, 2012, respectively, compared to $4.2 million and $5.0 million for the three and nine months ended July 2, 2011, respectively. Other income is comprised of activities outside our normal business operations, such as royalty income from the licensing of certain of our brand names, franchise fee income from our Scotts LawnService® business, foreign exchange gains/losses and gains/losses from the sale of non-inventory assets. The respective changes from fiscal 2011 were not significant.

Interest Expense

Interest expense was $16.6 million and $49.8 million for the three and nine months ended June 30, 2012, respectively, compared to $14.0 million and $37.3 million for the three and nine months ended July 2, 2011, respectively. Excluding the impact of foreign exchange rates, average borrowings increased by approximately $143.9 million and $146.8 million during the three and nine months ended June 30, 2012, respectively, as compared to the same prior year periods. The increase in interest expense for the three months ended June 30, 2012 was attributable to an increase in average borrowings, partially offset by a decline in our weighted average interest rates of 22 basis points associated with the expiration of a 5.20% interest rate swap agreement in the second quarter of fiscal 2012. The increase in interest expense for the nine months ended June 30, 2012 was primarily attributable to an increase in average borrowings and the impact of higher rates associated with our new financing structure. During the nine months ended June 30, 2012, our weighted average interest rate increased by 42 basis points. The year-to-date increase was driven by the higher margin rates in our new credit facility and the full year-to-date impact of the 6.625% Senior Notes issued on December 16, 2010, partially offset by a decline in our weighted average interest rates primarily associated with the expiration of a 5.20% interest rate swap agreement in the second quarter of fiscal 2012.

Income Tax Expense

The effective tax rate related to continuing operations for the nine months ended June 30, 2012 was 37.2% compared to 36.5% for the nine months ended July 2, 2011. The effective tax rate used for interim purposes was based on management's 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

Income from continuing operations was $95.0 million, or $1.53 per diluted share, for the third quarter of fiscal 2012 compared to $111.7 million, or $1.69 per diluted share, for the third quarter of fiscal 2011. Income from continuing operations for the first nine months of fiscal 2012 was $148.3 million, or $2.39 per diluted share, versus $193.6 million, or $2.89 per diluted share, for the same period of fiscal 2011. The decrease in income from continuing operations for the first three and nine months of fiscal 2012 was driven primarily by higher material and distribution costs, planned incremental investment in media, marketing and selling expense, and interest expense, partially offset by reduced income tax expense. Diluted average common shares used in the diluted net income per common share

calculation were 62.2 million for the third quarter of fiscal 2012 compared to 66.2 million for the same period a year ago. Diluted average common shares used in the diluted net income per common share calculation were 62.0 million for the nine months ended June 30, 2012 versus 67.1 million for the nine months ended July 2, 2011. Diluted average common shares included 1.1 million and 1.0 million equivalent shares for the third quarter and first nine months of fiscal 2012, respectively. These dilutive shares represented the effect of the assumed conversion of dilutive stock options, restricted stock and restricted stock unit awards. For the third quarter and first nine months of fiscal 2011, diluted average common shares included 1.7 million and 1.5 million equivalent shares, respectively. The decrease in diluted average common shares was primarily driven by common share repurchases, partially offset by common shares issued as a result of stock option exercises.

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Income (loss) from Discontinued Operations, net of tax

We recognized a loss from discontinued operations of $1.7 million for the three and nine months ended June 30, 2012, compared to a loss of $0.1 million and income of $27.7 million for the three and nine months ended July 2, 2011, respectively, primarily due to the net gain on the sale of Global Pro during the second quarter of fiscal 2011. In addition, during the third quarter of fiscal 2012, we recorded an adjustment of $1.7 million as a change in estimate associated with taxes on the sale of Global Pro.

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 our professional seed business, revenues and expenses associated with our supply agreements with ICL and amortization related to the Roundup® Marketing Agreement, as well as corporate, general and administrative expenses and certain other income/expense items not allocated to the business segments.

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

The following table sets forth net sales by segment (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Global Consumer	$960.7	$951.6	$2,229.4	$2,225.2
Scotts LawnService®	87.8	82.4	161.3	152.2
Segment total	1,048.5	1,034.0	2,390.7	2,377.4
Corporate & Other	13.7	24.7	56.2	41.1
Consolidated	$1,062.2	$1,058.7	$2,446.9	$2,418.5

The following table sets forth segment income from continuing operations before income taxes (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Global Consumer	$171.7	$209.9	$377.4	$453.8
Scotts LawnService®	22.4	22.4	4.9	2.7
Segment total	194.1	232.3	382.3	456.5
Corporate & Other	(20.3)	(16.2)	(74.0)	(80.1)
Intangible asset amortization	(2.2)	(3.1)	(6.7)	(8.1)
Product registration and recall matters	(4.0)	(6.8)	(7.8)	(11.0)
Impairment, restructuring and other charges	0.4	(13.8)	(7.8)	(13.8)
Costs related to refinancing	—	(1.2)	—	(1.2)
Interest expense	(16.6)	(14.0)	(49.8)	(37.3)
Consolidated	$151.4	$177.2	$236.2	$305.0

Global Consumer

Global Consumer segment net sales were $960.7 million in the third quarter of fiscal 2012, an increase of 1.0% from the third quarter of fiscal 2011, and were $2.23 billion for the first nine months of fiscal 2012, which is roughly flat as compared to the same period of fiscal 2011. For the three months ended June 30, 2012, increases in volume impacted net sales by 2.3%, offset by unfavorable foreign exchange rates and pricing of 1.2% and 0.1%, respectively. For the nine months ended June 30, 2012, volume and pricing favorably impacted net sales by 0.4% and 0.6%, respectively, offset by unfavorable foreign exchange rates of 0.8%.

Net sales in the United States increased $43.1 million, or 5.7%, and $33.0 million, or 1.8%, for the third quarter and first nine months of fiscal 2012, respectively, as compared to the same periods in fiscal 2011. The increase in United States net sales for the third quarter and first nine months in fiscal 2012 was driven by an increase in pricing on a year-to-date basis, higher sales of our controls and mulch products, and the national launch of our new Scotts Snap® spreader system, partially offset by declines

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in sales of grass seed, wild bird food and plant food products.

Excluding the impact of changes in foreign exchange rates, net sales internationally decreased by $22.7 million, or 11.6%, and $11.3 million, or 2.6%, for the third quarter and first nine months of fiscal 2012, respectively. The decrease in sales internationally was primarily driven by a decline in year-to-date net sales in Europe, mostly due to declines in volume, partially offset by higher net sales in Canada, primarily due to new product launches.

Global Consumer segment operating income decreased by $38.2 million, or 18.2%, and $76.4 million, or 16.8%, in the third quarter and first nine months of fiscal 2012, respectively, as compared to the same periods of fiscal 2011. Excluding the impact of changes in foreign exchange rates, the decrease was 17.9% and 16.6% for the third quarter and first nine months of fiscal 2012, respectively. The decrease was primarily driven by increased material costs and our planned incremental investment in media, marketing and selling. The increased advertising expense was $8.1 million and $26.2 million during the third quarter and first nine months of fiscal 2012, respectively. These increases in costs were partially offset by a reduction in compensation, including benefits realized from the fiscal 2011 restructuring plan.

Scotts LawnService®

Scotts LawnService® net sales increased by $5.4 million, or 6.6%, and $9.1 million, or 6.0%, in the third quarter and first nine months of fiscal 2012, respectively, as compared to the same periods of fiscal 2011. The increase in net sales was driven by a 7% increase in customer count, primarily due to increased consumer demand as well as the impact of prior year acquisitions.

The operating income for Scotts LawnService® was flat and increased by $2.2 million, or 81.5%, in the third quarter and first nine months of fiscal 2012, respectively, as compared to the same periods of fiscal 2011. For the third quarter of fiscal 2012, the results were comprised of higher net sales and improved gross margin rate, offset by higher SG&A spending. For the first nine months of fiscal 2012, the increase was driven by higher net sales and lower proportional SG&A spending.

Corporate & Other

The net operating loss for Corporate & Other was $20.3 million and $74.0 million for the three and nine months ended June 30, 2012 respectively, compared to $16.2 million and $80.1 million for the three and nine months ended July 2, 2011, respectively. The decrease for the nine months ended June 30, 2012 was primarily related to lower severance and compensation, including benefits realized from the fiscal 2011 restructuring plan. The increase for the three months ended June 30, 2012 was primarily related to the continued wind-down of our professional seed operations within the period.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities totaled $115.1 million for the nine months ended June 30, 2012, compared to cash used in operating activities of $13.5 million for the nine months ended July 2, 2011. Excluding the impact of discontinued operations (which includes the pre-tax gain recorded on the sale of Global Pro of $93.0 million in fiscal 2011), cash provided by operating activities increased approximately $44.4 million. The increase in cash inflows was primarily the result of a decrease in cash used for working capital of $96.1 million, offset by lower net income from continuing operations of $47.0 million. The decrease in working capital was primarily due to lower accounts receivable at the end of the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011.

Investing Activities

Cash used in investing activities totaled $45.5 million for the nine months ended June 30, 2012, compared to cash provided by investing activities of $180.0 million for the comparable period in fiscal 2011. The first nine months of fiscal 2011 included net cash of $253.9 million provided by the sale of Global Pro, partially offset by a payment of $20.0 million for an early settlement of contingent consideration associated with the 2006 Turf-Seed, Inc. acquisition. Cash used for investments in property, plant and equipment during the first nine months of fiscal 2012 and fiscal 2011was $39.0 million and $53.3 million, respectively, primarily related to increasing efficiencies at existing production facilities and capital spending associated with product innovation projects. Additionally, during the nine

months ended June 30, 2012, we completed an acquisition of a controls business within our Global Consumer segment.

Financing Activities

Financing activities used cash of $68.9 million and $91.8 million for the nine months ended June 30, 2012 and July 2, 2011, respectively. The decrease in cash used in financing activities was primarily the result of the decrease in repurchases of our common shares of $201.2 million and lower net borrowings under our credit facility of $22.5 million, partially offset by proceeds of $200.0 million received from the issuance of the 6.625% Senior Notes that occurred in the first quarter of fiscal 2011.

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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 $132.3 million as of June 30, 2012, compared to $164.3 million as of July 2, 2011. The cash and cash equivalents balance at June 30, 2012 included $123.1 million held by controlled foreign corporations. Our current plans do not demonstrate a need to, nor do we have plans to, repatriate the retained earnings from these foreign corporations as the earnings are indefinitely reinvested. However, in the future, if we determine it is necessary to repatriate these funds, or we sell or liquidate any of these foreign corporations, we may be required to pay associated taxes on the repatriation.

Borrowing Agreements

Our primary sources of liquidity are cash generated by operations and borrowings under our credit agreement, which is guaranteed by substantially all of Scotts Miracle-Gro's domestic subsidiaries. On June 30, 2011, Scotts Miracle-Gro and certain of its subsidiaries entered into a second amended and restated senior secured credit facility, providing for revolving loans in the aggregate principal amount of up to $1.7 billion over a five-year term. Borrowings may be made in various currencies including U.S. dollars, Euros, British pounds, Australian dollars and Canadian dollars. Under this credit facility, we may request up to an additional $450 million in revolving and/or term commitments, subject to certain specified conditions, including approval from our lenders. The credit facility replaced our previous senior secured credit facilities, which were comprised of: (a) a senior secured revolving loan facility in the aggregate principal amount of up to $1.59 billion and (b) a senior secured term loan facility totaling $560 million. The previous credit facilities were scheduled to expire in February 2012.

Under our credit facility, we have the ability to issue letter of credit commitments up to $75 million. At June 30, 2012, we had letters of credit in the aggregate face amount of $25.4 million outstanding and $1.4 billion of availability under our credit facility.

On September 21, 2011, we entered into a new Master Accounts Receivable Purchase Agreement (the "MARP Agreement"), with an initial stated termination date of September 21, 2012, or such later date as may be mutually agreed by us and the banks party thereto. The MARP Agreement, which is uncommitted, provides for the discretionary sale by us, and the discretionary purchase by the banks, on a revolving basis, of accounts receivable generated by sales to two specified account debtors in an aggregate amount not to exceed $325 million, with debtor sublimits ranging from $120 million to $250 million. Under the terms of the MARP Agreement, the banks have the opportunity to purchase those accounts receivable offered by us at a discount (from the agreed base value thereof) effectively equal to the greater of 7-day or 3-month LIBOR plus 1.05%. The MARP Agreement replaced our previous Master Accounts Receivable Purchase Agreement, which provided for the discounted sale, on an uncommitted, revolving basis, of accounts receivable generated by a single specified account debtor, with aggregate limits not to exceed $80 million and an interest rate that approximated the 7-day LIBOR rate plus 1.25%.

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

As of June 30, 2012, we were in compliance with all debt covenants. Our credit facility contains, among other obligations, an affirmative covenant regarding our leverage ratio, calculated as indebtedness relative to our earnings before interest, taxes, depreciation and amortization. Under the terms of the credit facility, the maximum leverage ratio was 3.50 as of June 30, 2012. Our leverage ratio was 2.86 at June 30, 2012. 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 30, 2012. Our interest coverage ratio was 4.89 for the twelve months ended June 30, 2012.

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 2012. 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.

Liquidity

In our opinion, cash flows from operations and capital resources will be sufficient to meet debt service and working capital needs during fiscal 2012, and thereafter for the foreseeable future. However, we cannot ensure that our business will generate

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sufficient cash flow from operations or that future borrowings will be available under our credit facilities in amounts sufficient to pay indebtedness or fund other liquidity needs. Actual results of operations will depend on numerous factors, many of which are beyond our control.

Judicial and Administrative Proceedings

Apart from the proceedings surrounding the FIFRA compliance matters, which are discussed separately, 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.

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. Apart from the proceedings surrounding the FIFRA compliance matters, which are discussed separately, 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, 2011, 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, 2011 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.

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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, 2011.

ITEM 4. CONTROLS AND PROCEDURES

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

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

In addition, there were no changes in the Registrant's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Registrant's fiscal quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than as discussed in "NOTE 3. PRODUCT REGISTRATION AND RECALL MATTERS" and "NOTE 12. 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, 2011.

ITEM 1A. RISK FACTORS

The Company's risk factors as of June 30, 2012 have not changed materially from those described in "ITEM IA. RISK FACTORS" in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

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, 2011. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

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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.

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

The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The Company's credit facility restricts future dividend payments to an aggregate of $125 million annually through fiscal 2013 and $150 million annually beginning in fiscal 2014 if our leverage ratio, after giving effect to any such annual dividend payment, exceeds 2.50. Our leverage ratio was 2.86 at June 30, 2012.

(a) Issuer Purchases of Equity Securities

The following table shows the purchases of Common Shares made by or on behalf of Scotts Miracle-Gro or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each fiscal month in the three months ended June 30, 2012:

Period	Total Number of Common Shares Purchased(1)	Average Price Paid per Common Share(2)	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs(3)
April 1 through April 28, 2012	123	$ 52.20	—	$ 298,816,786
April 29 through May 26, 2012	—		—	$ 298,816,786
May 27 through June 30, 2012	1,666	$ 41.45	—	$ 298,816,786
Total	1,789	$ 42.18	—	

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

rabbi trust, including any Common Shares purchased by the trustee, remain, at all times, assets of the Company, subject to the claims of its creditors. The terms of the ERP do not provide for a specified limit on the number of Common Shares that may be purchased by the trustee of the rabbi trust.

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

(3) In August 2010, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to $500 million of the Common Shares over a four-year period (through September 30, 2014). On May 4, 2011, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to an additional $200 million of the Common Shares, resulting in authority to repurchase up to a total of $700 million of the Common Shares through September 30, 2014. The dollar amounts in the “Approximate Dollar Value” column reflect the total $700 million authorized repurchase program.

ITEM 6. EXHIBITS

See Index to Exhibits at page 44 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 9, 2012

/s/ DAVID C. EVANS
David C. Evans
Chief Financial Officer and Executive Vice President, Strategy and Business Development
(Principal Financial and Principal Accounting Officer)
(Duly Authorized Officer)

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THE SCOTTS MIRACLE-GRO COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012
INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION
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

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.