SCOTTS MIRACLE-GRO CO
Form 10-K
November 20, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 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 1-11593

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)

Registrant's telephone number, including area code:
937-644-0011
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
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 þ 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 þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K. þ

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. (Check one):

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

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

The aggregate market value of Common Shares (the only common equity of the registrant) held by non-affiliates as of March 31, 2012 (the last business day of the most recently completed second quarter) was approximately $2,271,305,320.

There were 61,357,418 Common Shares of the registrant outstanding as of November 13, 2012.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement for the registrant’s 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

Company Description and Development of the Business

The discussion below provides a brief description of the business conducted by The Scotts Miracle-Gro Company ("Scotts Miracle-Gro" and, together with its subsidiaries, the "Company," "we" or "us"), including general developments in the Company's business during the fiscal year ended September 30, 2012 ("fiscal 2012"). For additional information on recent business developments, see "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Annual Report on Form 10-K.

We are a leading manufacturer and marketer of branded consumer lawn and garden products. Our products are marketed under some of the most recognized brand names in the industry, including, in North America, Scotts® and Turf Builder® lawn and grass seed products, including the Scotts® LawnPro® Annual 4 Step® Program; Miracle-Gro®, Scotts®, Liquafeed® and Osmocote®[1] gardening and landscape products; Ortho®, Roundup®[2] and Home Defense® branded insect control, weed control and rodenticide products; and Scotts® and Morning Song® wild bird food products. In the United Kingdom, key brands include Miracle-Gro® plant fertilizers; Weedol® and Pathclear® herbicides; EverGreen® lawn fertilizers; and Levington® gardening and landscape products. Other significant brands in Europe include KB® and Fertiligène® in France; Celaflor®, Nexa Lotte® and Substral® in Germany and Austria; and ASEF®, KB® and Substral® in Belgium, the Netherlands and Luxembourg. We also operate the Scotts LawnService® business, which provides residential and commercial lawn care, tree and shrub care and limited pest control services in the United States.

Our heritage is tied to the 1995 merger of The Scotts Company, which traces its roots to a company founded by O.M. Scott in Marysville, Ohio in 1868, and Stern's Miracle-Gro Products, Inc., which was formed on Long Island, New York by Horace Hagedorn and Otto Stern in 1951. Scotts Miracle-Gro is an Ohio corporation.

We are dedicated to delivering strong, long-term financial results and outstanding shareholder returns by providing products of superior quality and value to enhance consumers' outdoor lawn and garden environments. During fiscal 2012, we focused on taking the steps we believe were critical to driving growth of the overall lawn and garden industry while also improving the market share of the Company's brands. We were specifically focused on the following:

- Increasing our advertising investment and introducing new marketing messages to consumers. We planned for a significant increase in our investment in paid media in the United States in order to support a more aggressive marketing effort. The changes we implemented included new advertising campaigns to support both the Scotts® and Miracle-Gro® brands. We also focused on significantly improving our digital advertising and marketing efforts. The analysis conducted throughout the season indicates the campaigns had a high level of consumer awareness and strong persuasion scores. Additionally, we made significant improvements in the amount of traffic driven to our web site and other digital content.
- Continuing to support consumer-focused innovation with global growth potential. History has repeatedly demonstrated that consumer-focused innovation is a key to growth in the lawn and garden industry. Consumers are seeking products that are easier to use, require them to devote less time to lawn and garden activities but still deliver the desired outcome. To that end, we focused on two specific programs in 2012:
- Introduction of Snap®, a fully integrated fertilizer and spreader system. This product was successfully test marketed in fiscal 2010 and 2011 in select markets in the U.S. and introduced nationally in 2012. It will be introduced in select European markets in 2013. Snap® allows consumers to feed their grass without having to open bags, determine appropriate spreader settings or deal with unused or unwanted product at the end of the feeding process. Because the fertilizer packaging and Snap® spreader use a proprietary interface, we believe consumers who use the system are making a long-term commitment to our brand. We supported the introduction of Snap® with extensive television, radio, print and online advertising as well as impactful point-of-purchase displays.
- The introduction of a battery operated application device in certain Ortho® liquid pest control products. The sprayer system was introduced throughout the U.S. in 2012 and will be extended to other products and

geographies in 2013 and beyond. The application device allows for easy and on-target consumer

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1 Osmocote® is a registered trademark of Everris International B.V., a subsidiary of Israel Chemicals Ltd.
2 Roundup® is a registered trademark of Monsanto Technology LLC, a company affiliated with Monsanto Company ("Monsanto")

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use. The product was supported by a national advertising campaign and strong in-store merchandising and sales support.

- Continuing to refine our regional operating model in order to get closer to the consumer and accelerate category growth and market share gains. During fiscal 2012 we continued to make adjustments to the regional sales, marketing, manufacturing and distribution initiatives that were launched during the fiscal year ended September 30, 2009 ("fiscal 2009"):

- We consolidated the regional sales and marketing offices from five to three. The regions are now divided as North, South, and West with offices located in Port Washington, NY, West Palm Beach, FL, and Houston, TX, respectively. The regional offices are focused on better understanding and meeting the needs of consumers at the local level, thereby increasing both the overall participation rate in lawn and garden activities and our market share. Our headquarters in Marysville, Ohio continues to support the regional offices with programs and services designed to attract more consumers, enhance support to retailers, and drive innovation in our products, services, programs and operations in order to keep consumers engaged in lawn and garden activities and accelerate category growth.

- We developed plans to improve the operations at regional manufacturing sites, especially those where mulch is produced. Through these efforts we anticipate driving gross margin improvement through a combination of lower manufacturing costs, reduced freight and inventory investments. We also completed our second full year of operations at our second U.S. liquids manufacturing facility, enabling us to better serve southern U.S. markets.

Business Segments

We divide our business into the following reportable segments:

- Global Consumer
- Scotts LawnService®

This division of reportable segments is consistent with how the segments report to and are managed by our Chief Executive Officer (the chief operating decision maker of the Company). Financial information about these segments for each of the three years ended September 30 is presented in "NOTE 22. SEGMENT INFORMATION" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. The reportable segments have been revised from prior periods to reflect the wind down of our professional seed business, which is now reported in discontinued operations. See "NOTE 2. DISCONTINUED OPERATIONS" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding the wind down of the professional seed business.

Principal Products and Services

Global Consumer

In our Global Consumer segment, we manufacture and market consumer lawn and garden products in the following categories:

Lawn Care: The lawn care category is designed to help consumers obtain and enjoy the lawn they want. In the United States, products within this category include fertilizer products under the Scotts® and Turf Builder® brand names, grass seed products under the Scotts®, Turf Builder®, EZ Seed®, Water Smart® and PatchMaster® brand names and lawn-related weed, pest and disease control products primarily under the Scotts® and Lawn Pro® brand names, including sub-brands such as GrubEx®. A similar range of products is marketed in Europe under a variety of brands such as EverGreen®, Fertiligène®, Substral®, Miracle-Gro Patch Magic®, Weedol®, Pathclear®, KB® and Celaflor®. The lawn care category also includes spreaders and other durables under the Scotts® brand name, including Turf Builder® EdgeGuard® spreaders, Snap® spreaders, AccuGreen® drop spreaders and Handy Green®II handheld spreaders.

Gardening and Landscape: The gardening and landscape category is designed to help consumers grow and enjoy flower and vegetable gardens and beautify landscaped areas. In the United States, products within this category include a complete line of water soluble plant foods under the Miracle-Gro® brand and sub-brands such as LiquaFeed®, continuous-release plant foods under the Osmocote® and Shake 'N Feed® brand names, potting mixes and garden soils under the Miracle-Gro®, Scotts®, Hyponex®, Earthgro® and SuperSoil® brand names, mulch and decorative groundcover products under the Scotts® brand, including the Nature Scapes® sub-brand, landscape weed prevention products under the Ortho® brand, plant-related pest and disease control products under the Ortho® brand, wild bird food and bird feeder products under the Scotts Songbird Selections®, Morning Song® and Country Pride® brand names, and organic garden products under the Miracle-Gro Organic Choice®, Scotts® and Whitney Farms® brand names. Internationally, similar products are marketed under the Miracle-Gro®, Fertiligène®, Substral®, KB®, Celaflor®,

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ASEF®, Scotts®, Morning Melodies®, Scotts EcoSense®, Fertiligène Naturen®, Substral Naturen®, KB Naturen®, Carre Vert® and Miracle-Gro Organic Choice® brand names.

Home Protection: The home protection category is designed to help consumers protect their homes from pests and maintain external home areas. In the United States, insect control and rodenticide products are marketed under the Ortho® brand name, including Ortho Max®, Home Defense Max® and Bug B Gon Max® sub-brands, selective weed control products are marketed under the Ortho® Weed B Gon® sub-brand, while non-selective weed control products are marketed under the Roundup® and Groundclear® brand names. Internationally, products within this category are marketed under the Nexa Lotte®, Fertiligène®, KB®, Home Defence®, Weedol®, Pathclear® and Roundup® brands.

Since 1999, we have served as Monsanto's exclusive agent for the marketing and distribution of consumer Roundup® products 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 Amended and Restated Exclusive Agency and Marketing Agreement (the "Marketing Agreement") between the Company and Monsanto, we are jointly responsible with Monsanto for developing global consumer and trade marketing programs for consumer Roundup®. We have responsibility for manufacturing conversion, distribution and logistics, and selling and marketing support for consumer Roundup®. Monsanto continues to own the consumer Roundup® business and provides significant oversight of the brand. In addition, Monsanto continues to own and operate the agricultural Roundup® business. For additional details regarding the Marketing Agreement, see "NOTE 7. MARKETING AGREEMENT" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Scotts LawnService®

The Scotts LawnService® segment provides residential and commercial lawn care, tree and shrub care and limited pest control services in the United States through periodic applications of fertilizer and control products. As of September 30, 2012, Scotts LawnService® had 84 Company-operated locations as well as 90 locations operated by independent franchisees.

Discontinued Operations

In the fourth quarter of fiscal 2012, we completed the wind down of our professional seed business. As a result, effective in our fourth quarter of fiscal 2012, we classified our results of operations for all periods presented to reflect the professional seed business as a discontinued operation. See "NOTE 2. DISCONTINUED OPERATIONS" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding the wind down of the professional seed business.

Principal Markets and Methods of Distribution

We sell our consumer products primarily to home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers and food and drug stores through both a direct sales force and our network of brokers and distributors. In addition, during fiscal 2012, we employed approximately 2,800 full-time and seasonal in-store associates within the U.S. to help our retail partners merchandise their lawn and garden departments directly to consumers of our products.

The majority of shipments to customers are made via common carriers or through distributors in the United States and through a network of public warehouses and distributors in Europe. We primarily utilize third parties to manage the key distribution centers for our Global Consumer business in North America, which are strategically placed across the United States and Canada. The primary distribution centers for our Global Consumer business internationally are located in the United Kingdom, France, Germany, Austria and Australia and are also managed by third-party logistics providers. Growing media products are generally shipped direct-to-store without passing through a distribution center.

Fiscal 2012 marked year four of our multi-year plan to co-distribute lawn fertilizer and growing media products directly to our retail customers, which to date has helped eliminate the need for approximately 25% of our third-party warehouse space.

Raw Materials

We purchase raw materials for our products from various sources. We are subject to market risk as a result of the fluctuating prices of raw materials such as urea and other fertilizer inputs, resins, diesel, gasoline, sphagnum peat, bark, grass seed and wild bird food grains. Our objectives surrounding the procurement of these materials are to ensure continuous supply, to minimize costs and to improve predictability. We seek to achieve these objectives through negotiation of contracts with favorable terms directly with vendors. When appropriate, we commit to purchase a certain percentage of our needs in advance of the season to secure pre-determined prices. We also hedge certain commodities, particularly diesel, gasoline and urea, to improve predictability and control costs. Sufficient raw materials were available during fiscal 2012.

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Trademarks, Patents and Licenses

We consider our trademarks, patents and licenses to be key competitive advantages. We pursue a vigorous trademark protection strategy consisting of registration and maintenance of key trademarks and proactive monitoring and enforcement activities to protect against infringement. The Scotts®, Miracle-Gro®, Ortho®, Scotts LawnService®, Hyponex® and Earthgro® brand names and logos, as well as a number of product trademarks, including Turf Builder®, EZ Seed®, Snap®, Organic Choice®, Home Defense Max®, Nature Scapes®and Weed B Gon Max®, are registered in the United States and/or internationally and are considered material to our business.

In addition, we actively develop and maintain a vast portfolio of utility and design patents covering subject matter such as fertilizer, chemical and growing media compositions and processes; grass seed varieties; and mechanical dispensing devices such as applicators, spreaders and sprayers. Our utility patents provide protection generally extending to 20 years from the date of filing, and many of our patents will continue well into the next decade. We also hold exclusive and non-exclusive patent licenses and supply arrangements, permitting the use and sale of additional patented fertilizers, pesticides and mechanical devices. Although our portfolio of patents and patent licenses is important to our success, no single patent or group of related patents is considered significant to any of our business segments or the business as a whole.

Seasonality and Backlog

Our business is highly seasonal, with approximately 75% of our annual net sales occurring in our second and third fiscal quarters combined. Our annual sales are further concentrated in our 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.

We anticipate significant orders for the upcoming spring season will start to be received late in the winter and continue through the spring season. Historically, substantially all orders are received and shipped within the same fiscal year with minimal carryover of open orders at the end of the fiscal year.

Significant Customers

Approximately 89.8% of our worldwide net sales in fiscal 2012 were made by our Global Consumer segment. Our three largest customers are reported within the Global Consumer segment and are the only customers that individually represent more than 10% of reported consolidated net sales. Approximately 32.2% of our net sales in fiscal 2012 were made to Home Depot, 18.4% to Lowe's and 14.7% to Walmart. We face strong competition for the business of these significant customers. The loss of any of these customers or a substantial decrease in the volume or profitability of our business with any of these customers could have a material effect on our financial condition, results of operations or cash flows.

Competitive Marketplace

The markets in which we sell our products are highly competitive. In the United States lawn and garden and pest control markets, our products compete against private-label as well as branded products. Primary competitors include Spectrum Brands, Bayer AG, Central Garden & Pet Company, Enforcer Products, Inc., Kellogg Garden Products, Old Castle Retail, Inc., Infinity Lawn and Garden Inc. and Lebanon Seaboard Corporation. In addition, we face competition from regional competitors who compete primarily on the basis of price for commodity growing media products.

Internationally, we face strong competition in the lawn and garden market, particularly in Europe. Our competitors in the European Union include Bayer AG, Compo GmbH, Westland Horticulture and a variety of local companies.

We have the second largest market share position in the fragmented U.S. lawn care service market. We compete against TruGreen®, a division of ServiceMaster®, which has a substantially larger share of this market than Scotts LawnService®, as well as numerous regional and local lawn care service operations and national and regional franchisors.

Research and Development

We continually invest in research and development, both in the laboratory and at the consumer level, to improve our products, manufacturing processes, packaging and delivery systems. Spending on research and development was \$50.8 million, \$50.9 million and \$47.3 million in fiscal 2012, fiscal 2011 and fiscal 2010, respectively, including product registration costs of \$14.0 million, \$14.6 million and \$12.1 million, respectively. In addition to the benefits of our own research and development, we actively seek ways to leverage the research and development activities of our suppliers and other business partners.

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Regulatory Considerations

Local, state, federal and foreign laws and regulations affect the manufacture, sale and application of our products in several ways. For example, in the United States, products containing pesticides must comply with the Federal Insecticide, Fungicide, and Rodenticide Act of 1947, as amended ("FIFRA"), and be registered with the U.S. Environmental Protection Agency (the "U.S. EPA") and similar state agencies before they can be sold or distributed. Fertilizer and growing media products are subject to state and foreign labeling regulations. Our manufacturing operations are subject to waste, water and air quality permitting and other regulatory requirements of federal, state and foreign agencies. Our wild bird food business is subject to regulation by the U.S. Food and Drug Administration and various state regulations. Our grass seed products are regulated by the Federal Seed Act and various state regulations. Most states require our Scotts LawnService® business locations and/or technicians to comply with strict licensing requirements prior to applying many of our products. The failure to comply with any of these laws or regulations could have an adverse effect on our business.

In addition, the use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may include requirements that only certified or professional users apply the product or that certain products be used only on certain types of locations (such as "not for use on sod farms or golf courses"), may require users to post notices on properties to which products have been or will be applied, may require notification to individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients.

State, federal and foreign authorities generally require growing media facilities to obtain permits (sometimes on an annual basis) in order to harvest peat and to discharge storm water run-off or water pumped from peat deposits. The permits typically specify the condition in which the property must be left after the peat is fully harvested, with the residual use typically being natural wetland habitats combined with open water areas. We are generally required by these permits to limit our harvesting and to restore the property consistent with the intended residual use. In some locations, these facilities have been required to create water retention ponds to control the sediment content of discharged water.

For more information regarding how compliance with federal, state, local and foreign laws and regulations may affect us, see "ITEM 1A. RISK FACTORS — Compliance with environmental and other public health regulations could increase our costs of doing business or limit our ability to market all of our products" of this Annual Report on Form 10-K.

FIFRA Compliance, the Corresponding Governmental Investigations and Similar Matters

In April 2008, we became aware that a former associate 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. Department of Justice (the "U.S. DOJ") in related civil and criminal investigations into our 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, 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, Quality Associates Incorporated ("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 complete, and the results of the QAI review process did not materially affect our fiscal 2010, fiscal 2011 or 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 results of the wild bird food recall did not materially affect our fiscal 2010, fiscal 2011 or fiscal 2012 financial condition, results 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 ("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,

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offered us an opportunity to present any information 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 engaged in settlement meetings culminating in the signing of a Consent Agreement and Final Order ("CAFO"), in September, 2012 in which the Company neither admitted nor denied the allegations in the CAFO. The government's transmittal letter stated that the CAFO concluded the government civil investigation and enforcement action. Pursuant to the CAFO, we were required to pay a civil penalty in the amount of $6.05 million and agreed to pay an additional $2.0 million for a Supplemental Environmental Project (“SEP”), paid to the Black Swamp Conservancy, for conservation efforts on three separate parcels of land. The Scotts Miracle-Gro Company undertook these projects as part of a settlement of the United States Environmental Protection Agency's enforcement action against it for alleged violations of Sections 12(a)(1)(A),(B),(C) and (E) of FIFRA, 7 U.S.C. § 136j(a)(1)(A),(B), (C) and (E). As part of the CAFO, the Company must monitor the conservation efforts of the Black Swamp Conservancy and submit a completion report to the U.S. EPA by February 28, 2014, designating the conclusion of all agreed to conservation efforts. Our accrual as of September 30, 2012 includes the full amount of the civil penalty and other amounts payable under the CAFO.

As previously disclosed, we 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 ten misdemeanor FIFRA counts in connection with the former employee's conduct and one misdemeanor FIFRA count in connection with the misapplication of insecticide to wild bird food products. As part of the agreement, Scotts Miracle-Gro was required to pay a $4.0 million penalty to the United States and to provide $0.1 million to each of five 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. As part of 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. The United States District Court for the Southern District of Ohio accepted the plea on March 13, 2012, and the sentence was imposed on September 7, 2012, resolving the U.S. DOJ investigation into pesticide product registration issues. Our accrual as of September 30, 2012 includes the full amount of the criminal penalty and other amounts payable under the Plea Agreement.

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

Other Regulatory Matters

On or about October 28, 2011, the Pennsylvania Department of Environmental Protection (the “Department”) sent a letter to EG Systems, Inc., d/b/a Scotts LawnService (“SLS”), a wholly-owned, indirect subsidiary of Scotts Miracle-Gro, alleging that on June 30 and July 1, 2010, an SLS employee discharged industrial waste into the waters of the Commonwealth in violation of the Clean Streams Law and the Solid Waste Management Act. The letter indicated that the Department was willing to accept a civil penalty of $200,000 to resolve the matter in lieu of a civil penalty action. SLS made a timely response, and on February 22, 2012, SLS and the Department entered into a Consent Assessment of Civil Penalty pursuant to which SLS agreed to pay a civil penalty of $160,000 to resolve the matter.

At September 30, 2012, $4.9 million was accrued for non-FIFRA compliance-related environmental actions, the majority of which is for site remediation. During fiscal 2012, fiscal 2011 and fiscal 2010, we expensed $0.8 million, $2.4 million and $0.5 million, respectively, for non-FIFRA compliance-related environmental matters. We had no

material capital expenditures during the last three fiscal years related to environmental or regulatory matters.
Employees
As of September 30, 2012, we employed approximately 6,100 employees. During peak sales and production periods, we employ approximately 9,000 employees, including seasonal and temporary labor.

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Financial Information About Geographic Areas

For certain information concerning our international revenues and long-lived assets, see “NOTE 22. SEGMENT INFORMATION” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

General Information

We maintain a website at http://investor.scotts.com (this uniform resource locator, or URL, is an inactive textual reference only and is not intended to incorporate our website into this Annual Report on Form 10-K). We file reports with the Securities and Exchange Commission (the “SEC”) and make available, free of charge, on or through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as our proxy and information statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K, including the exhibits hereto and the information incorporated by reference herein, as well as our 2012 Annual Report to Shareholders (our “2012 Annual Report”), 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. Forward-looking statements generally can be identified through the use of words such as “guidance,” “outlook,” “projected,” “believe,” “target,” “predict,” “estimate,” “forecast,” “strategy,” “ “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will,” “should” and other similar words and variations. Forward-looking statements contained in this Annual Report on Form 10-K and our 2012 Annual Report are predictions only and actual results could differ materially from management’s expectations due to a variety of factors, including those described below. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

The forward-looking statements that we make in this Annual Report on Form 10-K and our 2012 Annual Report 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.

Compliance with environmental and other public health regulations or changes in such regulations or regulatory enforcement priorities could increase our costs of doing business or limit our ability to market all of our products.

Local, state, federal and foreign laws and regulations relating to environmental matters affect us in several ways. In the United States, all products containing pesticides must comply with FIFRA and be registered with the U.S. EPA and similar state agencies before they can be sold or distributed. The inability to obtain or maintain such compliance, or the cancellation of any such registration, could have an adverse effect on our business, the severity of which would depend on the products involved, whether another product could be substituted and whether our competitors were similarly affected. We attempt to anticipate regulatory developments and maintain registrations of, and access to, substitute active ingredients, but there can be no assurance that we will be able to avoid or reduce these risks. In the European Union (the “EU”), the European Parliament has adopted various forms of regulation which may substantially restrict or eliminate our ability to market and sell certain of our consumer pesticide products in their current form in the EU. In addition, in Canada, regulations have been adopted by several provinces that substantially restrict our ability to market and sell certain of our consumer pesticide products.

Under the Food Quality Protection Act, enacted by the U.S. Congress in 1996, food-use pesticides are evaluated to determine whether there is reasonable certainty that no harm will result from the cumulative effects of pesticide exposures. Under this Act, the U.S. EPA is evaluating the cumulative risks from dietary and non-dietary exposures to pesticides. The pesticides in our products, certain of which may be used on crops processed into various food products, are typically manufactured by independent third parties and continue to be evaluated by the U.S. EPA as part of this exposure risk assessment. The U.S. EPA or the third-party registrant may decide that a pesticide we use in our products will be limited or made unavailable to us. We cannot predict the outcome or the severity of the effect of continuing evaluations.

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In addition, the use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may include requirements that only certified or professional users apply the product or that certain products be used only on certain types of locations, may require users to post notices on properties to which products have been or will be applied, may require notification to individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients. Most states require our Scotts LawnService® business locations and/or technicians to comply with strict licensing requirements prior to applying many of our products. Even if we are able to comply with all such regulations and obtain all necessary registrations and licenses, we cannot provide assurance that our products, particularly pesticide products, will not cause injury to the environment or to people under all circumstances. The costs of compliance, remediation or products liability have adversely affected operating results in the past and could materially adversely affect future quarterly or annual operating results.

The harvesting of peat for our growing media business has come under increasing regulatory and environmental scrutiny. In the United States, state regulations frequently require us to limit our harvesting and to restore the property to an agreed-upon condition. In some locations, we have been required to create water retention ponds to control the sediment content of discharged water. In the United Kingdom, our peat extraction efforts are also the subject of regulation.

In addition to the regulations already described, local, state, federal and foreign agencies regulate the disposal, transport, handling and storage of waste, remediation of contaminated sites, air and water discharges from our facilities, and workplace health and safety.

Under certain environmental laws, we may be liable for the costs of investigation regarding and remediation of the presence of certain regulated materials, as well as related costs of investigation and remediation of damage to natural resources, at various properties, including our current and former properties as well as offsite waste handling or disposal sites that we have used. Liability may be imposed upon us without regard to whether we knew of or caused the presence of such materials and, under certain circumstances, on a joint and several basis. There can be no assurances that the presence of such regulated materials at any such locations, or locations that we may acquire in the future, will not result in liability to us under such laws or expose us to third-party actions such as tort suits based on alleged conduct or environmental conditions.

The adequacy of our current non-FIFRA compliance-related environmental reserves and future provisions depends upon our operating in substantial compliance with applicable environmental and public health laws and regulations, as well as the assumptions that we have both identified all of the significant sites that must be remediated and that there are no significant conditions of potential contamination that are unknown to us. A significant change in the facts and circumstances surrounding these assumptions or in current enforcement policies or requirements, or a finding that we are not in substantial compliance with applicable environmental and public health laws and regulations, could have a material adverse effect on future environmental capital expenditures and other environmental expenses, as well as our financial condition, results of operations or cash flows.

Damage to our reputation could have an adverse effect on our business.

Maintaining our strong reputation with both consumers and our retail customers is a key component in our success. Product recalls, our inability to ship, sell or transport affected products and governmental investigations may harm our reputation and acceptance of our products by our retail customers and consumers, which may materially and adversely affect our business operations, decrease sales and increase costs.

In addition, perceptions that the products we produce and market are not safe could adversely affect us and contribute to the risk we will be subjected to legal action. We manufacture and market a variety of products, such as fertilizers, certain growing media, herbicides and pesticides. On occasion, allegations are made that some of our products have failed to perform up to expectations or have caused damage or injury to individuals or property. Based on reports of contamination at a third-party supplier’s vermiculite mine, the public may perceive that some of our products manufactured in the past using vermiculite are or may be contaminated. Public perception that our products are not safe, whether justified or not, could impair our reputation, involve us in litigation, damage our brand names and have a material adverse effect on our business.

Our marketing activities may not be successful.

We invest substantial resources in advertising, consumer promotions and other marketing activities in order to maintain, extend and expand our brand image. There can be no assurances that our marketing strategies will be effective or that the amount we invest in advertising activities will result in a corresponding increase in sales of our products. If our marketing initiatives are not successful, we will have incurred significant expenses without the benefit of higher revenues.

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Disruptions in availability or increases in the prices of raw materials or fuel costs could adversely affect our results of operations.

We source many of our commodities and other raw materials on a global basis. The general availability and price of those raw materials, particularly urea, can be affected by numerous forces beyond our control, including political instability, trade restrictions and other government regulations, duties and tariffs, price controls, changes in currency exchange rates and weather.

A significant disruption in the availability of any of our key raw materials could negatively impact our business. In addition, increases in the prices of key commodities and other raw materials could adversely affect our ability to manage our cost structure. Market conditions may limit our ability to raise selling prices to offset increases in our raw material costs. Our proprietary technologies can limit our ability to locate or utilize alternative inputs for certain products. For certain inputs, new sources of supply may have to be qualified under regulatory standards, which can require additional investment and delay bringing a product to market.

We utilize hedge agreements periodically to fix the prices of a portion of our urea and fuel needs. The hedge agreements are designed to mitigate the earnings and cash flow fluctuations associated with the costs of urea and fuel. In periods of declining urea and fuel prices, utilizing hedge agreements may effectively increase our expenditures for these raw materials.

Our hedging arrangements expose us to certain counterparty risks.

In addition to commodity hedge agreements, we utilize interest rate swap agreements as a means to hedge our variable interest rate exposure on debt instruments as well as foreign currency swap contracts to manage the exchange rate risk associated with certain intercompany loans with foreign subsidiaries. Utilizing these hedge agreements exposes us to certain counterparty risks. The failure of one or more of these counterparties to fulfill their obligations under the hedge agreements, whether as a result of weakening financial stability or otherwise, could adversely affect our financial condition, results of operations or cash flows.

Economic conditions could adversely affect our business.

Uncertain global economic conditions could adversely affect our business. Negative global economic trends, such as decreased consumer and business spending, high unemployment levels, reduced rates of home ownership and housing starts, high foreclosure rates and declining consumer and business confidence, pose challenges to our business and could result in declining revenues, profitability and cash flow. Although we continue to devote significant resources to support our brands, unfavorable economic conditions may negatively affect consumer demand for our products. Consumers may reduce discretionary spending during periods of economic uncertainty, which could reduce sales volumes of our products or result in a shift in our product mix from higher margin to lower margin products.

The highly competitive nature of our markets could adversely affect our ability to maintain or grow revenues.

Each of our operating segments participates in markets that are highly competitive. Our products compete against national and regional products and private label products produced by various suppliers. Many of our competitors sell their products at prices lower than ours. Our most price sensitive customers may trade down to lower priced products during challenging economic times or if current economic conditions worsen. We compete primarily on the basis of product innovation, product quality, product performance, value, brand strength, supply chain competency, field sales support, in-store sales support, the strength of our relationships with major retailers and advertising. Some of our competitors have significant financial resources. The strong competition that we face in all of our markets may prevent us from achieving our revenue goals, which may have a material adverse effect on our financial condition, results of operations or cash flows. Our inability to continue to develop and grow brands with leading market positions, maintain our relationships with key retailers and deliver products on a reliable basis at competitive prices could have a material adverse effect on us.

We may not successfully develop new products or improve existing products or maintain our effectiveness in reaching consumers through rapidly evolving communication vehicles.

Our future success depends, in part, upon our ability to improve our existing products and to develop, manufacture and market new, innovative products to meet evolving consumer needs, as well as our ability to leverage new mediums such as digital media and social networks to reach existing and potential consumers. We cannot be certain that we will be successful in the development, manufacturing and marketing of new products or product innovations which satisfy consumer needs or achieve market acceptance, or that we will develop and market new products or product innovations in a timely manner. If we fail to successfully develop, manufacture and market new or enhanced products or develop product innovations, or if we fail to reach existing and potential consumers, our ability to maintain or grow our market share may be adversely affected, which in turn could materially adversely affect our business, financial condition and results of operations. In addition, the development and introduction

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of new products and product innovations require substantial research, development and marketing expenditures, which we may be unable to recoup if such new products or innovations do not achieve market acceptance.

Many of the products we manufacture and market contain active ingredients that are subject to regulatory approval. The need to obtain such approval could delay the launch of new products or product innovations that contain active ingredients or otherwise prevent us from developing and manufacturing certain products and innovations, further exacerbating the risks to our business.

Because of the concentration of our sales to a small number of retail customers, the loss of one or more of, or significant reduction in orders from, our top customers could adversely affect our financial results.

Global Consumer net sales represented approximately 89.8% of our worldwide net sales in fiscal 2012. Our top three retail customers together accounted for 65.3% of our fiscal 2012 net sales and 50.9% of our outstanding accounts receivable as of September 30, 2012. Home Depot, Lowe’s and Walmart represented approximately 32.2%, 18.4% and 14.7%, respectively, of our fiscal 2012 net sales. The loss of, or reduction in orders from, Home Depot, Lowe’s, Walmart or any other significant customer could have a material adverse effect on our business, financial condition, results of operations or cash flows, as could customer disputes regarding shipments, fees, merchandise condition or related matters. Our inability to collect accounts receivable from one of our major customers, or a significant deterioration in the financial condition of one of these customers, including a bankruptcy filing or a liquidation, could also have a material adverse effect on our financial condition, results of operations or cash flows.

We do not have long-term sales agreements with, or other contractual assurances as to future sales to, any of our major retail customers. In addition, continued consolidation in the retail industry has resulted in an increasingly concentrated retail base, and as a result, we are significantly dependent upon key retailers whose bargaining strength is strong. To the extent such concentration continues to occur, our net sales and income from operations may be increasingly sensitive to deterioration in the financial condition of, or other adverse developments involving our relationship with, one or more of our customers. In addition, our business may be negatively affected by changes in the policies of our retailers, such as inventory destocking, limitations on access to shelf space, price demands and other conditions.

Our reliance on third-party manufacturers could harm our business.

We rely on third-party service providers to manufacture certain of our products. This reliance generates a number of risks, including decreased control over the production process, which could lead to production delays or interruptions, and inferior product quality control. In addition, performance problems at these third-party providers could lead to cost overruns, shortages or other problems, which could increase our costs of production or result in service delays to our customers.

If one or more of our third-party manufacturers becomes insolvent or unwilling to continue to manufacture products of acceptable quality, at acceptable costs, in a timely manner, our ability to deliver products to our customers could be significantly impaired. Substitute manufacturers might not be available or, if available, might be unwilling or unable to manufacture the products we need on acceptable terms. Moreover, if customer demand for our products increases, we may be unable to secure sufficient additional capacity from our current third-party manufacturers, or others, on commercially reasonable terms, or at all.

Our reliance on a limited base of suppliers may result in disruptions to our business and adversely affect our financial results.

We rely on a limited number of suppliers for certain of our raw materials, product components and other necessary supplies, including certain active ingredients used in our products. If we are unable to maintain supplier arrangements and relationships, if we are unable to contract with suppliers at the quantity and quality levels needed for our business, or if any of our key suppliers becomes insolvent or experiences other financial distress, we could experience disruptions in production, which could have a material adverse effect on our financial results.

A significant interruption in the operation of our or our suppliers’ facilities could impact our capacity to produce products and service our customers, which could adversely affect revenues and earnings.

Operations at our and our suppliers’ facilities are subject to disruption for a variety of reasons, including fire, flooding or other natural disasters, disease outbreaks or pandemics, acts of war, terrorism and work stoppages. A significant interruption in the operation of our or our suppliers’ facilities could significantly impact our capacity to produce products and service our retail customers in a timely manner, which could have a material adverse effect on our revenues, earnings and financial position. This is especially true for those products that we manufacture at a limited number of facilities, such as our fertilizer and liquid products in both the United States and Europe.

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Adverse weather conditions could adversely impact financial results.
Weather conditions in North America and Europe can have a significant impact on the timing of sales in the spring selling season and overall annual sales. An abnormally wet and/or cold spring throughout North America or Europe, abnormally dry periods or droughts, and other severe weather conditions or events could adversely affect fertilizer, pesticide and insecticide sales and, therefore, our financial results.
Our indebtedness could limit our flexibility and adversely affect our financial condition.
As of September 30, 2012, we had $782.6 million of debt. Our inability to meet restrictive financial and non-financial covenants associated with that debt could adversely affect our financial condition.
Our ability to make payments on our indebtedness, fund planned capital expenditures and acquisitions, pay dividends and make share repurchases depends on our ability to generate cash in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operating activities or that future borrowings will be available to us under our credit facility in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.
Our credit facility, the indenture governing our 7.25% Senior Notes due 2018 (the “7.25% Senior Notes”) and the indenture governing our 6.625% Senior Notes due 2020 (the “6.625% Senior Notes” and, collectively with the 7.25% Senior Notes, the “Senior Notes”) contain restrictive covenants and cross-default provisions. In addition, our credit facility requires us to maintain specified financial ratios. Our ability to comply with those covenants and satisfy those financial ratios can be affected by events beyond our control. A breach of any of those financial ratio covenants or other covenants could result in a default. Upon the occurrence of such an event of default, the lenders could elect to declare all of the outstanding indebtedness immediately due and payable and terminate all commitments to extend further credit. We cannot assure you that our lenders would waive a default or that we could pay the indebtedness in full if it were accelerated.
Subject to compliance with certain covenants under our credit facility and the indentures governing our Senior Notes, we may incur additional debt in the future. If we incur additional debt, the risks described above could intensify.
Our postretirement-related costs and funding requirements could increase as a result of volatility in the financial markets, changes in interest rates and actuarial assumptions.
We sponsor a number of defined benefit pension plans associated with our U.S. and international businesses, as well as a postretirement medical plan in the U.S. for certain retired associates and their dependents. The performance of the financial markets and changes in interest rates impact the funded status of these plans and cause volatility in our postretirement-related costs and future funding requirements. If the financial markets do not provide the expected long-term returns on invested assets, we could be required to make significant pension contributions. Additionally, changes in interest rates and legislation enacted by governmental authorities can impact the timing and amounts of contribution requirements.
We utilize third-party actuaries to evaluate assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension and other postretirement benefit plans. In the event we determine that our assumptions should be revised, such as the discount rate, the expected long-term rate or expected return on assets, our future pension and postretirement benefit expenses could increase or decrease. The assumptions we use may differ from actual results, which could have a significant impact on our pension and postretirement liabilities and related costs and funding requirements.
Our international operations make us susceptible to the costs and risks associated with operating internationally.
We currently operate manufacturing, sales and service facilities outside of the United States, particularly in Canada, France, the United Kingdom and Germany. In fiscal 2012, international net sales, including Canada, accounted for approximately 17.2% of our total net sales. Accordingly, we are subject to risks associated with operating in foreign countries, including:

- fluctuations in currency exchange rates;
- limitations on the remittance of dividends and other payments by foreign subsidiaries;
- additional costs of compliance with local regulations;
- historically, in certain countries, higher rates of inflation than in the United States;

- changes in the economic conditions or consumer preferences or demand for our products in these markets;
- restrictive actions by multi-national governing bodies, foreign governments or subdivisions thereof;

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- changes in foreign labor laws and regulations affecting our ability to hire and retain employees;
- changes in U.S. and foreign laws regarding trade and investment;
- less robust protection of our intellectual property under foreign laws; and
- difficulty in obtaining distribution and support for our products.

In addition, our operations outside the United States are subject to the risk of new and different legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations and potentially adverse tax consequences. The costs associated with operating our international business could adversely affect our results of operations, financial condition or cash flows in the future.

Failure of our key information technology systems could adversely impact our ability to conduct business.

We rely on information technology systems in order to conduct business, including communicating with employees and our key retail customers, ordering and managing materials from suppliers, shipping products to customers and analyzing and reporting results of operations. While we have taken steps to ensure the security of our information technology systems, our systems may nevertheless be vulnerable to computer viruses, security breaches and other disruptions from unauthorized users. If our information technology systems are damaged or cease to function properly for an extended period of time, whether as a result of a significant cyber incident or otherwise, our ability to communicate internally as well as with our retail customers could be significantly impaired, which may adversely impact our business.

We may not be able to adequately protect our intellectual property and other proprietary rights that are material to our business.

Our ability to compete effectively depends in part on our rights to service marks, trademarks, trade names and other intellectual property rights we own or license, particularly our registered brand names and issued patents. We have not sought to register every one of our marks either in the United States or in every country in which they are used. Furthermore, because of the differences in foreign trademark, patent and other intellectual property or proprietary rights laws, we may not receive the same protection in other countries as we would in the United States with respect to the registered brand names and issued patents we hold. If we are unable to protect our intellectual property, proprietary information and/or brand names, we could suffer a material adverse effect on our business, financial condition or results of operations.

Litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products or services infringe their intellectual property rights. Any litigation or claims brought by or against us could result in substantial costs and diversion of our resources. A successful claim of trademark, patent or other intellectual property infringement against us, or any other successful challenge to the use of our intellectual property, could subject us to damages or prevent us from providing certain products or services under our recognized brand names, which could have a material adverse effect on our business, financial condition or results of operations.

If Monsanto were to terminate the Marketing Agreement for consumer Roundup® products, we would lose a substantial source of future earnings and overhead expense absorption.

If we were to commit a serious default under the Marketing Agreement with Monsanto for consumer Roundup® products, Monsanto may have the right to terminate the Marketing Agreement. If Monsanto were to terminate the Marketing Agreement for cause, we 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 us a termination fee if unit volume sales to consumers in that region decline: (i) over a cumulative three-fiscal-year period; or (ii) by more than 5% for each of two consecutive years. If the Marketing Agreement was terminated for any reason, we would also lose all, or a substantial portion, of the significant source of earnings and overhead expense absorption the Marketing Agreement provides.

Hagedorn Partnership, L.P. beneficially owns approximately 30% of our common shares and can significantly influence decisions that require the approval of shareholders.

Hagedorn Partnership, L.P. beneficially owned approximately 30% of our outstanding common shares on a fully diluted basis as of November 13, 2012. As a result, it has sufficient voting power to significantly influence the election of directors and the approval of other actions requiring the approval of our shareholders, including the entering into of certain business combination transactions. In addition, because of the percentage of ownership and voting concentration in Hagedorn Partnership, L.P., elections of our board of directors will generally be within the control of Hagedorn Partnership, L.P. While all of our shareholders are entitled to vote on matters submitted to our shareholders for approval, the concentration of shares and voting control presently lies with Hagedorn Partnership, L.P. As such, it would be difficult for shareholders to propose and have approved proposals not supported

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by Hagedorn Partnership, L.P. Hagedorn Partnership, L.P. may have an interest in our pursuing transactions that it believes may enhance the value of its equity investment in us, even though such transactions may involve certain risks.

We may pursue acquisitions, dispositions, investments, dividends, share repurchases and/or other corporate transactions that we believe will maximize equity returns of our shareholders but may involve risks.

From time to time, we consider opportunities for acquisitions of businesses, product lines or other assets, potential dispositions and other strategic transactions. These types of transactions may involve risks, such as risks of integration of acquired businesses and loss of cash flows and market positions of disposed businesses, the possibility that anticipated synergies from strategic acquisitions may not materialize, and the risk that sales of acquired products may not meet expectations.

In addition, if our business performs according to our financial plan, subject to the discretion of our Board of Directors and to market and other conditions we may, over time, significantly increase the rate of dividends on, and the amount of repurchases of, our common shares. For example, in the fourth quarter of fiscal 2010 we doubled the amount of our quarterly cash dividend, and our Board of Directors authorized the repurchase of up to $500 million of Scotts Miracle-Gro common shares. In fiscal 2011 we increased the amount of our dividend by an additional 20% and our Board of Directors authorized the repurchase of up to an additional $200 million of our common shares. We increased the amount of our dividend again in fiscal 2012, and we may further increase the rate of dividends on, and the amount of repurchases of, our common shares in the future.

There can be no assurance that we will effect any of these transactions or activities, but, if we do, certain risks may be increased, possibly materially.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own or lease numerous facilities throughout the world to support our business operations:

- Global Consumer — We own manufacturing, distribution, research and development and office facilities in Marysville, Ohio; research facilities in Apopka, Florida and Gervais, Oregon; and manufacturing facilities in Pearl, Mississippi, Fort Madison, Iowa and Honea Path, South Carolina. We lease a spreader and other durable components manufacturing facility in Temecula, California. In addition, we operate 29 stand-alone growing media facilities in North America—24 of which are owned by the Company and five of which are leased. Most of these facilities include production lines, warehouses, offices and field processing areas. We also lease a fertilizer and growing media manufacturing facility and distribution center in Orrville, Ohio. We own three manufacturing facilities for our wild bird food operations in Indiana, South Dakota and Texas. We own a grass seed blending and bagging facility in Albany, Oregon.

We lease facilities for the headquarters of our international business (which also serves as our local French operations office) in Ecully (Lyon), France. We own a blending and bagging facility for growing media in Hautmont, France and a plant in Bourth, France that we use for formulating, blending and packaging plant protection products. We own manufacturing facilities in Howden (East Yorkshire), Hatfield (South Yorkshire), Gretna Green (Gretna) and Sutton Bridge (Spalding), all in the United Kingdom. We own three peat extraction facilities in Scotland and we lease land for peat extraction at two additional locations across the United Kingdom. We lease research and development facilities in Morance (Rhone), France and Cobbitty (NSW), Australia, and we own a research and development facility in Levington (Ipswich), United Kingdom.

- Scotts LawnService® — We lease facilities for each of our 84 Company-operated Scotts LawnService® locations. The facilities are primarily located in industrial parks.

Our corporate headquarters are located in Marysville, Ohio, where we own or lease approximately 730 acres. We also lease office space for sales, marketing and general operating activities as well as distribution center and warehouse space throughout North America and continental Europe as needed. We believe that our facilities are adequate to serve their intended purposes and that our property leasing arrangements are satisfactory.

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ITEM 3. LEGAL PROCEEDINGS

As noted in the discussion in “ITEM 1. BUSINESS — Regulatory Considerations” of this Annual Report on Form 10-K, we are involved in several pending environmental and regulatory matters. We believe that our assessment of contingencies is reasonable and that related reserves, in the aggregate, are adequate; however, there can be no assurance that the final resolution of these matters will not have a material effect on our financial condition, results of operations or cash flows.

FIFRA Compliance, the Corresponding Governmental Investigations and Similar Matters

Information with respect to the resolution of the U.S. EPA and U.S. DOJ investigations into our pesticide product registration matters and a discussion of the costs and expenses related thereto is hereby incorporated by reference to "NOTE 3. PRODUCT REGISTRATION AND RECALL MATTERS" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Other Regulatory Matters

On or about October 28, 2011, the Pennsylvania Department of Environmental Protection sent a letter to SLS alleging that on June 30 and July 1, 2010, an SLS employee discharged industrial waste into the waters of the Commonwealth in violation of the Clean Streams Law and the Solid Waste Management Act. The letter indicated that the Department was willing to accept a civil penalty of $200,000 to resolve the matter in lieu of a civil penalty action. SLS made a timely response, and on February 22, 2012, SLS and the Department entered into a Consent Assessment of Civil Penalty pursuant to which SLS agreed to pay a civil penalty of $160,000 to resolve the matter.

Other Pending Significant Legal Proceedings

We have 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 our historic use of vermiculite in certain of our products. In many of these cases, the complaints are not specific about the plaintiffs’ contacts with us or our products. None of the cases seek damages from us alone. We believe that the claims against us are without merit and are vigorously defending against them. It is not currently possible to reasonably estimate a probable loss, if any, associated with the cases and, accordingly, no accrual or reserves have been recorded in our consolidated financial statements. We are reviewing agreements and policies that may provide insurance coverage or indemnity as to these claims and are 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 our financial condition, results of operations or cash flows.

As noted in the discussion in "ITEM 1. BUSINESS — Regulatory Considerations" of this Annual Report on Form 10-K, we have been named as a defendant in four putative class actions associated with the Company's sale of wild bird food, which have now been consolidated in one action.

We are involved in other lawsuits and claims which arise in the normal course of our business. In our opinion, these claims individually and in the aggregate are not expected to result in a material effect on our financial condition, results of operations or cash flows.

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ITEM 4. MINE SAFETY DISCLOSURE

Not Applicable.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Scotts Miracle-Gro, their positions and, as of November 13, 2012, their ages and years with Scotts Miracle-Gro (and its predecessors) are set forth below.

Name	Age	Position(s) Held	Years with Company
James Hagedorn	57	Chief Executive Officer and Chairman of the Board	25
Barry W. Sanders	48	President and Chief Operating Officer	11
David C. Evans	49	Chief Financial Officer and Executive Vice President, Strategy and Business Development	19
Denise S. Stump	58	Executive Vice President, Global Human Resources	12
Vincent C. Brockman	49	Executive Vice President, General Counsel, Corporate Secretary and Chief Ethics & Compliance Officer	10
James R. Lyski	49	Executive Vice President, Chief Marketing Officer	2

Executive officers serve at the discretion of the Board of Directors of Scotts Miracle-Gro and pursuant to employment agreements or other arrangements.

The business experience of each of the individuals listed above during at least the past five years is as follows:

Mr. Hagedorn was named Chairman of the Board of Scotts Miracle-Gro's predecessor in January 2003 and named Chief Executive Officer of Scotts Miracle-Gro's predecessor in May 2001. He also served as President of Scotts Miracle-Gro (or its predecessor) from November 2006 until October 2008 and from April 2000 until December 2005. Mr. Hagedorn serves on Scotts Miracle-Gro's Board of Directors, a position he has held with Scotts Miracle-Gro (or its predecessor) since 1995. Mr. Hagedorn is the brother of Katherine Hagedorn Littlefield, a director of Scotts Miracle-Gro.

Mr. Sanders was named President of Scotts Miracle-Gro in October 2010 and named Chief Operating Officer of Scotts Miracle-Gro in January 2012. In this position, Mr. Sanders oversees all business unit and operating functions at the Company. Prior to his election as President and Chief Operating Officer, Mr. Sanders had served as the Company's Executive Vice President, Global Consumer since June 2010. Previously, he served as Executive Vice President, North America of Scotts Miracle-Gro from October 2007 until June 2010. He served as Executive Vice President of Global Technology and Operations of Scotts Miracle-Gro from January to October 2007, where he was responsible for the Company's supply chain and information systems, as well as research and development efforts. Before January 2007, he led the North American and global supply chain organizations as well as the North American sales force.

Mr. Evans was named Chief Financial Officer and Executive Vice President, Strategy and Business Development of Scotts Miracle-Gro in January 2011. Prior to that, he had served as Executive Vice President and Chief Financial Officer of Scotts Miracle-Gro since September 2006. From October 2005 to September 2006, he served as Senior Vice President, Finance and Global Shared Services of The Scotts Company LLC ("Scotts LLC").

Ms. Stump has served as Executive Vice President, Global Human Resources of Scotts Miracle-Gro (or its predecessor) since February 2003.

Mr. Brockman was named Executive Vice President, General Counsel and Corporate Secretary of Scotts Miracle-Gro in January 2008 and was also named Chief Ethics & Compliance Officer in May 2009. From April 2006 until January 2008, he served as Chief Ethics & Compliance Officer and Chief Administrative Officer of Scotts LLC. Prior to April 2006, he had served as Chief Ethics & Compliance Officer of Scotts LLC (or its predecessor) since 2004.

Mr. Lyski was named Executive Vice President, Chief Marketing Officer of Scotts Miracle-Gro in April 2011. He had previously served as interim Chief Marketing Officer since February 2011. Prior to joining Scotts Miracle-Gro, Mr. Lyski served as Executive Vice President, Chief Marketing Officer for Nationwide Mutual Insurance Company from October 2006 until January 2011, where he was responsible for corporate strategy, corporate marketing, brand management, advertising and communications. Mr. Lyski serves as President of the Board of Trustees for the Wexner Center Foundation.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common shares of Scotts Miracle-Gro (the "Common Shares") trade on the New York Stock Exchange under the symbol "SMG." The quarterly high and low sale prices for the fiscal years ended September 30, 2012 and 2011 were as follows:

	Sale Prices	
	High	Low
FISCAL 2012		
First quarter	$50.85	$40.57
Second quarter	$55.58	$46.17
Third quarter	$55.95	$35.49
Fourth quarter	$45.00	$37.97
FISCAL 2011		
First quarter	$54.99	$49.25
Second quarter	$58.74	$48.99
Third quarter	$60.62	$48.52
Fourth quarter	$52.17	$39.99

A quarterly dividend of $0.25 per Common Share was paid in December, March and June of fiscal 2011. On August 8, 2011, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.30 per Common Share, which was paid in September of fiscal 2011 and December, March and June of fiscal 2012. On August 9, 2012, Scotts Miracle-Gro announced that its Board of Directors had further increased the quarterly cash dividend to $0.325 per Common Share, which was first paid in September of fiscal 2012. 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 2.93 at September 30, 2012. See "NOTE 11. DEBT" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion regarding the restrictions on dividend payments.

As of November 13, 2012, there were approximately 25,800 shareholders, including holders of record and our estimate of beneficial holders.

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 of the three fiscal months in the quarter ended September 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)]
July 1 through July 28, 2012	168	$38.64	—	$298,816,796
July 29 through August 25, 2012	—	$—	—	$298,816,796

August 26 through September 30, 2012	1,764	$42.85	—	$298,816,796
Total	1,932	$42.83	—	

(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

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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.

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ITEM 6. SELECTED FINANCIAL DATA

Five-Year Summary(1)

	Year Ended September 30,				
	2012	2011	2010	2009	2008
	(In millions, except per share amounts)				
OPERATING RESULTS:					
Net sales	$2,826.1	$2,799.7	$2,873.0	$2,715.3	$2,506.8
Gross profit	961.3	1,009.2	1,085.6	986.7	826.4
Income from operations	243.6	274.8	374.4	273.4	139.2
Income from continuing operations	113.2	139.9	207.7	140.9	40.9
Income (loss) from discontinued operations, net of tax	(6.7)	28.0	(3.6)	12.4	(51.8)
Net income (loss)	106.5	167.9	204.1	153.3	(10.9)
ADJUSTED OPERATING RESULTS(2):					
Adjusted income from operations	$258.9	$345.3	$401.6	$302.0	$266.5
Adjusted income from continuing operations	124.9	187.2	226.0	159.0	123.0
FINANCIAL POSITION:					
Working capital	$566.4	$523.9	$381.3	$382.7	$414.5
Current ratio	2.3	2.1	1.3	1.3	1.4
Property, plant and equipment, net	$427.4	$394.7	$381.3	$356.6	$330.5
Total assets	2,074.4	2,052.2	2,164.0	2,220.1	2,156.2
Total debt to total book capitalization(3)	56.5 %	58.7 %	45.2 %	58.1 %	69.6 %
Total debt	$782.6	$795.0	$631.7	$810.1	$999.5
Total shareholders’ equity	601.9	559.8	764.5	584.5	436.7
CASH FLOWS:					
Cash flows from operating activities	$153.4	$122.1	$295.9	$264.6	$200.9
Investments in property, plant and equipment	69.4	72.7	83.4	72.0	56.1
Investments in intellectual property	—	—	—	3.4	4.1
Investments in acquisitions, net of cash acquired	7.0	7.9	0.6	10.7	2.7
Total cash dividends paid	75.4	67.9	42.6	33.4	32.5
Total purchases of common shares	17.5	358.7	25.0	—	—
PER SHARE DATA:					
Earnings per common share from continuing operations:					
Basic	$1.86	$2.16	$3.13	$2.17	$0.63
Diluted	1.82	2.11	3.07	2.13	0.63
Adjusted diluted(2)	2.01	2.83	3.34	2.40	1.89
Dividends per common share(4)	1.225	1.05	0.625	0.50	0.50
Stock price at year-end	43.47	44.60	51.73	42.95	23.64
Stock price range—High	55.95	60.62	52.56	44.25	46.90
Stock price range—Low	35.49	39.99	37.50	18.27	16.12
OTHER:					
Adjusted EBITDA(5)	$302.9	$393.0	$440.1	$350.5	$318.4
Leverage ratio(5)	2.93	1.98	2.00	3.20	3.97
Interest coverage ratio(5)	4.90	7.47	9.40	6.21	3.87
Weighted average common shares outstanding	61.0	64.7	66.3	65.0	64.5
Common shares and dilutive potential common shares used in diluted EPS calculation	62.1	66.2	67.6	66.1	65.4

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(1) On July 8, 2009, Scotts Miracle-Gro announced that its wholly-owned subsidiary, Smith & Hawken, Ltd., had adopted a plan to close the Smith & Hawken business. During our first quarter of fiscal 2010, all Smith & Hawken stores were closed and substantially all operational activities of Smith & Hawken were discontinued. As a result, effective in our first quarter of fiscal 2010, we classified Smith & Hawken as discontinued operations in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Smith & Hawken® is a registered trademark of Target Brands, Inc. The Company sold the Smith & Hawken brand and certain intellectual property rights related thereto to Target Brands, Inc. on December 30, 2009, and subsequently changed the name of the subsidiary entity formerly known as Smith & Hawken, Ltd. to Teak 2, Ltd. References in this Annual Report on Form 10-K to Smith & Hawken refer to the subsidiary entity, not the brand itself.

On February 28, 2011, we completed the sale of Global Pro to ICL. In conjunction with the transaction, Scotts LLC 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. Our 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 us 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, we classified Global Pro as discontinued operations in accordance with GAAP.

In the fourth quarter of fiscal year 2012, the Company completed the wind down of the Company's professional seed business ("Pro Seed"). As a result, effective in its fourth quarter of fiscal 2012, we classified Pro Seed as discontinued operations in accordance with GAAP.

The Selected Financial Data has been retrospectively updated to recast Smith & Hawken, Global Pro and Pro Seed as discontinued operations for each period presented.

(2) The Five-Year Summary includes non-GAAP financial measures, as defined in Item 10(e) of SEC Regulation S-K, of adjusted operating income, adjusted income from continuing operations and adjusted diluted earnings per share from continuing operations, which exclude costs or gains related to discrete projects or transactions. Items excluded during the five-year period ended September 30, 2012 consisted of charges or credits relating to refinancings, impairments, restructurings, product registration and recall matters, discontinued operations, and other unusual items such as costs or gains related to discrete projects or transactions that are apart from and not indicative of the results of the operations of the business. The comparable GAAP measures are reported operating income, reported income from continuing operations and reported diluted earnings per share from continuing operations. Our management believes that these non-GAAP measures are the most indicative of our earnings capabilities and that disclosure of these non-GAAP financial measures therefore provides useful information to investors or other users of the financial statements, such as lenders. A reconciliation of the non-GAAP to the most directly comparable GAAP measures is presented in the following tables:

	Year Ended September 30,				
	2012	2011	2010	2009	2008
	(In millions, except per share data)				
Income from operations	$243.6	$274.8	$374.4	$273.4	$139.2
Impairment, restructuring and other charges	7.1	55.9	18.5	—	76.2
Product registration and recall matters	8.2	14.6	8.7	28.6	51.1
Adjusted income from operations	$258.9	$345.3	$401.6	$302.0	$266.5
Income from continuing operations	$113.2	$139.9	$207.7	$140.9	$40.9
Impairment, restructuring and other charges, net of tax	4.3	35.3	12.7	—	48.8
Product registration and recall matters, net of tax	7.4	12.0	5.6	18.1	33.3
Adjusted income from continuing operations	$124.9	$187.2	$226.0	$159.0	$123.0
Diluted earnings per share from continuing operations	$1.82	$2.11	$3.07	$2.13	$0.63

Impairment, restructuring and other charges, net of tax	0.07	0.53	0.19	—	0.75
Product registration and recall matters, net of tax	0.12	0.19	0.08	0.27	0.51
Adjusted diluted earnings per share from continuing operations	$2.01	$2.83	$3.34	$2.40	$1.89

(3) The total debt to total book capitalization percentage is calculated by dividing total debt by total debt plus shareholders' equity.

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(4) Scotts Miracle-Gro began paying a quarterly dividend of $0.125 per Common Share in the fourth quarter of fiscal 2005. On August 10, 2010, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.25 per Common Share, which was first paid in the fourth quarter of fiscal 2010. On August 8, 2011, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.30 per Common Share, which was first paid in the fourth quarter of fiscal 2011. On August 9, 2012, Scotts Miracle-Gro announced that its Board of Directors had further increased the quarterly cash dividend to $0.325 per Common Share, which was first paid in the fourth quarter of fiscal 2012.

(5) We view our credit facility as material to our ability to fund operations, particularly in light of our seasonality. Please refer to "ITEM 1A. RISK FACTORS—Our indebtedness could limit our flexibility and adversely affect our financial condition" of this Annual Report on Form 10-K for a more complete discussion of the risks associated with our debt and our credit facility and the restrictive covenants therein. Our ability to generate cash flows sufficient to cover our debt service costs is essential to our ability to maintain our borrowing capacity. We believe that Adjusted EBITDA provides additional information for determining our ability to meet debt service requirements. The presentation of Adjusted EBITDA herein is intended to be consistent with the calculation of that measure as required by our borrowing arrangements, and used to calculate a leverage ratio (maximum of 3.50 at September 30, 2012) and an interest coverage ratio (minimum of 3.50 for the year ended September 30, 2012). Leverage ratio is calculated as average total indebtedness, as described in our credit facility, relative to Adjusted EBITDA. Interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in our credit facility, and excludes costs related to refinancings. Our leverage ratio was 2.93 at September 30, 2012 and our interest coverage ratio was 4.90 for the year ended September 30, 2012. Please refer to "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—Liquidity and Capital Resources" of this Annual Report on Form 10-K for a discussion of our credit facility.

In accordance with the terms of our credit facility, Adjusted EBITDA is calculated as net income or loss before interest, taxes, depreciation and amortization as well as certain other items such as the impact of the cumulative effect of changes in accounting, costs associated with debt refinancing and other non-recurring, non-cash items affecting net income. In addition, non-recurring cash items affecting net income that are incurred between April 3, 2011 and June 30, 2012 in an aggregate amount not to exceed $40 million are also excluded from the determination of Adjusted EBITDA. Our calculation of Adjusted EBITDA does not represent and should not be considered as an alternative to net income or cash flows from operating activities as determined by GAAP. We make no representation or assertion that Adjusted EBITDA is indicative of our cash flows from operating activities or results of operations. We have provided a reconciliation of Adjusted EBITDA to income from continuing operations solely for the purpose of complying with SEC regulations and not as an indication that Adjusted EBITDA is a substitute measure for income from continuing operations.

A numeric reconciliation of Adjusted EBITDA to income from continuing operations is as follows:

	Year Ended September 30,				
	2012	2011	2010	2009	2008
	(In millions, except per share data)				
Income from continuing operations	$113.2	$139.9	$207.7	$140.9	$40.9
Income tax expense from continuing operations	68.6	82.7	123.5	80.2	20.7
Income (loss) from discontinued operations, net of tax (excluding Global Pro sale)	(5.0)	(11.5)	(3.6)	12.4	(51.8)
Income tax expense (benefit) from discontinued operations	(2.0)	(7.2)	3.1	(22.8)	6.0
Costs related to refinancings	—	1.2	—	—	—
Interest	61.8	51.0	43.2	52.4	77.6
Interest expense from discontinued operations	—	1.7	3.7	4.0	4.6
Depreciation	51.5	50.3	48.5	47.9	53.9
Amortization	10.9	11.4	10.9	12.5	16.4

Loss on impairment and other charges	4.7	64.3	18.5	7.4	136.8
Product registration and recall matters, non-cash portion	0.2	8.7	1.0	2.9	13.3
Mark-to-market adjustments on derivatives	(1.0)	0.5	—	—	—
Smith & Hawken closure process, non-cash portion	—	—	(16.4)	12.7	—
Adjusted EBITDA	$302.9	$393.0	$440.1	$350.5	$318.4

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion is to provide an understanding of our financial condition and results of operations by focusing on changes in certain key measures from year-to-year. Management's Discussion and Analysis ("MD&A") is divided into the following sections:

- Executive summary
- Results of operations
- Segment results
- Liquidity and capital resources
- Regulatory matters
- Critical accounting policies and estimates

Executive Summary

We are dedicated to delivering strong, long-term financial results and outstanding shareholder returns by providing products of superior quality and value to enhance consumers' outdoor lawn and garden environments. 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 U.S. lawn care service business. 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 marketing investments, and (2) a decision to take minimal customer pricing, 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 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. Management has moderated expectations for near-term growth and is planning actions which are designed to drive a significant recovery in operating earnings without reliance on unit volume growth. These actions include price increases, product cost optimization and SG&A productivity.

Effective in our fourth quarter of fiscal 2012, we classified our professional seed business as discontinued operations. Prior to being reported as discontinued operations, our professional seed business was included as part of Corporate & Other. 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. For additional information regarding the use of proceeds from the sale of Global Pro, see "NOTE 2. DISCONTINUED OPERATIONS" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. 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. During our first quarter of fiscal 2010, all Smith & Hawken stores were closed and substantially all operational activities of Smith & Hawken were discontinued. As a result, effective in our first quarter of fiscal 2010, we classified Smith & Hawken as discontinued operations. Prior to being reported as discontinued operations, our Smith & Hawken business was included as part of Corporate & Other.

As a leading consumer branded lawn and garden company, our product development and marketing efforts are largely focused on providing innovative and differentiated products and on continually increasing brand and product awareness to inspire consumers and create retail demand. We have successfully applied this model for a number of years by focusing on research and development and investing approximately 5 – 6% of our annual net sales in advertising to support and promote our products and brands. We continually explore new and innovative ways to communicate with consumers. We believe that we receive a significant return on these expenditures and anticipate a similar commitment to research and development, advertising and marketing investments in the future, with the continuing objective of driving category growth and profitably increasing market share.

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Our sales in any one year are susceptible to weather conditions in the markets in which our products are sold. For instance, periods of abnormally wet or dry weather can adversely impact sale of certain products, while increasing demand for other products. We believe that our diversified product line and our broad geographic diversification reduce this risk, although to a lesser extent in a year where unfavorable weather is geographically wide-spread and extends across a significant portion of the lawn and garden season. We also believe that weather conditions in any one year, positive or negative, do not materially alter longer-term category growth trends.

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

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

Management focuses on a variety of key indicators and operating metrics to monitor the financial condition and performance of the continuing operations of our business. These metrics include consumer purchases (point-of-sale data), market share, category growth, net sales (including unit volume, pricing, and foreign exchange movements), gross profit margins, advertising to net sales ratios, income from operations, income from continuing operations, net income and earnings per share. To the extent applicable, these measures are evaluated with and without impairment, restructuring and other charges as well as product registration and recall matters, which management believes are not indicative of the earnings capabilities of our businesses. We also focus on measures to optimize cash flow and return on invested capital, including the management of working capital and capital expenditures.

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 increased our quarterly dividend from $0.30 to $0.325 per common share. The decisions to increase the amount of cash we intend to return to our shareholders reflects our continued confidence in the long-term health of the business. From the inception of the share repurchase program in the fourth quarter of fiscal 2010 through the fourth quarter of fiscal 2012, we have repurchased approximately 7.8 million of our common shares for $401.2 million.

Product Registration and Recall Matters

In April 2008, we became aware that a former associate circumvented our 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, we have 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, 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, Quality Associates Incorporated ("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 complete, and the results of the QAI review process did not materially affect our fiscal 2010, fiscal 2011 or 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

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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 results of the wild bird food recall did not materially affect our fiscal 2010, fiscal 2011 or fiscal 2012 financial condition, results 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 (“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 us an opportunity to present any information 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 engaged in settlement meetings culminating in the signing of a Consent Agreement and Final Order ("CAFO"), in September, 2012 in which the Company neither admitted nor denied the allegations in the CAFO. The government's transmittal letter stated that the CAFO concluded the government's civil investigation and enforcement action. Pursuant to the CAFO, we were required to pay a civil penalty in the amount of $6.05 million and agreed to pay an additional $2.0 million for a Supplemental Environmental Project (“SEP”), paid to the Black Swamp Conservancy, for conservation efforts on three separate parcels of land. The Scotts Miracle-Gro Company undertook these projects as part of a settlement of the United States Environmental Protection Agency's enforcement action against it for alleged violations of Sections 12(a)(1)(A),(B),(C) and (E) of FIFRA, 7 U.S.C. § 136j(a)(1)(A),(B), (C) and (E). As part of the CAFO, the Company must monitor the conservation efforts of the Black Swamp Conservancy and submit a completion report to the U.S. EPA by February 28, 2014, designating the conclusion of all agreed to conservation efforts. Our accrual as of September 30, 2012 includes the full amount of the civil penalty and other amounts payable under the CAFO.

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 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 ten misdemeanor FIFRA counts in connection with the former employee's conduct and one misdemeanor FIFRA count in connection with the misapplication of insecticide to wild bird food products. As part of the agreement, Scotts Miracle-Gro was required to pay a $4.0 million penalty to the United States and to provide $0.1 million to each of five 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. As part of 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. The United States District Court for the Southern District of Ohio accepted the plea on March 13, 2012, and the sentence was imposed on September 7, 2012, resolving the U.S. DOJ investigation into our pesticide product registration issues. Our accrual as of September 30, 2012 includes the full amount of the criminal penalty and other amounts payable under the Plea Agreement.

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 accrual noted above, were pre-tax charges of $8.2 million, $14.6 million and $8.7 million for the fiscal years ended September 30, 2012, 2011 and 2010, respectively. We may be subject to additional judgments, settlements, fines and/or penalties as a result of state or private actions. No reserves have been established for any such potential liabilities related to state or private actions arising in connection with the product registration and recall issues at this time.

Additionally, in connection with the sale of wild bird food products that were the subject of the recall discussed in “ITEM 1. BUSINESS - Regulatory Considerations”, the Company has been named as a defendant in four putative class actions filed on and after June 27, 2012, which have now been consolidated in the United States District Court for the Southern District of California as In re Morning Song Bird Food Litigation, Lead Case No. 3:12-cv-01592-JAH-RBB. The plaintiffs allege various statutory and common law claims associated with the Company's sale of wild bird food products. The plaintiffs seek on behalf of themselves and various purported class members monetary damages, restitution, injunctive relief, declaratory relief, attorney's fees, interest and costs. The Company intends to vigorously defend the consolidated action. Given the early stages of the action, the Company cannot make a determination as to whether it could have a material effect on the Company's financial condition, results of operations or cash flows and

has not created any accruals or accounting reserves with respect thereto.
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.

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Results of Operations

We classified our professional seed business, Global Pro and Smith & Hawken as discontinued operations, for all periods presented, beginning in our fourth quarter of fiscal 2012, our first quarter of fiscal 2011 and our first quarter of fiscal 2010, respectively. As a result, and unless specifically stated, all discussions regarding results for the fiscal years ended September 30, 2012, 2011 and 2010 reflect results from our continuing operations.

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

	Year Ended September 30,		
	2012	2011	2010
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	66.0	63.2	62.1
Cost of sales—impairment, restructuring and other charges	—	0.7	—
Cost of sales – product registration and recall matters	—	0.1	0.1
Gross profit	34.0	36.0	37.8
Operating expenses:			
Selling, general and administrative	25.0	24.4	24.1
Impairment, restructuring and other charges	0.3	1.3	0.6
Product registration and recall matters	0.3	0.4	0.2
Other income, net	(0.1)	—	(0.2)
Income from operations	8.5	9.9	13.1
Costs related to refinancing	—	0.1	—
Interest expense	2.2	1.8	1.5
Income from continuing operations before income taxes	6.3	8.0	11.6
Income tax expense from continuing operations	2.4	3.0	4.3
Income from continuing operations	3.9	5.0	7.3
Income (loss) from discontinued operations, net of tax	(0.2)	1.0	(0.1)
Net income	3.7 %	6.0 %	7.2 %

Net Sales

Net sales for fiscal 2012 increased 0.9% to $2.83 billion from $2.80 billion in fiscal 2011. Net sales for fiscal 2011 decreased 2.6% from $2.87 billion in fiscal 2010. The change in net sales was attributable to the following:

	Year Ended September 30,	
	2012	2011
Volume	0.7 %	(4.6)%
Pricing	0.7	1.0
Foreign exchange rates	(0.7)	0.9
Acquisitions	0.2	0.1
Change in net sales	0.9 %	(2.6)%

The increase in net sales for the year ended September 30, 2012 was primarily driven by;

- increased volume in our Global Consumer segment, driven by an increase in sales within the U.S. of mulch and controls products, offset by declines within the U.S. of wild bird food, grass seed and plant food products; international sales were flat to fiscal 2011, excluding changes in foreign exchange rates;
- increased volume within our Scotts LawnService® segment driven by higher customer count;
- increased sales in Corporate & Other 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 result of the strengthening of the U.S. dollar relative to other currencies.

The decrease in net sales for the year ended September 30, 2011 was primarily driven by;

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- decreased volume in our Global Consumer segment, driven by a decrease in U.S. Consumer sales as a result of poor weather in the peak weeks of spring and fall lawn and garden seasons as well as lower sales in the mass merchant retail channel;
- partially offset by favorable impact of foreign exchange rates as a result of the weakening of the U.S. dollar relative to other currencies;
- increases in sales in Corporate & Other, related to ICL supply agreements, which were entered into in connection with the sale of Global Pro in February 2011;
- an increase in sales within our International Consumer business associated with product innovation.

Cost of Sales

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

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Materials	$1,142.2	$1,079.5	$1,093.8
Manufacturing labor and overhead	321.9	319.3	323.5
Distribution and warehousing	320.7	306.5	302.1
Roundup® reimbursements	79.6	63.7	65.0
	1,864.4	1,769.0	1,784.4
Impairment, restructuring and other charges	—	18.3	—
Product registration and recall matters	0.4	3.2	3.0
	$1,864.8	$1,790.5	$1,787.4

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

	Year Ended September 30,	
	2012	2011
	(In millions)	
Material costs	$68.3	$10.1
Volume and product mix	25.4	(42.4)
Roundup® reimbursements	15.9	(1.3)
Foreign exchange rates	(14.2)	18.2
	95.4	(15.4)
Impairment, restructuring and other charges	(18.3)	18.3
Product registration and recall matters	(2.9)	0.2
Change in cost of sales	$74.3	$3.1

The increase in cost of sales, excluding impairment, restructuring and other charges, and product registration and recall matters for fiscal 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 distribution costs resulting from 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.

The decrease in cost of sales, excluding impairment, restructuring and other charges, and product registration and recall matters for fiscal 2011 was primarily driven by:

- impact of decreased net sales;
- lower reimbursements attributable to our marketing agreement with Monsanto;

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- partially offset by increased material costs primarily related to wild bird food grains, diesel and gasoline;
- favorable impact of foreign exchange rate as a result of the weakening of the U.S dollar relative to other currencies.

Gross Profit

As a percentage of net sales, our gross profit rate was 34.0% for fiscal 2012 compared to 36.0% for fiscal 2011. As a percentage of net sales, our gross profit rate was 36.0% for fiscal 2011 compared to 37.8% for fiscal 2010. Factors contributing to the change in gross profit rate are outlined in the following table:

	Year Ended September 30,			
	2012		2011	
Pricing	0.5	%	0.3	%
Material costs	(2.5	)	(0.3	)
Product mix and volume:				
Roundup® commissions and reimbursements	(0.1	)	(0.2	)
Corporate & Other	(0.2	)	(0.4	)
Global Consumer mix and volume	(0.5	)	(0.5	)
	(2.8	)	(1.1	)
Impairment, restructuring and other charges	0.7		(0.7	)
Product registration and recall matters	0.1		—	
Change in gross profit rate	(2.0	)%	(1.8	)%

The decrease in the gross profit rate, excluding impairment, restructuring and other charges and product registration and recall matters, for fiscal 2012, was primarily driven by:

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

The decrease in the gross profit rate, excluding impairment, restructuring and other charges and product registration and recall matters, for fiscal 2011, was primarily driven by:

- unfavorable product mix as a a result of increased sales within Corporate & Other at reduced margin rates (including sales attributed to ICL supply agreements at zero margin), reduced Roundup® commissions and lower sales of high margin lawn care products;
- increased material costs;
- reduced leverage of fixed manufacturing and warehousing costs driven by lower volume within U.S. Consumer;
- partially offset by increased pricing, net of higher cost consumer promotional programs through our trade partners.

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Selling, General and Administrative Expenses

The following table shows the major components of Selling, General and Administrative expenses (“SG&A”):

	Year Ended September 30,		
	2012	2011	2010
	(In millions, except percentage figures)		
Advertising	$168.9	$140.7	$140.7
Advertising as a percentage of net sales	6.0 %	5.0 %	4.9 %
Share-based compensation	12.5	15.9	16.1
Research and development	50.8	50.9	47.3
Amortization of intangibles	8.2	9.5	9.8
Other selling, general and administrative	465.3	469.3	478.7
	$705.7	$686.3	$692.6

Advertising expense increased $28.2 million or 20.0% to $168.9 million in fiscal 2012 compared to $140.7 million in fiscal 2011. This increase was primarily attributable to our Global Consumer segment. The change in our Global Consumer segment was driven by our planned increase in media and marketing initiatives, partially offset by $1.1 million of changes in foreign currency rates. A portion of the originally planned increase was classified as trade promotion expense, which is recorded within net sales. Advertising expense in fiscal 2011 was flat compared to fiscal 2010.

Share-based compensation decreased $3.4 million or 21.4% to $12.5 million in fiscal 2012 compared to $15.9 million in fiscal 2011. The decrease in share-based compensation expense in fiscal 2012 was primarily due to the acceleration of expense in fiscal 2011 for certain terminated employees. Fiscal 2011 share-based compensation expense was roughly flat to fiscal 2010. The majority of our share-based awards vest over three years, with the associated expense recognized ratably over the vesting period. In certain cases, such as individuals who are eligible for early retirement based on their age and years of service, the vesting period is shorter than three years.

Amortization expense was $8.2 million in fiscal 2012, compared to $9.5 million and $9.8 million in fiscal 2011 and fiscal 2010, respectively. The decline in fiscal 2012 was driven by assets that became fully amortized in fiscal 2011 and due to impairment of certain intangible assets in fiscal 2011. The decline in fiscal 2011 was driven by assets that became fully amortized in fiscal 2010.

Other SG&A was roughly flat in fiscal 2012 compared to fiscal 2011, declining $4.0 million, or 0.9%. In fiscal 2011, Other SG&A spending decreased $9.4 million, or 2.0%, from fiscal 2010. The primary driver of the decrease was lower variable compensation expense, partially offset by the full year impact associated with operating two additional regional offices which opened in the second half of fiscal 2010, increased bad debt expense associated with a customer bankruptcy in fiscal 2011, and various other expenses including incremental marketing and research and development costs.

Impairment, Restructuring and Other Charges (included in SG&A)

The following tables shows the breakdown of Impairment, Restructuring and Other Charges (included in SG&A):

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Restructuring and other charges	$1.8	$18.2	$—
Property, plant and equipment impairments	2.1	—	—
Goodwill and intangible asset impairments	3.2	19.4	18.5
	$7.1	$37.6	$18.5

In fiscal 2012, in continuation of the 2011 restructuring plan, we incurred an additional $1.6 million in restructuring costs related to termination benefits provided to employees who accepted voluntary retirement and special termination benefits provided to certain employees upon future separation as well as $0.2 million related to curtailment charges for our U.S. defined benefit pension and U.S retiree medical plans. Additionally, we 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. Further, we have previously expensed product development and marketing costs associated with the previously planned launch of products containing MAT 28 and are evaluating our options for recovering those costs.

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In fiscal 2011 we recorded restructuring charges designed to streamline management decision making and continue the regionalization of our operating structure, with the objective of reinvesting the savings generated in innovation and growth initiatives. During fiscal 2011, we incurred $23.7 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 our U.S. defined benefit pension and U.S. retiree medical plans. In addition, we recognized charges of $2.3 million for other intangible asset impairments and $1.4 million for restructuring and other charges.

Our annual impairment review, which includes goodwill and indefinite-lived intangibles, is performed as of the first day of our fourth quarter. Our fourth quarter fiscal 2011 impairment analysis resulted in a non-cash charge of $17.1 million, primarily attributed to the intangible assets and goodwill associated with our wild bird food business, including the Morning Song® tradename. Losses generated by this business over the past two years combined with a revised long-term outlook have negatively impacted the value of the business.

Our fourth quarter fiscal 2010 impairment analysis resulted in a non-cash charge of $18.5 million related to discontinuing or de-emphasizing certain brands and sub-brands, which is consistent with our business strategy to increasingly concentrate our advertising and promotional spending on fewer, more significant brands to more efficiently drive growth.

Product Registration and Recall Matters (included in SG&A)

Product registration and recall costs were $7.8 million in fiscal 2012, compared to $11.4 million and $5.7 million in fiscal 2011 and fiscal 2010, respectively. Fiscal 2012 and fiscal 2011 costs include additional reserves established in connection with the U.S. EPA and U.S. DOJ investigations, as well as third-party compliance review, legal and consulting fees. Fiscal 2010 costs primarily related to third-party compliance review, legal and consulting fees.

Other Income, net

Other income, net, was $2.9 million, $0.9 million and $5.6 million in fiscal 2012, fiscal 2011 and fiscal 2010 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 fiscal 2012 changes from fiscal 2011 were not significant. The decrease in fiscal 2011 was primarily due to the non-recurrence of gains recognized in fiscal 2010 on the sale of property and other miscellaneous asset disposals.

Income from Operations

Income from operations in fiscal 2012 was $243.6 million compared to $274.8 million in fiscal 2011, a decrease of $31.2 million, or 11.4%. Excluding impairment, restructuring and other charges and product registration and recall costs, income from operations decreased by $86.4 million, or 25.0%, in fiscal 2012, primarily driven by lower gross profit rates and additional SG&A spending.

Income from operations in fiscal 2011 was $274.8 million compared to $374.4 million in fiscal 2010, a decrease of $99.6 million, or 26.6%. Excluding impairment, restructuring and other charges and product registration and recall costs, income from operations decreased by $56.3 million, or 14.0%, in fiscal 2011, primarily driven by decreased net sales and lower gross margin rates, partially offset by a decrease in SG&A spending.

Interest Expense

Interest expense in fiscal 2012 was $61.8 million compared to $51.0 million and $43.2 million in fiscal 2011 and fiscal 2010, respectively. The increase in fiscal 2012 was primarily due to an increase in our average borrowings. Excluding the impact of foreign exchange rates, average borrowings increased by approximately $118.3 million during fiscal 2012.

The increase in fiscal 2011 was primarily due to an increase in weighted average interest rates as a result of our fiscal 2011 refinancing activities, partially offset by a decrease in average borrowings. Weighted average interest rates increased by approximately 118 basis points in fiscal 2011 compared to fiscal 2010. Excluding the impact of foreign exchange rates, average borrowings decreased by approximately $87.3 million during fiscal 2011. In fiscal 2011, we also wrote-off $1.2 million of deferred financing fees as a result of refinancing our credit facility.

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Income Tax Expense

A reconciliation of the federal corporate income tax rate and the effective tax rate on income from continuing operations before income taxes is summarized below:

	Year Ended September 30,		
	2012	2011	2010
Statutory income tax rate	35.0 %	35.0 %	35.0 %
Effect of foreign operations	(0.5)	(0.3)	(0.2)
State taxes, net of federal benefit	3.1	2.8	2.9
Domestic production activities deduction permanent difference	(1.5)	(2.3)	(1.3)
Effect of other permanent differences	2.4	1.9	0.6
Research and experimentation and other federal tax credits	(0.1)	(0.2)	—
Resolution of prior tax contingencies	(0.9)	0.7	0.3
Other	0.2	(0.4)	—
Effective income tax rate	37.7 %	37.2 %	37.3 %

The effective tax rate for continuing operations was 37.7% for fiscal 2012, compared to 37.2% for fiscal 2011 and 37.3% for fiscal 2010. Excluding reserves established for product registrations and recall matters, the effective tax rate for continuing operations was 36.5% and 36.0% for fiscal 2012 and fiscal 2011 respectively. Excluding the income tax expense related to the disallowance of the Medicare Part D tax deduction, the effective tax rate for continuing operations was 36.7% for fiscal 2010. Additional factors impacting the fiscal 2010 effective tax rate were an increase in state tax rates as well as the expiration of the research and development tax credit.

Income and Earnings per Share from Continuing Operations

We reported income from continuing operations of $113.2 million, or $1.82 per diluted share, in fiscal 2012 compared to income from continuing operations of $139.9 million, or $2.11 per diluted share, in fiscal 2011. In fiscal 2012, we incurred costs of $7.1 million relating to impairment, restructuring and other charges, as well as $8.2 million in costs associated with product registration and recall matters. In fiscal 2011, we incurred $55.9 million of impairment, restructuring and other charges, as well as $14.6 million in costs associated with product registration and recall matters. Excluding these items, adjusted income from continuing operations was $124.9 million in fiscal 2012 compared to $187.2 million in fiscal 2011, a decrease of $62.3 million, primarily driven by lower gross margin rates, higher SG&A spending and interest expense. Diluted weighted-average common shares outstanding decreased from 66.2 million in fiscal 2011 to 62.1 million in fiscal 2012. The decrease was primarily driven by repurchases of our common shares and a decrease in the number of dilutive equivalent shares, partially offset by the exercise of stock options. Dilutive equivalent shares for fiscal 2012 and fiscal 2011 were 1.1 million and 1.5 million, respectively. The decrease in equivalent shares was due to a decrease in our average share price.

We reported income from continuing operations of $139.9 million, or $2.11 per diluted share, in fiscal 2011 compared to income from continuing operations of $207.7 million, or $3.07 per diluted share, in fiscal 2010. In fiscal 2011, we incurred costs of $55.9 million relating to impairment, restructuring and other charges, as well as $14.6 million in costs associated with product registration and recall matters. In fiscal 2010, we incurred $18.5 million of impairment charges, as well as $8.7 million in costs associated with product registration and recall matters. Excluding these items, adjusted income from continuing operations was $187.2 million in fiscal 2011 compared to $226.0 million in fiscal 2010, a decrease of $38.8 million, primarily driven by decreased net sales, lower gross profit rates and higher interest expense, and partially offset by a decrease in SG&A spending. Diluted weighted-average common shares outstanding decreased from 67.6 million in fiscal 2010 to 66.2 million in fiscal 2011. The decrease was primarily driven by repurchases of our common shares, partially offset by the exercise of stock options and by an increase in the number of dilutive equivalent shares. Dilutive equivalent shares for fiscal 2011 and fiscal 2010 were 1.5 million and 1.3 million, respectively. The increase in equivalent shares was due to additional equity based grants and an increase in our average share price.

Income from Discontinued Operations

In our fourth quarter of fiscal 2012, we completed the wind down of the professional seed business. As a result, we began presenting this business within discontinued operations. In our second quarter of fiscal 2011 we completed the sale of Global Pro to ICL. As a result of the then-pending sale, effective in the first quarter of fiscal 2011, we began presenting Global Pro as discontinued operations. Further, in our first quarter of fiscal 2010, we began presenting Smith & Hawken as discontinued operations. Prior periods have been reclassified to conform to these presentations.

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Loss from discontinued operations, net of tax, was $6.7 million in fiscal 2012, while income of $28.0 million and a loss of $3.6 million were recognized in fiscal 2011 and fiscal 2010, respectively. Fiscal 2012 includes expenses associated with the wind down and disposal of the non-European professional seed business. Fiscal 2011 includes a net after-tax gain of $39.5 million on the sale of Global Pro to ICL. Fiscal 2010 is comprised of $11.9 million of income relating to Global Pro's operations and $18 million from the sale of the Smith & Hawken intellectual property, offset by costs associated with the final closure activities of Smith & Hawken.

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. We have made reclassifications to prior period segment amounts as a result of the change in our internal organization structure associated with the sale of a significant majority of our previously reported Global Professional segment, which is now reported in discontinued operations. Corporate & Other includes 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.

We evaluate segment performance based on several factors, including income from continuing operations before amortization, product registration and recall costs, and impairment, restructuring and other charges. Management uses this measure of operating profit to evaluate segment performance because we believe this measure is the most indicative of performance trends and the overall earnings potential of each segment.

The following tables present segment information:

Net Sales by Segment

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Global Consumer	$2,539.2	$2,533.2	$2,649.7
Scotts LawnService®	245.8	235.6	224.1
Segment total	2,785.0	2,768.8	2,873.8
Corporate & Other	41.1	30.9	(0.8)
Consolidated	$2,826.1	$2,799.7	$2,873.0

Income from Continuing Operations before Income Taxes by Segment

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Global Consumer	$338.3	$425.0	$490.1
Scotts LawnService®	27.0	25.9	21.0
Segment total	365.3	450.9	511.1
Corporate & Other	(96.3)	(95.0)	(99.6)
Intangible asset amortization	(10.1)	(10.6)	(9.9)
Product registration and recall matters	(8.2)	(14.6)	(8.7)
Impairment, restructuring and other charges	(7.1)	(55.9)	(18.5)
Costs related to refinancing	—	(1.2)	—
Interest expense	(61.8)	(51.0)	(43.2)
Consolidated	$181.8	$222.6	$331.2

Global Consumer

Global Consumer segment net sales increased 0.2% from $2.53 billion in fiscal 2011 to $2.54 billion in fiscal 2012. The increase in fiscal 2012 net sales was favorably impacted by volume and pricing of 0.4% and 0.6%, respectively, offset by unfavorable foreign exchange rates of 0.8%. Net sales in the U.S. increased by 1.3%, driven by an increase in pricing, higher sales of our controls and mulch products, and the national launch of our new Scotts Snap® spreader system, partially offset by declines in

sales of grass seed, wild bird food and plant food products. International Consumer net sales decreased 4.0% in fiscal 2012, primarily attributable to the unfavorable effect of foreign currency changes as a result of the strengthening of the U.S. dollar relative to other currencies. Excluding the impact of in foreign currency rates, net sales in International Consumer were roughly flat compared to fiscal 2011.

Global Consumer segment income for fiscal 2012 was $338.3 million, a decrease of $86.7 million, or 20.4%, compared to fiscal 2011. Excluding the impact of foreign exchange movements, segment income decreased by $85.6 million, or 20.1%, from fiscal 2011. The decrease in segment income for fiscal 2012 was primarily driven by a gross margin rate decline and an increase in SG&A expenses. The decreased gross profit rate was primarily the result of increased material costs primarily due to packaging and fertilizer inputs, negative product mix within the U.S. driven by increased sales of mulch products, and increased distribution and warehousing as a result of an early season surge in consumer activity and continued and unplanned surge in mulch volume. The increase in SG&A spending primarily related to costs associated with our planned increase in media and marketing initiatives.

Global Consumer segment net sales declined 4.4% from $2.65 billion in fiscal 2010 to $2.53 billion in fiscal 2011. Excluding the impact of foreign exchange movements, net sales in the Global Consumer segment decreased 5.4% in fiscal 2011, which includes a favorable impact from price increases of 1.1%. Net sales in the U.S. decreased 6.8% as a result of poor weather in the peak weeks of spring and fall lawn and garden seasons as well as lower sales in the mass merchant retail channel. The decline in net sales is also attributed to increased promotional programs through our trade partners and reduced inventories at our retailers. Excluding the impact of foreign exchange movements, International Consumer net sales increased 1.1% in fiscal 2011, primarily attributable to unit volume growth as a result of product innovation and slight increases in net pricing. The increase in International Consumer net sales was primarily driven by strong growth in Canada and Central Europe.

Global Consumer segment income for fiscal 2011 was $425.0 million, a decrease of $65.1 million, or 13.3%, compared to fiscal 2010. Excluding the impact of foreign exchange movements, segment income decreased by $73.1 million, or 14.9%, for fiscal 2011. The decrease in segment income for fiscal 2011 was primarily driven by the decrease in net sales, a gross profit rate decline of 100 basis points and an increase in SG&A expenses. The decreased gross profit rate was primarily the result of unfavorable sales mix, higher consumer promotional programs, increased material costs and reduced leverage of fixed manufacturing and warehousing costs. The increase in SG&A spending primarily related to costs associated with the full year impact of operating two additional regional offices which opened in the second half of fiscal 2010, increased expenses for marketing and research and development activities, partially offset by a decrease in variable compensation expense.

Scotts LawnService®

Scotts LawnService® net sales increased by $10.2 million, or 4.3%, to $245.8 million in fiscal 2012, primarily due to increased customer retention, fully year impact of acquisitions and new customer sales. Scotts LawnService® segment income increased $1.1 million to $27.0 million in fiscal 2012. The improved operating results were driven by higher net sales and improved labor productivity, partially offset by higher product costs and SG&A, which was primarily the outcome of higher performance based variable compensation.

Scotts LawnService® net sales increased by $11.5 million, or 5.1%, to $235.6 million in fiscal 2011, primarily due to improved sales efforts, higher customer satisfaction rates and improved customer retention. Scotts LawnService® segment income increased $4.9 million to $25.9 million in fiscal 2011. The improved operating results were driven by higher sales and lower SG&A spending, partially offset by a decline in the gross margin rate as a result of higher fuel and urea costs, investments in mobile technology for service trucks and higher benefits costs.

Corporate & Other

Net sales for Corporate & Other increased $10.2 million to $41.1 million in fiscal 2012, primarily due to our ICL supply agreements, which commenced shortly after the sale of Global Pro in our second quarter of fiscal 2011. Net expense for Corporate & Other increased by $1.3 million in fiscal 2012, driven by increased variable compensation of $1.3 million.

Net sales for Corporate & Other were $30.9 million in fiscal 2011, primarily due to our ICL supply agreements, which commenced shortly after the sale of Global Pro in our second quarter of fiscal 2011. Net expense for Corporate & Other decreased by $4.6 million in fiscal 2011, driven by a decline in variable compensation, partially offset by severance costs, consulting fees and the non-recurrence of a gain recorded on the sale of property in fiscal 2010.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities increased by $31.3 million to $153.4 million in fiscal 2012 from $122.1 million in fiscal 2011. Excluding the impact of discontinued operations, cash provided by operating activities decreased by $48.2 million to $143.1 million in fiscal 2012 compared to a decrease of $118.1 million in fiscal 2011. Excluding discontinued operations and non-

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cash operating expenses, income from continuing operations decreased by approximately $24.7 million primarily due to lower gross profit rates and higher advertising expenses.

Cash provided by operating activities decreased by $173.8 million to $122.1 million in fiscal 2011 from $295.9 million in fiscal 2010. Excluding the impact of discontinued operations, cash provided by operating activities decreased by $118.1 million to $191.3 million in fiscal 2011 compared to $309.4 million in fiscal 2010. Excluding discontinued operations and non-cash operating expenses, income from continuing operations decreased by approximately $60.6 million primarily due to lower net sales and lower gross profit rates. In addition, operating cash flows were used to support higher working capital for continuing operations, which increased by approximately $57.2 million in fiscal 2011. This decrease was driven by higher inventories as a result of lower than anticipated sales and a decline in other current liabilities primarily due to lower variable compensation accruals.

The seasonal nature of our operations generally requires cash to fund significant increases in inventories during the first half of the fiscal year. Receivables and payables also build substantially in the second quarter of the fiscal year in line with the timing of sales to support our retailers' spring selling season. These balances liquidate during the June through September period as the lawn and garden season unwinds. Unlike our core Global Consumer segment, Scotts LawnService® typically has its highest receivables balance in the fourth quarter because of the seasonal timing of customer applications and service revenues.

Investing Activities

Cash used in investing activities totaled $75.7 million in fiscal 2012, as compared to cash provided by investing activities of $153.5 million for fiscal 2011. The change in our investing activities was primarily driven by the cash received from the sale of our Global Pro business, which generated $253.6 million in cash in fiscal 2011. Capital spending decreased from $72.7 million in fiscal 2011 to $69.4 million in fiscal 2012. Significant capital projects during fiscal 2012 included a new growing media plant in Texas, additional capital for our liquid production facilities in Iowa and Mississippi, improvements at various other growing media production facilities and investments in information technology. Further, during fiscal 2012 we completed an acquisition within our Global Consumer segment with total cash paid of $6.7 million.

Cash provided by investing activities totaled $153.5 million in fiscal 2011, as compared to cash used in investing activities of $58.9 million for fiscal 2010. Fiscal 2011 investing activities included net cash of $253.6 million provided by the sale of Global Pro business. In fiscal 2010, we received cash of $24.5 million for the sale of long-lived assets, primarily for the intellectual property of Smith & Hawken. Capital spending decreased from $83.4 million in fiscal 2010 to $72.7 million in fiscal 2011. Significant capital projects during fiscal 2011 included a new growing media plant in Missouri, additional capital for our liquid production facility in Mississippi, improvements at various other growing media production facilities and investments in information technology. Further, during fiscal 2011 we completed several acquisitions with total cash paid of $7.6 million.

For the three years ended September 30, 2012, our capital spending was allocated as follows: 51.6% for expansion and maintenance of existing Global Consumer productive assets; 27.1% for new productive assets supporting our Global Consumer segment; 12.1% to expand our information technology and transformation and integration capabilities; 2.0% for expansion and upgrades of Scotts LawnService® infrastructure; and 7.2% for Corporate & Other assets.

Financing Activities

Financing activities used cash of $79.3 million and $230.7 million in fiscal 2012 and fiscal 2011, respectively. Cash returned to shareholders through dividends of $75.4 million and the repurchasing of Common Shares of $17.5 million were significant elements of cash used in financing activities in fiscal 2012. Net payments under our credit facilities were $10.6 million in fiscal 2012, compared to $22.0 million in fiscal 2011. Financing activities also included a decrease in cash received from the exercise of stock options of $13.9 million in fiscal 2012 compared to fiscal 2011.

Financing activities used cash of $230.7 million and $216.3 million in fiscal 2011 and fiscal 2010, respectively. Cash returned to shareholders through Common Share repurchases of $358.7 million and dividends of $67.9 million were significant elements of cash used in financing activities in fiscal 2011. Net repayments under our credit facilities were $22.0 million in fiscal 2011, compared to $370.0 million in fiscal 2010. Financing activities in fiscal 2011 also included debt financing and issuance fees of $18.9 million attributable to the refinancing of our then existing credit facilities in June 2011 and our $200.0 million bond offering in December 2010, the proceeds of which were used to reduce outstanding borrowings under our then existing credit facilities and for general corporate purposes. In addition, cash received from the exercise of stock options increased by $9.0 million in fiscal 2011 compared to fiscal 2010.

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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 $131.9 million as of September 30, 2012, compared to $130.9 million as of September 30, 2011. The cash and cash equivalents balance at September 30, 2012 included $118.6 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 if we sell or liquidate any of these foreign corporations, we may be required to pay associated taxes on the repatriation.

Borrowing Arrangements

Our primary sources of liquidity are cash generated by operations and borrowings under our credit agreement which is guaranteed by substantially all of our domestic subsidiaries. On June 30, 2011, we and certain of our 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 years 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 the 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.

The terms of the credit facility provide for customary representations and warranties and affirmative covenants. The credit facility also contains customary negative covenants setting forth limitations, subject to negotiated carve-outs on liens; contingent obligations; fundamental changes; acquisitions, investments, loans and advances; indebtedness; restrictions on subsidiary distributions; transactions with affiliates and officers; sales of assets; sale and leaseback transactions; changing our fiscal year end; modifications of certain debt instruments; negative pledge clauses; entering into new lines of business; and restricted payments, which are limited 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. The credit facility is secured by collateral that includes the capital stock of specified subsidiaries, substantially all domestic accounts receivable (exclusive of any “sold” receivables), inventory and equipment. The credit facility is guaranteed by substantially all of our domestic subsidiaries.

Under our credit facility, we have the ability to issue letter of credit commitments up to $75 million. At September 30, 2012, the Company had letters of credit in the aggregate face amount of $25.9 million outstanding, and $1.3 billion of availability under its credit facility. “NOTE 11. DEBT” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K provides additional information regarding our borrowing arrangements.

On January 14, 2010, we issued $200 million aggregate principal amount of 7.25% Senior Notes due 2018 (the “7.25% Senior Notes”). The net proceeds of the offering were used to reduce outstanding borrowings under our then existing credit facilities. The 7.25% Senior Notes represent general unsecured senior obligations, and were sold to the public at 99.254% of the principal amount thereof, to yield 7.375% to maturity. The 7.25% Senior Notes have interest payment dates of January 15 and July 15 of each year, which began on July 15, 2010 and may be redeemed prior to maturity at applicable redemption premiums. The 7.25% Senior Notes contain usual and customary incurrence-based covenants, which include, but are not limited to, restrictions on the incurrence of additional indebtedness, the incurrence of liens and the issuance of certain preferred shares, and the making of certain distributions, investments and other restricted payments, as well as other usual and customary covenants, which include, but are not limited to, restrictions on sale and leaseback transactions, restrictions on purchases or redemptions of Scotts Miracle-Gro stock and prepayments of subordinated debt, limitations on asset sales and restrictions on transactions with affiliates. The 7.25% Senior Notes mature on January 15, 2018. Substantially all of our domestic subsidiaries serve as guarantors of the 7.25% Senior Notes.

On December 16, 2010, we issued $200 million aggregate principal amount of 6.625% Senior Notes due 2020 (the “6.625%" Senior Notes”) in a private placement exempt from the registration requirements under the Securities Act of 1933, as amended. The net proceeds of the offering were used to repay outstanding borrowings under our then existing credit facilities and for general corporate purposes. The 6.625% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the our existing and future unsecured senior debt, including, without limitation, the 7.25% Senior Notes. The 6.625% Senior Notes have interest payment dates of June 15 and December 15 of each year, which began on June 15, 2011, and may be redeemed prior to maturity at applicable redemption premiums. The 6.625% Senior Notes contain usual and customary incurrence-based covenants, as well as other usual and customary covenants, substantially similar to those contained in the 7.25% Senior Notes. The 6.625% Senior Notes mature on December 15, 2020. Substantially all of our domestic subsidiaries serve as guarantors of the 6.625% Senior Notes.

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We are in compliance with the terms of all debt covenants at September 30, 2012. The credit facility contains, among other obligations, an affirmative covenant regarding our leverage ratio, calculated as average total indebtedness, as described in the our credit facility, relative to the our EBITDA, as adjusted pursuant to the terms of the credit facility ("Adjusted EBITDA"). Under the terms of the credit facility, the maximum allowable leverage ratio was 3.50 as of September 30, 2012. Our leverage ratio was 2.93 at September 30, 2012. Our 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 allowable interest coverage ratio was 3.50 for the year ended September 30, 2012. Our interest coverage ratio was 4.90 for the year ended September 30, 2012. The weighted average interest rates on average debt were 6.0% and 5.9% for fiscal 2012 and fiscal 2011, respectively. Please see "ITEM 6. SELECTED FINANCIAL DATA" of this Annual Report on Form 10-K for further details pertaining to the calculations of the foregoing ratios.

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

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

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

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

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

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

On November 15, 2012, we entered into a new Master Accounts Receivable Purchase Agreement (the "2012 MARP Agreement"), with an initial stated termination date of October 30, 2013, or such later date as may be mutually agreed by the Company and the banks party thereto. The 2012 MARP Agreement, which is uncommitted, provides for the discretionary sale by the Company, and the discretionary purchase by the banks, on a revolving basis, of accounts receivable generated by sales to three specified debtors in an aggregate amount not to exceed $400 million, with debtor sublimits ranging from $100 million to $200 million. Under the terms of the 2012 MARP Agreement, the banks have the opportunity, but not the obligation, to purchase those accounts receivable offered by us at a discount (from the agreed base value thereof) effectively equal to the greater of 7-day or 3-month LIBOR plus 0.75%. The 2012 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 two specified debtors in an aggregate amount not to exceed $325 million and an interest rate effectively equal to the greater of 7-day or 3-month LIBOR plus 1.05%. The previous Master Accounts Receivable Purchase Agreement expired on September 21, 2012. We account for the sale of receivables under the Master Accounts Receivable Purchase Agreements 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 no short-term borrowings under the Master Accounts Receivable Purchase Agreements as of September 30, 2012 and 2011.

We continue to monitor our compliance with the leverage ratio, interest coverage ratio and other covenants contained in the credit facility and, based upon our current operating assumptions, we expect to remain in compliance with the permissible leverage ratio and interest coverage ratio throughout fiscal 2013. However, an unanticipated charge to earnings, an increase in debt or other factors could materially affect our ability to remain in compliance with the financial or other covenants of our credit facility, potentially causing us to have to seek an amendment or waiver from our lending group which could result in repricing of our credit facility.

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In our opinion, cash flows from operations and capital resources will be sufficient to meet debt service, capital expenditures and working capital needs during fiscal 2013, and thereafter for the foreseeable future. However, we cannot ensure that our business will generate sufficient cash flow from operations or that future borrowings will be available under our credit facility in amounts sufficient to pay indebtedness or fund other liquidity needs. Actual results of operations will depend on numerous factors, many of which are beyond our control, as further discussed in "ITEM 1A. RISK FACTORS — Our indebtedness could limit our flexibility and adversely affect our financial condition" of this Annual Report on Form 10-K.

Judicial and Administrative Proceedings

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

Contractual Obligations

The following table summarizes our future cash outflows for contractual obligations as of September 30, 2012:

		Payments Due by Period			
Contractual Cash Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
	(In millions)				
Debt obligations	$782.6	$1.5	$1.5	$378.1	$401.5
Interest expense on debt obligations	268.1	52.1	104.2	78.3	33.5
Operating lease obligations	230.3	50.8	83.3	52.1	44.1
Purchase obligations	210.4	93.7	79.9	28.1	8.7
Other, primarily retirement plan obligations	67.0	10.7	23.9	15.6	16.8
Total contractual cash obligations	$1,558.4	$208.8	$292.8	$552.2	$504.6

We have long-term debt obligations and interest payments due primarily under the 7.25% and 6.625% Senior Notes and our credit facility. Amounts in the table represent scheduled future maturities of long-term debt principal for the periods indicated. The interest payments for our credit facility is based on outstanding borrowings as of September 30, 2012. Actual interest expense will likely be higher due to the seasonality of our business and associated higher average borrowings.

Purchase obligations primarily represent commitments for materials used in our manufacturing processes, as well as commitments for warehouse services, seed and out-sourced information services which comprise the unconditional purchase obligations disclosed in "NOTE 18. COMMITMENTS" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Other includes actuarially determined retiree benefit payments and pension funding to comply with local funding requirements. Pension funding requirements beyond fiscal 2013 are based on preliminary estimates using actuarial assumptions determined as of September 30, 2012. The above table excludes liabilities for unrecognized tax benefits and insurance accruals as the Company is unable to estimate the timing of the payment for these items.

Off-Balance Sheet Arrangements

At September 30, 2012, the Company had letters of credit in the aggregate face amount of $25.9 million outstanding. Further, the Company has residual value guarantees on Scotts LawnService® vehicles and the corporate aircraft as disclosed in "NOTE 17. OPERATING LEASES" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

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Regulatory Matters

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking actions aimed at ensuring compliance with, such laws and regulations. We are involved in several legal actions with various governmental agencies related to environmental matters, including those described in "ITEM 3. LEGAL PROCEEDINGS" of this Annual Report on Form 10-K and "NOTE 19. CONTINGENCIES" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. 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 "ITEM 1. BUSINESS — Regulatory Considerations" and "ITEM 3. LEGAL PROCEEDINGS" of this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Certain accounting policies are particularly significant, including those related to revenue recognition, goodwill and intangibles, certain associate benefits and income taxes. We believe these accounting policies, and others set forth in "NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K, should be reviewed as they are integral to understanding our results of operations and financial position. Our critical accounting policies are reviewed periodically with the Audit Committee of the Board of Directors of Scotts Miracle-Gro.

The preparation of financial statements requires management to use judgment and make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to customer programs and incentives, product returns, bad debts, inventories, intangible assets, income taxes, restructuring, environmental matters, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Although actual results historically have not deviated significantly from those determined using our estimates, our results of operations or financial condition could differ, perhaps materially, from these estimates under different assumptions or conditions.

Revenue Recognition and Promotional Allowances

Most of our revenue is derived from the sale of inventory, and we recognize revenue when title and risk of loss transfer, generally when products are received by the customer. Provisions for payment discounts, product returns and allowances are recorded as a reduction of sales at the time revenue is recognized based on historical trends and adjusted periodically as circumstances warrant. Similarly, reserves for uncollectible receivables due from customers are established based on management's judgment as to the ultimate collectability of these balances. We offer sales incentives through various programs, consisting principally of volume rebates, cooperative advertising, consumer coupons and other trade programs. The cost of these programs is recorded as a reduction of sales. The recognition of revenues, receivables and trade programs requires the use of estimates. While we believe these estimates to be reasonable based on the then current facts and circumstances, there can be no assurance that actual amounts realized will not differ materially from estimated amounts recorded.

Income Taxes

Our annual effective tax rate is established based on our pre-tax income (loss), statutory tax rates and the tax impacts of items treated differently for tax purposes than for financial reporting purposes. We record income tax liabilities utilizing known obligations and estimates of potential obligations. A deferred tax asset or liability is recognized whenever there are future tax effects from existing temporary differences and operating loss and tax credit carryforwards. Valuation allowances are used to reduce deferred tax assets to the balance that is more likely than not to be realized. We must make estimates and judgments on future taxable income, considering feasible tax planning strategies and taking into account existing facts and circumstances, to determine the proper valuation allowances. When we determine that deferred tax assets could be realized in greater or lesser amounts than recorded, the asset balance and consolidated statement of operations reflect the change in the period such determination is made. Due to changes in facts and circumstances and the estimates and judgments that are involved in determining the proper valuation allowances, differences between actual future events and prior estimates and judgments could result in adjustments to these valuation allowances. We use an estimate of our annual effective tax rate at each interim period based on the facts and circumstances available at that time, while the actual effective tax rate is calculated at year-end.

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Inventories

Inventories are stated at the lower of cost or market, principally determined by the first-in, first-out method of accounting, using an average costing approach. Inventories include the cost of raw materials, labor, manufacturing overhead and freight and in-bound handling costs incurred to pre-position goods in our warehouse network. Adjustments to net realizable value for excess and obsolete inventory are based on a variety of factors, including product changes and improvements, changes in active ingredient availability and regulatory acceptance, new product introductions and estimated future demand. The adequacy of our adjustments could be materially affected by changes in the demand for our products or regulatory actions.

Long-lived Assets, including Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is provided on the straight-line method and is based on the estimated useful economic lives of the assets. Intangible assets with finite lives, and therefore subject to amortization, include technology (e.g., patents), customer relationships and certain tradenames. These intangible assets are being amortized over their estimated useful economic lives typically ranging from 3 to 25 years. We review long-lived assets whenever circumstances change such that the indicated recorded value of an asset may not be recoverable and therefore impaired.

Goodwill and Indefinite-lived Intangible Assets

We have significant investments in intangible assets and goodwill. Our annual goodwill and indefinite-lived intangible asset testing is performed as of the first day of our fiscal fourth quarter or more frequently if circumstances indicate potential impairment. In our evaluation of goodwill and indefinite-lived intangible assets impairment, we perform either an initial qualitative or quantitative evaluation for each of our reporting units and indefinite-lived intangible assets. Factors considered in the qualitative test include operating results as well as new events and circumstances impacting the operations or cash flows of the reporting unit and indefinite-lived intangible assets. For the quantitative test, the review for impairment of goodwill and indefinite-lived intangible assets is primarily based on our estimates of discounted future cash flows, which are based upon annual budgets and longer-range strategic plans. These budgets and plans are used for internal purposes and are also the basis for communication with outside parties about future business trends. While we believe the assumptions we use to estimate future cash flows are reasonable, there can be no assurance that the expected future cash flows will be realized. As a result, impairment charges that possibly would have been recognized in earlier periods may not be recognized until later periods if actual results deviate unfavorably from earlier estimates. An asset’s value is deemed impaired if the discounted cash flows or earnings projections generated do not substantiate the carrying value of the asset. The estimation of such amounts requires management to exercise judgment with respect to revenue and expense growth rates, changes in working capital, future capital expenditure requirements and selection of an appropriate discount rate, as applicable. The use of different assumptions would increase or decrease discounted future operating cash flows or earnings projections and could, therefore, change impairment determinations.

Fair value estimates employed in our annual impairment review of indefinite-lived tradenames and goodwill were determined using discounted cash flow models involving several assumptions. Changes in our assumptions could materially impact our fair value estimates. Assumptions critical to our fair value estimates were: (i) discount rates used in determining the fair value of the reporting units and tradenames; (ii) royalty rates used in our tradename valuations; (iii) projected revenue and operating profit growth rates used in the reporting unit and tradename models; and (iv) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and may change in the future based on period specific facts and circumstances.

At September 30, 2012, goodwill totaled $309.4 million, with $182.1 million and $127.3 million of goodwill for Global Consumer and Scotts LawnService segments, respectively. No goodwill impairment was recognized as a result of the annual evaluation performed as of July 1, 2012. The estimated fair value of each reporting unit was substantially in excess of its carrying value as of the annual test date. At September 30, 2012, indefinite-lived intangible assets comprised of tradenames totaled $232.3 million. Each of these tradenames had an estimated fair value substantially in excess of its carrying value as of the annual test date, with the exception of the Ortho® tradename and French tradenames of KB® and Fertiligene®. The carrying value of the Ortho® tradename and French tradenames (KB® and Fertiligene®) at September 30, 2012 were $137.1 million and $17.7 million, respectively. The excess fair value over the carrying value of Ortho® tradename and French tradenames were 7.4% and 14.1%, respectively. If future analyses indicate that fair value has declined below carrying value, the result will be an impairment of a portion of the indefinite-lived intangible asset value.

Associate Benefits

We sponsor various post-employment benefit plans, including pension plans, both defined contribution plans and defined benefit plans, and other post-employment benefit (“OPEB”) plans, consisting primarily of health care for retirees. For accounting purposes, the defined benefit pension and OPEB plans are dependent on a variety of assumptions to estimate the projected and accumulated benefit obligations and annual expense determined by actuarial valuations. These assumptions include the following:

discount rate; expected salary increases; certain employee-related factors, such as turnover, retirement age and mortality; expected return on plan assets; and health care cost trend rates.

Assumptions are reviewed annually for appropriateness and updated as necessary. We base the discount rate assumption on investment yields available at fiscal year-end on high-quality corporate bonds that could be purchased to effectively settle the pension liabilities. The salary growth assumption reflects our long-term actual experience, the near-term outlook and assumed inflation. The expected return on plan assets assumption reflects asset allocation, investment strategy and the views of investment managers regarding the market. Retirement and mortality rates are based primarily on actual and expected plan experience. The effects of actual results that differ from our assumptions are accumulated and amortized over future periods.

Changes in the discount rate and investment returns can have a significant effect on the funded status of our pension plans and shareholders' equity. We cannot predict these discount rates or investment returns with certainty and, therefore, cannot determine whether adjustments to our shareholders' equity for pension-related activity in subsequent years will be significant. We also cannot predict future investment returns, and therefore cannot determine whether future pension plan funding requirements could materially affect our financial condition, results of operations or cash flows.

Insurance and Self-Insurance

We maintain insurance for certain risks, including workers' compensation, general liability and vehicle liability, and are self-insured for employee-related health care benefits up to a specified level for individual claims. We establish reserves for losses based on our claims experience and industry actuarial estimates of the ultimate loss amount inherent in the claims, including losses for claims incurred but not reported. Our estimate of self-insured liabilities is subject to change as new events or circumstances develop which might materially impact the ultimate cost to settle these losses.

Derivative Instruments

In the normal course of business, we are exposed to fluctuations in interest rates, the value of foreign currencies and the cost of commodities. A variety of financial instruments, including forward and swap contracts, are used to manage these exposures. Our objective in managing these exposures is to better control these elements of cost and mitigate the earnings and cash flow volatility associated with changes in the applicable rates and prices. We have established policies and procedures that encompass risk-management philosophy and objectives, guidelines for derivative-instrument usage, counterparty credit approval, and the monitoring and reporting of derivative activity. We do not enter into derivative instruments for the purpose of speculation.

Contingencies

As described more fully in "NOTE 19. CONTINGENCIES" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K, we are involved in significant environmental and legal matters which have a high degree of uncertainty associated with them. We continually assess the likely outcomes of these matters and the adequacy of reserves, if any, provided for their resolution. There can be no assurance that the ultimate outcomes of these matters will not differ materially from our current assessment of them, nor that all matters that may currently be brought against us are known by us at this time.

Other Significant Accounting Policies

Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed above, are also critical to understanding the consolidated financial statements. The Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K contain additional information related to our accounting policies, including recent accounting pronouncements, and should be read in conjunction with this discussion.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As part of our ongoing business, we are exposed to certain market risks, including fluctuations in interest rates, foreign currency exchange rates and commodity prices. Financial derivative and other instruments are used to manage these risks. These instruments are not used for speculative purposes.

Interest Rate Risk

We had variable rate debt instruments outstanding at September 30, 2012 and 2011 that are impacted by changes in interest rates. As a means of managing our interest rate risk on these debt instruments, we entered into interest rate swap agreements with major financial institutions to effectively fix the LIBOR index on certain variable-rate debt obligations.

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At September 30, 2012 and 2011, we had outstanding interest rate swap agreements with a total U.S. dollar equivalent notional value of $700.0 million and $900.0 million, respectively. The weighted average fixed rate of swap agreements outstanding at September 30, 2012 was 3.0%.

The following table summarizes information about our derivative financial instruments and debt instruments that are sensitive to changes in interest rates as of September 30, 2012 and 2011. For debt instruments, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swap agreements, the table presents expected cash flows based on notional amounts and weighted-average interest rates by contractual maturity dates. Weighted-average variable rates are based on rates in effect at September 30, 2012 and 2011. A change in our variable interest rate of 100 basis points for a full twelve-month period would have a $2.5 million impact on interest expense assuming approximately $250 million of our average fiscal 2012 variable-rate debt had not been hedged via an interest rate swap agreement. The information is presented in U.S. dollars (in millions):

	Expected Maturity Date						Total	Fair Value
2012	2013	2014	2015	2016	2017	After		
Long-term debt:								
Fixed rate debt	$—	$—	$—	$—	$—	$400.0	$400.0	$429.5
Average rate	—	—	—	—	—	6.9 %	6.9 %	—
Variable rate debt	$—	$—	$—	$377.1	$—	$—	$377.1	$377.1
Average rate	—	—	—	2.7 %	—	—	2.7 %	—
Interest rate derivatives:								
Interest rate swaps	$—	$—	$—	$(24.9)	$(3.9)	$—	$(28.8)	$(28.8)
Average rate	—	—	—	3.0 %	3.0 %	—	3.0 %	—

	Expected Maturity Date						Total	Fair Value
2011	2012	2013	2014	2015	2016	After		
Long-term debt:								
Fixed rate debt	$—	$—	$—	$—	$—	$400.0	$400.0	$404.1
Average rate	—	—	—	—	—	6.9 %	6.9 %	—
Variable rate debt	$—	$—	$—	$—	$387.2	$—	$387.2	$387.2
Average rate	—	—	—	—	5.2 %	—	5.2 %	—
Interest rate derivatives:								
Interest rate swaps	$(4.9)	$—	$—	$—	$(23.9)	$(2.5)	$(31.3)	$(31.3)
Average rate	5.2 %	—	—	—	2.8 %	3.0 %	3.3 %	—

Excluded from the information provided above are $5.5 million and $7.8 million at September 30, 2012 and 2011, respectively, of miscellaneous debt instruments.

Other Market Risks

Through fiscal 2012, we had transactions that were denominated in currencies other than the currency of the country of origin. We use foreign currency swap contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. At September 30, 2012, the notional amount of outstanding foreign currency swap contracts was $61.8 million with a negative fair value of $1.0 million. At September 30, 2011, the notional amount of outstanding foreign currency swap contracts was $217.9 million with a fair value of $2.7 million.

We are subject to market risk from fluctuating prices of certain raw materials, including urea, resins, diesel, gasoline, sphagnum peat, grass seed and wild bird food grains. Our objectives surrounding the procurement of these materials are to ensure continuous supply and to minimize costs. We seek to achieve these objectives through negotiation of contracts with favorable terms directly with vendors. In addition, we entered into arrangements to partially mitigate the effect of fluctuating direct and indirect fuel costs on our Global Consumer and Scotts LawnService® businesses and hedged a portion of our fuel and urea needs for fiscal 2012 and fiscal 2011. We had outstanding derivative contracts for approximately 11,984,000 gallons of fuel with a fair value of $1.2 million at September 30, 2012. We had outstanding derivative contracts for approximately 3,955,000 gallons of fuel with a negative fair value of $0.8 million at September 30, 2011. We also had outstanding derivative contracts for 34,500 and

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4,500 aggregate tons of urea at September 30, 2012 and 2011, respectively. The fair value of the outstanding derivative contracts for 34,500 aggregate tons at September 30, 2012 was $0.8 million, while the fair value of the outstanding derivative contracts for 4,500 aggregate tons at September 30, 2011 was $0.1 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and other information required by this Item are contained in the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Schedules Supporting the Consolidated Financial Statements listed in the "Index to Consolidated Financial Statements and Financial Statement Schedules" on page 48 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

With the participation of the principal executive officer and the principal financial officer of The Scotts Miracle-Gro Company (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 (the "Exchange Act")), as of the end of the fiscal year covered by this Annual Report on Form 10-K. 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 as of the end of the fiscal year covered by this Annual Report on Form 10-K.

Management's Annual Report on Internal Control Over Financial Reporting

The "Annual Report of Management on Internal Control Over Financial Reporting" required by Item 308(a) of SEC Regulation S-K is included on page 49 of this Annual Report on Form 10-K.

Attestation Report of Independent Registered Public Accounting Firm

The "Report of Independent Registered Public Accounting Firm" required by Item 308(b) of SEC Regulation S-K is included on page 50 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

On November 15, 2012, The Scotts Miracle-Gro Company (”Scotts Miracle-Gro") and its wholly-owned subsidiary, The Scotts Company LLC ("Scotts LLC"), entered into a Master Accounts Receivable Purchase Agreement (the "Agreement") by and among Scotts LLC, Scotts Miracle-Gro, Mizuho Corporate Bank, Ltd., as Administrative Agent and as a Bank ("Mizuho"), and The Bank of Nova Scotia, RB Receivables LLC and Suntrust Bank, as Banks (collectively with Mizuho, the "Banks").

The Agreement, which is uncommitted, provides for the discretionary sale by Scotts LLC, and the discretionary purchase by the Banks, on a revolving basis, of accounts receivable generated by sales to three specified debtors in an aggregate amount not to exceed $400 million, with debtor sublimits ranging from $100 million to $200 million. Under the terms of the Agreement, the Banks have the opportunity, but not the obligation, to purchase those accounts receivable offered by Scotts LLC at a discount (from the agreed base value thereof) effectively equal to the greater of 7-day or 3-month LIBOR plus 0.75%. Scotts LLC will continue to be responsible for the servicing and administration of the receivables sold to the Banks until the occurrence of a termination event under the Agreement.

The Agreement provides that although the specified accounts receivable may be sold to the Banks, the Banks have the right to require Scotts LLC to repurchase uncollected receivables on weekly settlement dates and upon the occurrence of certain termination events, including the breach of any covenant made by Scotts LLC or Scotts Miracle-Gro with respect to such receivables. The Banks do not have the right, however, to require Scotts LLC to repurchase any uncollected receivables if the receivables are not paid when due or cannot be paid solely as a result of the applicable debtor's financial inability to pay. Scotts LLC has the right at any time to repurchase receivables which have been sold to the Banks pursuant to the Agreement.

The terms of the Agreement include customary representations, warranties, covenants and indemnities for transactions of this type. All of Scotts LLC's obligations under the Agreement are guaranteed by Scotts Miracle-Gro. The Agreement has an initial stated termination date of October 30, 2013, which may be extended by mutual agreement of Scotts LLC and the Banks. Certain of the Banks, or their affiliates, have in the past provided investment or commercial banking services to Scotts Miracle-Gro and its affiliates for which they received customary fees and expenses and they may provide similar services in the future.

The Agreement replaces the previous Master Accounts Receivable Purchase Agreement, which expired on September 21, 2012.

The foregoing summary of the material terms of the Agreement is qualified in its entirety by reference to the Agreement, which is filed as Exhibit 10.16 to this Annual Report on Form 10-K and is incorporated herein by reference.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors, Executive Officers and Persons Nominated or Chosen to Become Directors or Executive Officers

The information required by Item 401 of SEC Regulation S-K concerning the directors of Scotts Miracle-Gro and the nominees for election or re-election as directors of Scotts Miracle-Gro at the Annual Meeting of Shareholders to be held on January 17, 2013 (the "2013 Annual Meeting") is incorporated herein by reference from the disclosure which will be included under the caption "PROPOSAL NUMBER 1 — ELECTION OF DIRECTORS" in Scotts Miracle-Gro's definitive Proxy Statement relating to the 2013 Annual Meeting ("Scotts Miracle-Gro's Definitive Proxy Statement"), which will be filed pursuant to SEC Regulation 14A not later than 120 days after the end of Scotts Miracle-Gro's fiscal year ended September 30, 2012.

The information required by Item 401 of SEC Regulation S-K concerning the executive officers of Scotts Miracle-Gro is incorporated herein by reference from the disclosure included under the caption "SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT" in Part I of this Annual Report on Form 10-K.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

The information required by Item 405 of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in Scotts Miracle-Gro's Definitive Proxy Statement.

Procedures for Recommending Director Nominees

Information concerning the procedures by which shareholders of Scotts Miracle-Gro may recommend nominees to Scotts Miracle-Gro's Board of Directors is incorporated herein by reference from the disclosures which will be included under the captions "CORPORATE GOVERNANCE — Nominations of Directors" and "MEETINGS AND COMMITTEES OF THE BOARD — Committees of the Board — Governance and Nominating Committee" in Scotts Miracle-Gro's Definitive Proxy Statement. These procedures have not materially changed from those described in Scotts Miracle-Gro's definitive Proxy Statement for the 2012 Annual Meeting of Shareholders held on January 19, 2012.

Audit Committee

The information required by Items 407(d)(4) and 407(d)(5) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption "MEETINGS AND COMMITTEES OF THE BOARD — Committees of the Board — Audit Committee" in Scotts Miracle-Gro's Definitive Proxy Statement.

Committee Charters; Code of Business Conduct and Ethics; Corporate Governance Guidelines

The Board of Directors of Scotts Miracle-Gro has adopted charters for each of the Audit Committee, the Governance and Nominating Committee, the Compensation and Organization Committee, the Finance Committee and the Innovation & Technology Committee, as well as Corporate Governance Guidelines, as contemplated by the applicable sections of the New York Stock Exchange Listed Company Manual.

In accordance with the requirements of Section 303A.10 of the New York Stock Exchange Listed Company Manual and Item 406 of SEC Regulation S-K, the Board of Directors of Scotts Miracle-Gro has adopted a Code of Business Conduct and Ethics covering the members of Scotts Miracle-Gro's Board of Directors and associates (employees) of Scotts Miracle-Gro and its subsidiaries, including, without limitation, Scotts Miracle-Gro's principal executive officer, principal financial officer and principal accounting officer. Scotts Miracle-Gro intends to disclose the following events, if they occur, on its Internet website located at http://investor.scotts.com within four business days following their occurrence: (A) the date and nature of any amendment to a provision of Scotts Miracle-Gro's Code of Business Conduct and Ethics that (i) applies to Scotts Miracle-Gro's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, (ii) relates to any element of the code of ethics definition enumerated in Item 406(b) of SEC Regulation S-K, and (iii) is not a technical, administrative or other non-substantive amendment; and (B) a description of any waiver (including the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver), including an implicit waiver, from a provision of the Code of Business Conduct and Ethics granted to Scotts Miracle-Gro's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, that relates to one or more of the elements of the code of ethics definition enumerated in Item 406(b) of SEC Regulation S-K.

The text of Scotts Miracle-Gro's Code of Business Conduct and Ethics, Scotts Miracle-Gro's Corporate Governance Guidelines, the Audit Committee charter, the Governance and Nominating Committee charter, the Compensation and Organization

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Committee charter, the Finance Committee charter and the Innovation & Technology Committee charter are posted under the "Corporate Governance" link on Scotts Miracle-Gro's Internet website located at http://investor.scotts.com. Interested persons and shareholders of Scotts Miracle-Gro may also obtain copies of each of these documents without charge by writing to The Scotts Miracle-Gro Company, Attention: Corporate Secretary, 14111 Scottslawn Road, Marysville, Ohio 43041. In addition, a copy of the Code of Business Conduct and Ethics, as revised effective January 18, 2012, is incorporated by reference in Exhibit 14 to this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of SEC Regulation S-K is incorporated herein by reference from the disclosures which will be included under the captions "EXECUTIVE COMPENSATION" and "NON-EMPLOYEE DIRECTOR COMPENSATION" in Scotts Miracle-Gro's Definitive Proxy Statement.

The information required by Item 407(e)(4) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption "MEETINGS AND COMMITTEES OF THE BOARD — Compensation and Organization Committee Interlocks and Insider Participation" in Scotts Miracle-Gro's Definitive Proxy Statement.

The information required by Item 407(e)(5) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption "COMPENSATION COMMITTEE REPORT" in Scotts Miracle-Gro's Definitive Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Ownership of Common Shares of Scotts Miracle-Gro

The information required by Item 403 of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" in Scotts Miracle-Gro's Definitive Proxy Statement.

Equity Compensation Plan Information

The information required by Item 201(d) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption "EQUITY COMPENSATION PLAN INFORMATION" in Scotts Miracle-Gro's Definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Person Transactions

The information required by Item 404 of SEC Regulation S-K is incorporated herein by reference from the disclosures which will be included under the caption "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" in Scotts Miracle-Gro's Definitive Proxy Statement.

Director Independence

The information required by Item 407(a) of SEC Regulation S-K is incorporated herein by reference from the disclosures which will be included under the captions "CORPORATE GOVERNANCE — Director Independence" and "MEETINGS AND COMMITTEES OF THE BOARD" in Scotts Miracle-Gro's Definitive Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is incorporated herein by reference from the disclosures which will be included under the captions "AUDIT COMMITTEE MATTERS — Fees of the Independent Registered Public Accounting Firm" and "AUDIT COMMITTEE MATTERS — Pre-Approval of Services Performed by the Independent Registered Public Accounting Firm" in Scotts Miracle-Gro's Definitive Proxy Statement.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

1 and 2. Financial Statements and Financial Statement Schedules:

The response to this portion of Item 15 is submitted as a separate section of this Annual Report on Form 10-K. Reference is made to the "Index to Consolidated Financial Statements and Financial Statement Schedules" on page 48 of this Annual Report on Form 10-K.

(b) EXHIBITS

The exhibits listed on the "Index to Exhibits" beginning on page 109 of this Annual Report on Form 10-K are filed or furnished with this Annual Report on Form 10-K or incorporated herein by reference as noted in the "Index to Exhibits."

(c) FINANCIAL STATEMENT SCHEDULES

The financial statement schedule filed with this Annual Report on Form 10-K is submitted in a separate section hereof. For a description of such financial statement schedules, see "Index to Consolidated Financial Statements and Financial Statement Schedules" on page 48 of this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ James Hagedorn
James Hagedorn, Chief Executive Officer and
Chairman of the Board

Dated: November 20, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Alan H. Barry* Alan H. Barry	Director	November 20, 2012
/s/ David C. Evans David C. Evans	Chief Financial Officer and Executive Vice President, Strategy and Business Development (Principal Financial Officer and Principal Accounting Officer)	November 20, 2012
/s/ Joseph P. Flannery* Joseph P. Flannery	Director	November 20, 2012
/s/ James Hagedorn James Hagedorn	Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)	November 20, 2012
/s/ Adam Hanft* Adam Hanft	Director	November 20, 2012
/s/ Stephen L. Johnson* Stephen L. Johnson	Director	November 20, 2012
/s/ William G. Jurgensen* William G. Jurgensen	Director	November 20, 2012
/s/ Thomas N. Kelly Jr.* Thomas N. Kelly Jr.	Director	November 20, 2012
/s/ Carl F. Kohrt, Ph.D.* Carl F. Kohrt, Ph.D.	Director	November 20, 2012
	Director	November 20, 2012

/s/ Katherine Hagedorn Littlefield*
Katherine Hagedorn Littlefield

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Signature	Title	Date
/s/ Nancy G. Mistretta* Nancy G. Mistretta	Director	November 20, 2012
/s/ Stephanie M. Shern* Stephanie M. Shern	Director	November 20, 2012
/s/ John S. Shiely* John S. Shiely	Director	November 20, 2012

* The undersigned, by signing his name hereto, does hereby sign this Report on behalf of each of the directors of the Registrant identified above pursuant to Powers of Attorney executed by the directors identified above, which Powers of Attorney are filed with this Report as exhibits.

By: /s/ David C. Evans
David C. Evans, Attorney-in-Fact

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THE SCOTTS MIRACLE-GRO COMPANY
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES

All other financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because they are not required or are not applicable, or the required information has been presented in the Consolidated Financial Statements or Notes thereto.

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ANNUAL REPORT OF MANAGEMENT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of The Scotts Miracle-Gro Company and our consolidated subsidiaries; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of The Scotts Miracle-Gro Company and our consolidated subsidiaries are being made only in accordance with authorizations of management and directors of The Scotts Miracle-Gro Company and our consolidated subsidiaries, as appropriate; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of The Scotts Miracle-Gro Company and our consolidated subsidiaries that could have a material effect on our consolidated financial statements.

Management, with the participation of our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of September 30, 2012, the end of our fiscal year. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment. This assessment is supported by testing and monitoring performed under the direction of management.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even an effective system of internal control over financial reporting will provide only reasonable assurance with respect to financial statement preparation.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of September 30, 2012, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. We reviewed the results of management's assessment with the Audit Committee of the Board of Directors of The Scotts Miracle-Gro Company.

Our independent registered public accounting firm, Deloitte & Touche LLP, independently audited our internal control over financial reporting as of September 30, 2012 and has issued their attestation report which appears herein.

/s/ James Hagedorn	/s/ David C. Evans
James Hagedorn	David C. Evans
Chief Executive Officer and Chairman of the Board	Chief Financial Officer and Executive Vice President, Strategy and Business Development
Dated: November 20, 2012	Dated: November 20, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
The Scotts Miracle-Gro Company
Marysville, Ohio

We have audited the accompanying consolidated balance sheets of The Scotts Miracle-Gro Company and subsidiaries (the "Company") as of September 30, 2012 and 2011, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 2012. Our audits also included the financial statement schedules listed in the Index to Consolidated Financial Statements and Financial Statement Schedules. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 20, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Columbus, Ohio
November 20, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Shareholders of
The Scotts Miracle-Gro Company
Marysville, Ohio

We have audited the internal control over financial reporting of The Scotts Miracle-Gro Company and subsidiaries (the "Company") as of September 30, 2012, based on criteria established in Internal Control— Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, which is included in the Annual Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended September 30, 2012 of the Company and our report dated November 20, 2012 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ Deloitte & Touche LLP
Columbus, Ohio
November 20, 2012

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THE SCOTTS MIRACLE-GRO COMPANY
Consolidated Statements of Operations
(In millions, except per share data)

	Year Ended September 30,		
	2012	2011	2010
Net sales	$2,826.1	$2,799.7	$2,873.0
Cost of sales	1,864.4	1,769.0	1,784.4
Cost of sales—impairment, restructuring and other charges	—	18.3	—
Cost of sales—product registration and recall matters	0.4	3.2	3.0
Gross profit	961.3	1,009.2	1,085.6
Operating expenses:			
Selling, general and administrative	705.7	686.3	692.6
Impairment, restructuring and other charges	7.1	37.6	18.5
Product registration and recall matters	7.8	11.4	5.7
Other income, net	(2.9)	(0.9)	(5.6)
Income from operations	243.6	274.8	374.4
Costs related to refinancing	—	1.2	—
Interest expense	61.8	51.0	43.2
Income from continuing operations before income taxes	181.8	222.6	331.2
Income tax expense from continuing operations	68.6	82.7	123.5
Income from continuing operations	113.2	139.9	207.7
Income (loss) from discontinued operations, net of tax	(6.7)	28.0	(3.6)
Net income	$106.5	$167.9	$204.1
Basic income per common share:			
Income from continuing operations	$1.86	$2.16	$3.13
Income (loss) from discontinued operations	(0.11)	0.44	(0.05)
Basic net income per common share	$1.75	$2.60	$3.08
Diluted income per common share:			
Income from continuing operations	$1.82	$2.11	$3.07
Income (loss) from discontinued operations	(0.11)	0.43	(0.05)
Diluted net income per common share	$1.71	$2.54	$3.02

See Notes to Consolidated Financial Statements.

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

	Year Ended September 30,		
	2012	2011	2010
OPERATING ACTIVITIES			
Net income	$106.5	$167.9	$204.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment, restructuring and other charges	5.3	31.8	18.5
Costs related to refinancing	—	1.2	—
Share-based compensation expense	12.5	16.0	16.4
Depreciation	51.5	50.3	48.5
Amortization	10.9	11.4	10.9
Deferred taxes	24.2	(11.3)	37.7
Loss (gain) on sale of long-lived assets	0.1	0.8	(22.4)
Gain on sale of business	—	(93.0)	—
Changes in assets and liabilities, net of acquired businesses:			
Accounts receivable	(6.9)	10.4	(10.7)
Inventories	(23.1)	(37.8)	50.8
Prepaid and other assets	17.3	(7.6)	(3.7)
Accounts payable	(6.9)	6.1	(31.2)
Other current liabilities	(15.9)	(76.5)	(24.1)
Restructuring reserves	(19.4)	29.1	(0.3)
Other non-current items	(9.0)	13.0	13.0
Other, net	6.3	10.3	(11.6)
Net cash provided by operating activities	153.4	122.1	295.9
INVESTING ACTIVITIES			
Proceeds from sale of long-lived assets	0.7	0.2	24.5
Proceeds from sale of business, net of transaction costs	—	253.6	—
Investments in property, plant and equipment	(69.4)	(72.7)	(83.4)
Contingent consideration and related payments	—	(20.0)	—
Investments in acquired businesses, net of cash acquired	(7.0)	(7.6)	—
Net cash provided by (used in) investing activities	(75.7)	153.5	(58.9)
FINANCING ACTIVITIES			
Borrowings under revolving and bank lines of credit and term loans	1,684.0	1,610.1	1,021.4
Repayments under revolving and bank lines of credit and term loans	(1,694.6)	(1,632.1)	(1,391.4)
Proceeds from issuance of Senior Notes, net of discount	—	200.0	198.5
Financing and issuance fees	—	(18.9)	(5.5)
Dividends paid	(75.4)	(67.9)	(42.6)
Purchase of common shares	(17.5)	(358.7)	(25.0)
Payments on sellers notes	—	(0.3)	(0.6)
Excess tax benefits from share-based payment arrangements	6.6	5.6	6.4
Cash received from exercise of stock options	17.6	31.5	22.5
Net cash used in financing activities	(79.3)	(230.7)	(216.3)
Effect of exchange rate changes on cash	2.6	(2.1)	(3.2)
Net increase in cash and cash equivalents	1.0	42.8	17.5
Cash and cash equivalents at beginning of year	130.9	88.1	70.6
Cash and cash equivalents at end of year	$131.9	$130.9	$88.1

SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid	$(48.6)	$(44.5)	$(41.6)
Income taxes paid	(79.6)	(115.1)	(84.2)

See Notes to Consolidated Financial Statements.

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

	September 30, 2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$131.9	$130.9
Accounts receivable, less allowances of $10.5 in 2012 and $12.9 in 2011	330.9	323.5
Inventories	414.9	387.0
Prepaid and other current assets	122.3	151.1
Total current assets	1,000.0	992.5
Property, plant and equipment, net	427.4	394.7
Goodwill	309.4	309.1
Intangible assets, net	307.1	319.6
Other assets	30.5	36.3
Total assets	$2,074.4	$2,052.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	$1.5	$3.2
Accounts payable	152.3	150.0
Other current liabilities	279.8	315.4
Total current liabilities	433.6	468.6
Long-term debt	781.1	791.8
Other liabilities	257.8	232.0
Total liabilities	1,472.5	1,492.4
Commitments and contingencies (Notes 3, 17, 18 and 19)		
Shareholders' equity:		
Common shares and capital in excess of $.01 stated value per share; shares outstanding of 61.3 in 2012 and 60.8 in 2011	408.6	427.1
Retained earnings	630.2	599.2
Treasury shares, at cost; 6.8 shares in 2012 and 7.5 shares in 2011	(349.6)	(388.5)
Accumulated other comprehensive loss	(87.3)	(78.0)
Total shareholders' equity	601.9	559.8
Total liabilities and shareholders' equity	$2,074.4	$2,052.2

See Notes to Consolidated Financial Statements.

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THE SCOTTS MIRACLE-GRO COMPANY
Consolidated Statements of Shareholders' Equity
(In millions, except per share data)

	Common Shares		Capital in Excess of Stated Value	Retained Earnings	Treasury Shares		Accumulated Other Comprehensive Income (loss)	Total
	Shares	Amount			Shares	Amount		
Balance at September 30, 2009	68.1	$0.3	$451.2	$337.5	2.4	$(131.7)	$ (72.8)	$584.5
Net income				204.1				204.1
Foreign currency translation							1.0	1.0
Gain on derivatives, net of tax of $2.9							4.6	4.6
Pension and other postretirement liabilities, net of tax of $1.0							(9.9)	(9.9)
Comprehensive income								199.8
Share-based compensation			16.4					16.4
Dividends declared ($0.625 per share)				(42.0)				(42.0)
Treasury stock purchases					0.5	(25.0)		(25.0)
Treasury stock issuances			(34.6)		(1.1)	64.7		30.1
Other			0.7					0.7
Balance at September 30, 2010	68.1	0.3	433.7	499.6	1.8	(92.0)	(77.1)	764.5
Net income				167.9				167.9
Foreign currency translation							(10.1)	(10.1)
Loss on derivatives, net of tax of $0.7							(3.0)	(3.0)
Pension and other postretirement liabilities, net of tax of $6.9							12.2	12.2
Comprehensive income								167.0
Share-based compensation			16.0					16.0
Dividends declared ($1.05 per share)				(68.3)				(68.3)
Treasury stock purchases					6.9	(358.7)		(358.7)
Treasury stock issuances			(24.3)		(1.2)	62.2		37.9
Other			1.4					1.4
Balance at September 30, 2011	68.1	0.3	426.8	599.2	7.5	(388.5)	(78.0)	559.8
Net income				106.5				106.5
Foreign currency translation							2.3	2.3
Loss on derivatives, net of tax of $0.6							(0.9)	(0.9)
Pension and other postretirement liabilities, net of tax of $2.6							(10.7)	(10.7)
Comprehensive income								97.2
Share-based compensation			12.5					12.5
				(75.4)				(75.4)

Dividends declared ($1.225 per share)								
Treasury stock purchases					0.4	(17.5)		(17.5)
Treasury stock issuances			(31.2)		(1.1)	56.4		25.2
Other			0.2	(0.1)				0.1
Balance at September 30, 2012	68.1	$0.3	$408.3	$630.2	6.8	$(349.6)	$ (87.3)	$601.9

See Notes to Consolidated Financial Statements.

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THE SCOTTS MIRACLE-GRO COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Scotts Miracle-Gro Company (“Scotts Miracle-Gro” and, together with its subsidiaries, the “Company”) are engaged in the manufacturing, marketing and sale of branded products for consumer 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 July 8, 2009, Scotts Miracle-Gro announced its intention to close the Smith & Hawken business by the end of calendar 2009. During the Company’s first quarter of fiscal 2010, all Smith & Hawken stores were closed and substantially all operational activities of Smith & Hawken were discontinued. As a result, effective in our first quarter of fiscal 2010, we classified Smith & Hawken as discontinued operations. Prior to being reported as discontinued operations, our Smith & Hawken business was included as part of Corporate & Other. 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. In the fourth quarter of fiscal year 2012, the Company completed the wind down of the Company's professional seed business ("Pro Seed"). As a result, effective in its fourth quarter of fiscal 2012, the Company classified Pro Seed as a discontinued operation.

Due to the nature of the consumer lawn and garden business, the majority of sales to customers occur in the Company’s second and third fiscal quarters. On a combined basis, net sales for the second and third quarters of the last three fiscal years represented approximately 75% of annual net sales.

Organization and Basis of Presentation

The Company’s consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include the accounts of Scotts Miracle-Gro and all wholly-owned and majority-owned subsidiaries. All intercompany transactions and accounts are 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.

Use of Estimates

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

Revenue Recognition

Revenue is recognized when title and risk of loss transfer, which generally occurs when products or services are received by the customer. Provisions for estimated returns and allowances are recorded at the time revenue is recognized based on historical rates and are periodically adjusted for known changes in return levels. Outbound shipping and handling costs are included in cost of sales.

Under the terms of the Amended and Restated Exclusive Agency and Marketing Agreement (the “Marketing Agreement”) between the Company and Monsanto Company (“Monsanto”), the Company, in its role as exclusive agent, 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 by the Company on behalf of the consumer Roundup® business are recovered from Monsanto through the terms of the Marketing Agreement. The reimbursement of costs for which the Company is considered the primary obligor is included in net sales.

Promotional Allowances

The Company promotes its branded products through, among other things, cooperative advertising programs with retailers. Retailers may also be offered in-store promotional allowances and rebates based on sales volumes. Certain products are promoted with direct consumer rebate programs and special purchasing incentives. Promotion costs (including allowances and rebates) incurred during the year are expensed to interim periods in relation to revenues and are recorded as a reduction of net sales. Accruals for expected payouts under these programs are included in the “Other current liabilities” line in the Consolidated Balance Sheets.

Advertising

Advertising costs incurred during the year by our Global Consumer segment are expensed to interim periods in relation to revenues. All advertising costs, except for external production costs, are expensed within the fiscal year in which such costs are incurred. External production costs for advertising programs are deferred until the period in which the advertising is first aired.

Scotts LawnService® promotes its service offerings primarily through direct mail campaigns. External costs associated with these campaigns that qualify as direct response advertising costs are deferred and recognized as advertising expense in proportion to revenues over a period not beyond the end of the subsequent calendar year. Costs that do not qualify as direct response advertising costs are expensed within the fiscal year incurred on a monthly basis in proportion to net sales. The costs deferred at September 30, 2012 and 2011 were $1.1 million and $1.6 million, respectively.

Advertising expenses were $168.9 million in fiscal 2012, $140.7 million in fiscal 2011 and $140.7 million in fiscal 2010.

Research and Development

All costs associated with research and development are charged to expense as incurred. Expenses for fiscal 2012, fiscal 2011 and fiscal 2010 were $50.8 million, $50.9 million and $47.3 million, respectively, including product registration costs of $14.0 million, $14.6 million and $12.1 million, respectively.

Environmental Costs

The Company recognizes environmental liabilities when conditions requiring remediation are probable and the amounts can be reasonably estimated. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. Environmental liabilities are not discounted or reduced for possible recoveries from insurance carriers.

Share-Based Compensation Awards

The fair value of awards is expensed over the requisite service period which is typically the vesting period, generally three years, except in cases where employees are eligible for accelerated vesting based on having satisfied retirement requirements relating to age and years of service. Performance-based awards are expensed over the requisite service period based on achievement of performance criteria. The Company uses a binomial model to determine the fair value of its option grants. The Company classifies share-based compensation expense within selling, general and administrative expenses to correspond with the same line item as cash compensation paid to employees.

Earnings per Common Share

Basic earnings per common share is computed based on the weighted-average number of common shares outstanding each period. Diluted earnings per common share is computed based on the weighted-average number of common shares and dilutive potential common shares (stock options, stock appreciation rights, performance shares, restricted stock and restricted stock unit awards) outstanding each period.

Cash and Cash Equivalents

The Company considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents. The Company maintains cash deposits in banks which from time to time exceed the amount of deposit insurance available. Management periodically assesses the financial condition of the Company’s banks and believes that the risk of any potential credit loss is minimal.

Accounts Receivable and Allowances

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Allowances for doubtful accounts reflect the Company's best estimate of amounts in its existing accounts receivable that may not be collected due to customer claims or customer inability or unwillingness to pay. The allowance is determined based on a combination of factors, including the Company's risk assessment regarding the credit worthiness of its customers, historical collection experience and length of time the receivables are past due. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered.

Inventories

Inventories are stated at the lower of cost or market, principally determined by the first in, first out method of accounting, using an average costing approach. Inventories include the cost of raw materials, labor, manufacturing overhead and freight and in-bound handling costs incurred to pre-position goods in the Company's warehouse network. The Company makes provisions for obsolete or slow-moving inventories as necessary to properly reflect inventory at the lower of cost or market value. Adjustments to reflect inventories at net realizeable values were $21.0 million and $31.4 million at September 30, 2012 and 2011, respectively.

Long-lived Assets

Property, plant and equipment are stated at cost. Interest capitalized in property, plant and equipment amounted to $0.9 million, $0.1 million and $0.8 million during fiscal 2012, fiscal 2011 and fiscal 2010, respectively. Expenditures for maintenance and repairs are charged to expense as incurred. When properties are retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the accounts with the resulting gain or loss being reflected in income from operations.

Depreciation of property, plant and equipment is provided on the straight-line method and is based on the estimated useful economic lives of the assets as follows:

Land improvements	10 –25 years
Buildings	10 –40 years
Machinery and equipment	3 –15 years
Furniture and fixtures	6 –10 years
Software	3 – 8 years

Intangible assets with finite lives, and therefore subject to amortization, include technology such as patents, customer relationships, non-compete agreements and certain tradenames. These intangible assets are being amortized over their estimated useful economic lives, which typically range from 3 to 25 years. The Company's fixed assets and intangible assets subject to amortization are required to be tested for recoverability whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. If an evaluation of recoverability was required, the estimated undiscounted future cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down is required. If the undiscounted cash flows are less than the carrying amount, an impairment loss is recorded to the extent that the carrying amount exceeds fair value and classified as "Impairment, restructuring and other charges" in the Consolidated Statements of Operations.

The Company had noncash investing activities of $17.3 million and $8.7 million, respectively, representing unpaid liabilities incurred during fiscal 2012 and fiscal 2011 to acquire property, plant and equipment.

Internal Use Software

The costs of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage or the post-implementation/operation stage. As of September 30, 2012 and 2011, the Company had $18.6 million and $29.6 million, respectively, in unamortized capitalized internal use computer software costs. Amortization of these costs was $8.0 million, $9.0 million and $8.1 million during fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

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Goodwill and Indefinite-lived Intangible Assets

Goodwill and indefinite-lived intangible assets are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment by applying a fair-value based test on an annual basis, as of the first day of the Company's fiscal fourth quarter, or more frequently if circumstances indicate impairment may have occurred.

With respect to goodwill, the Company performs either a qualitative or quantitative evaluation for each of its reporting units. Factors considered in the qualitative test include reporting unit specific operating results as well as new events and circumstances impacting the operations of the reporting units. For the quantitative test, the Company assesses goodwill for impairment by comparing the carrying value of its reporting units to their respective fair values and reviewing the Company's market value of invested capital. A reporting unit is defined as an operating segment or one level below an operating segment. The Company has identified four reporting units: U.S. Consumer, Wild Bird Food, International Consumer and Scotts LawnService®. The Company determines the fair value of its reporting units under the income-based approach utilizing discounted cash flows and incorporates assumptions it believes marketplace participants would utilize. The Company also uses a comparative market-based approach using market multiples and other factors to corroborate the discounted cash flow results used.

With respect to indefinite-lived intangible assets, the Company performs either a qualitative or quantitative evaluation for each of its indefinite-lived intangible assets. Factors considered in the qualitative test include indefinite-lived intangible asset specific operating results as well as new events and circumstances impacting the cash flows of the indefinite-lived intangible assets. For the quantitative test, the value of all indefinite-lived tradenames was determined using a royalty savings methodology similar to that employed when the associated businesses were acquired but using updated estimates of sales, cash flow and profitability. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying value of the asset exceeds its estimated fair value and classified as "Impairment, restructuring and other charges" in the Consolidated Statements of Operations.

Insurance and Self-Insurance

The Company maintains insurance for certain risks, including workers' compensation, general liability and vehicle liability, and is self-insured for employee-related health care benefits up to a specified level for individual claims. The Company accrues for the expected costs associated with these risks by considering historical claims experience, demographic factors, severity factors and other relevant information. Costs are recognized in the period the claim is incurred, and accruals include an actuarially determined estimate of claims incurred but not yet reported.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax bases. Management reviews the Company's deferred tax assets to determine whether their value can be realized based upon available evidence. A valuation allowance is established when management believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the Company's tax provision in the period of change.

The Company establishes a liability for tax return positions in which there is uncertainty as to whether or not the position will ultimately be sustained. Amounts for uncertain tax positions are adjusted in quarters when new information becomes available or when positions are effectively settled. The Company recognizes interest expense and penalties related to these unrecognized tax benefits within income tax expense.

U.S. income tax expense and foreign withholding taxes are provided on unremitted foreign earnings that are not indefinitely reinvested at the time the earnings are generated. Where foreign earnings are indefinitely reinvested, no provision for U.S. income or foreign withholding taxes is made. When circumstances change and the Company determines that some or all of the undistributed earnings will be remitted in the foreseeable future, the Company accrues an expense in the current period for U.S. income taxes and foreign withholding taxes attributable to the anticipated remittance.

Translation of Foreign Currencies

For all foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. Income and expense accounts are translated at the average rate of exchange prevailing during the year. Translation gains and losses arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive income (loss) within shareholders' equity. Foreign currency transaction gains and losses are included in the determination of net income and classified as "Other (income) expense, net" in the Consolidated Statements of Operations.

Derivative Instruments

In the normal course of business, the Company is exposed to fluctuations in interest rates, the value of foreign currencies and the cost of commodities. A variety of financial instruments, including forward and swap contracts, are used to manage these exposures. These financial instruments are recognized at fair value on the balance sheet, and all changes in fair value are recognized in net income or shareholders' equity through accumulated other comprehensive income (loss). The Company's objective in managing these exposures is to better control these elements of cost and mitigate the earnings and cash flow volatility associated with changes in the applicable rates and prices.

The Company has established policies and procedures that encompass risk-management philosophy and objectives, guidelines for derivative-instrument usage, counterparty credit approval, and the monitoring and reporting of derivative activity. The Company does not enter into derivative instruments for the purpose of speculation.

The Company formally designates and documents instruments at inception that qualify for hedge accounting of underlying exposures in accordance with GAAP. The Company formally assesses, both at inception and at least quarterly, whether the financial instruments used in hedging transactions are effective at offsetting changes in cash flows of the related underlying exposure. Fluctuations in the value of these instruments generally are offset by changes in the cash flows of the underlying exposures being hedged. This offset is driven by the high degree of effectiveness between the exposure being hedged and the hedging instrument. GAAP requires all derivative instruments to be recognized as either assets or liabilities at fair value in the Consolidated Balance Sheets. The Company designates commodity hedges as cash flow hedges of forecasted purchases of commodities and interest rate swap agreements as cash flow hedges of interest payments on variable rate borrowings. Any ineffective portion of a change in the fair value of a qualifying instrument is immediately recognized in earnings. The amounts recorded in earnings related to ineffectiveness of derivative hedges for the years ended September 30, 2012, 2011 and 2010 were not significant.

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 adoption of this guidance will not impact the Company's financial position or results of operations.

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 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 Company adopted this guidance during fiscal 2012 for the fiscal 2012 annual impairment testing. The adoption of this guidance did not impact the Company's financial position or results of operations.

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 Company adopted this guidance during fiscal 2012 for the fiscal 2012 annual impairment testing. The adoption of this guidance did not impact the Company's financial position or results of operations.

NOTE 2. DISCONTINUED OPERATIONS

Pro Seed

In the fourth quarter of fiscal year 2012, the Company completed the wind down of the Company's professional seed business. As a result, effective in its fourth quarter of fiscal 2012, the Company classified its results of operations for all periods presented to reflect the professional seed business as a discontinued operation. The Company recorded restructuring and other charges of $0.1 million and $3.4 million in fiscal 2012 and fiscal 2011, respectively related to termination benefits provided to employees and other restructuring charges. The company also recorded a $0.5 million impairment charge related to the investment in Turf-Seed (Europe) Limited in fiscal 2012.

On May 26, 2011, the Company and the former owners of Turf-Seed, Inc. agreed to an early settlement of the contingent consideration associated with the Company’s fiscal 2006 acquisition of Turf-Seed, Inc. Concurrently, several other contracts and agreements between the Company and the former owners of Turf-Seed, Inc. were terminated or amended. The Company agreed to pay a total of $21.3 million to resolve these matters, resulting in a net charge of $10.3 million after consideration of previously recorded liabilities and other aspects of the agreements. In the fourth quarter of fiscal 2011, the Company also recorded impairment and other charges of $6.5 million related to the investment in Turf-Seed (Europe) Limited.

Global Pro

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 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 September 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 $40 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.

Smith & Hawken Ltd.

In July 2009, Scotts Miracle-Gro announced that its wholly-owned subsidiary, Smith & Hawken, Ltd., had adopted a plan to close the Smith & Hawken business. During the Company's first quarter of fiscal 2010, all Smith & Hawken stores were closed and substantially all operational activities of Smith & Hawken were discontinued. As a result, effective in its first quarter of fiscal 2010, the Company classified Smith & Hawken as discontinued operations.

The Company recorded restructuring and other charges of $18.3 million in fiscal 2010 related to the liquidation of the Smith & Hawken business primarily associated with the termination of retail site lease obligations, third-party agency fees and severance and benefit commitments. These charges were partially offset by a gain of approximately $18 million from the sale of the Smith & Hawken intellectual property on December 30, 2009.

The following table summarizes the results of Pro Seed, Global Pro and Smith & Hawken as discontinued operations:

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Net sales	$26.7	$124.7	$281.6
Operating costs	32.7	122.5	282.8
Impairment, restructuring and other charges	0.6	20.2	18.3
Gain on sale of Global Pro business	—	(93.0)	—
Global Pro sale related transaction costs	—	17.3	—
Other (income) expense, net	0.3	(1.0)	(22.6)
Interest expense	—	1.7	3.6
Income (loss) from discontinued operations before income taxes	(6.9)	57.0	(0.5)
Income tax expense (benefit) from discontinued operations	(0.2)	29.0	3.1
Income (loss) from discontinued operations	$(6.7)	$28.0	$(3.6)

The major classes of assets and liabilities of Pro Seed as of September 30, 2011 were as follows (in millions):

Accounts receivable, net	$14.5
Inventories	21.0
Prepaid and other assets	8.0
Assets of discontinued operations	$43.5
Accounts payable	$10.8
Other current liabilities	5.7
Other liabilities	0.9
Liabilities of discontinued operations	$17.4

NOTE 3. PRODUCT REGISTRATION AND RECALL MATTERS

In April 2008, the Company became aware that a former associate 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 complete, and the results of the QAI review process did not materially affect the Company’s fiscal 2010, fiscal 2011 or 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 2010, fiscal 2011 or 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 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 engaged in settlement meetings culminating in the signing of a Consent Agreement and Final Order ("CAFO") in September, 2012 in which the Company neither admitted nor denied the allegations in the CAFO. The government's transmittal letter stated that the CAFO concluded the government's civil investigation and enforcement action. Pursuant to the CAFO, the Company was required to pay a civil penalty in the amount of $6.05 million, and it agreed to pay an additional $2.0 million for a Supplemental Environmental Project ("SEP"), paid to the Black Swamp Conservancy, for conservation efforts on three separate parcels of land. The Scotts Miracle-Gro Company undertook these projects as part of a settlement of the United States Environmental Protection Agency's enforcement action against it for alleged violations of Sections 12(a)(1)(A),(B),(C) and (E) of FIFRA, 7 U.S.C. § 136j(a)(1)(A),(B), (C) and (E). As part of the CAFO, the Company must monitor the conservation efforts of the Black Swamp Conservancy and submit a completion report to the U.S. EPA by February 28, 2014, designating the conclusion of all agreed to conservation efforts. The Company's accrual as of September 30, 2012 includes the full amount of the civil penalty and other amounts payable under the CAFO.

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 was filed with the United States District Court for the Southern District of Ohio. Under the terms of the Plea Agreement, the Company agreed to plead guilty to ten misdemeanor FIFRA counts in connection with the former employee's conduct and one misdemeanor FIFRA count in connection with the misapplication of insecticide to wild bird food products. As part of the agreement, Scotts Miracle-Gro was required to pay a $4.0 million penalty to the United States and to provide $0.1 million to each of five 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. As part of 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. The United States District Court for the Southern District of Ohio accepted the plea on March 13, 2012, and the sentence was imposed on September 7, 2012, resolving the U.S. DOJ investigation into pesticide product registration issues. The Company's accrual as of September 30, 2012 includes the full amount of the criminal penalty and other amounts payable under the Plea Agreement.

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 following tables summarize the impact of the product registration and recall matters on the results of operations and on accrued liabilities and inventory:

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Cost of sales—product registration and recall matters	$0.4	$3.2	$3.0
Gross profit	(0.4)	(3.2)	(3.0)
Selling, general and administrative	7.8	11.4	5.7
Loss from operations	(8.2)	(14.6)	(8.7)
Income tax benefit	(0.8)	(2.6)	(3.1)
Net loss	$(7.4)	$(12.0)	$(5.6)

	Reserves at September 30, 2011	Additional Costs and Changes in Estimates	Accruals Used	Reserves at September 30, 2012
	(In millions)			
Cost of sales—product registration and recall matters	$0.7	$0.4	$(0.8)	$0.3
Selling, general and administrative costs	7.8	7.8	(7.2)	8.4
Total cost accrued	$8.5	$8.2	$(8.0)	$8.7

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The Company may be subject to additional judgments, settlements, fines and/or penalties as a result of state or private actions. No reserves have been established for any such potential liabilities related to state or private actions arising in connection with the product registration and recall issues at this time. In connection with the sale of wild bird food products that were the subject of the recall discussed in "ITEM 1. BUSINESS - Regulatory Considerations", the Company has been named as a defendant in four putative class actions filed on and after June 27, 2012, which have now been consolidated in the United States District Court for the Southern District of California as In re Morning Song Bird Food Litigation, Lead Case No. 3:12-cv-01592-JAH-RBB. The plaintiffs allege various statutory and common law claims associated with the Company's sale of wild bird food products. The plaintiffs seek on behalf of themselves and various purported class members monetary damages, restitution, injunctive relief, declaratory relief, attorney's fees, interest and costs. The Company intends to vigorously defend the consolidated action. Given the early stages of the action, the Company cannot make a determination as to whether it could have a material effect on the Company's financial condition, results of operations or cash flows and has not created any accruals or accounting reserves with respect thereto.

NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES
The following table details impairment, restructuring and other charges and rolls forward the restructuring and other charges accrued in fiscal 2012, fiscal 2011 and fiscal 2010:

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Restructuring and other charges	$1.8	$27.4	$—
Property, plant and equipment impairments	2.1	9.1	—
Goodwill and intangible asset impairments	3.2	19.4	18.5
Total impairment, restructuring and other charges	$7.1	$55.9	$18.5

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Amounts reserved for restructuring and other charges at beginning of year	$29.6	$0.5	$14.6
Restructuring and other charges in continuing operations	1.8	27.4	—
Restructuring and other charges in discontinued operations	0.1	20.2	18.3
Payments and other	(21.3)	(18.5)	(32.4)
Amounts reserved for restructuring and other charges at end of year (1)	$10.2	$29.6	$0.5

(1) - A portion of the amounts reserved as of September 30, 2012, will be paid out over the course of fiscal 2013. Included in the restructuring reserves is $4.5 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.

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

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Fiscal 2011
On August 8, 2011, the Company announced a 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 $23.7 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.
In connection with the Company's annual impairment review, the Company recognized impairment charges related to the Wild Bird Food reporting unit of $9.1 million for property, plant and equipment, $16.8 million for intangible assets and $0.3 million for goodwill, based on their respective estimated fair values. Losses generated by this business over the past two years, combined with a revised long-term outlook have negatively impacted the value of this business.
In addition, the Company recognized charges of $2.3 million for other intangible asset impairments and $1.4 million for restructuring and other charges.
Fiscal 2010
The Company's fiscal 2010 impairment review resulted in a charge of $18.5 million related to intangible assets of certain brands and sub-brands in its Global Consumer segment that have been discontinued or de-emphasized, consistent with the Company's business strategy to increasingly concentrate its advertising and promotional spending on fewer, more significant brands to more efficiently drive growth.

NOTE 5. GOODWILL AND INTANGIBLE ASSETS, NET
The following table displays a rollforward of the carrying amount of goodwill by reportable segment, as well as Corporate & Other:

	Global Consumer (In millions)	Scotts LawnService®	Corporate & Other	Total
Goodwill	$244.6	$123.7	$24.6	$392.9
Accumulated impairment losses	(62.5)	—	(24.6)	(87.1)
Balance at September 30, 2010	182.1	123.7	—	305.8
Acquisitions, net of purchase price adjustments	—	3.6	—	3.6
Impairment loss	(0.3)	—	—	(0.3)
Goodwill	$244.6	$127.3	$24.6	$396.5
Accumulated impairment losses	(62.8)	—	(24.6)	(87.4)
Balance at September 30, 2011	181.8	127.3	—	309.1
Acquisitions, net of purchase price adjustments	0.3	—	—	0.3
Goodwill	$244.9	$127.3	$24.6	$396.8
Accumulated impairment losses	(62.8)	—	(24.6)	(87.4)
Balance at September 30, 2012	$182.1	$127.3	$—	$309.4

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The following table presents intangible assets, net:

	September 30, 2012			September 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In millions)					
Finite-lived intangible assets:						
Technology	$60.9	$(47.1)	$13.8	$60.9	$(41.9)	$19.0
Customer accounts	82.6	(65.6)	17.0	83.4	(63.4)	20.0
Tradenames	47.0	(22.7)	24.3	46.5	(21.3)	25.2
Other	101.2	(81.5)	19.7	99.3	(77.1)	22.2
Total finite-lived intangible assets, net			74.8			86.4
Indefinite-lived tradenames			232.3			233.2
Total intangible assets, net			$307.1			$319.6

Fiscal 2012
The Company recognized a $3.2 million impairment charge related to an intangible asset associated with the active ingredient MAT 28. The impairment charge is discussed further in “NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES.”
During the fourth quarter of fiscal 2012, the Company completed its annual impairment analysis and determined that no additional charges for impairment of goodwill or intangible assets were required. The estimated fair value of each reporting unit was substantially in excess of its carrying value as of the annual test date. Each of the indefinite-lived tradenames had an estimated fair value substantially in excess of its carrying value as of the annual test date, with the exception of the Ortho® tradename and French tradenames of KB® and Fertiligene®. The carrying value of the Ortho® tradename and French tradenames (KB® and Fertiligene®) at September 30, 2012 were $137.1 million and $17.7 million, respectively. The excess fair value over the carrying value of Ortho® tradename and French tradenames were 7.4% and 14.1%, respectively. If future analyses indicate that fair value has declined below carrying value, the result will be an impairment of a portion of the indefinite-lived intangible asset value.

Fiscal 2011
In connection with the Company’s annual impairment review, the Company recognized impairment charges related to the Wild Bird Food reporting unit of $16.8 million for intangible assets and $0.3 million for goodwill, based on their respective estimated fair values. The impairment charges are discussed further in “NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES.”

Fiscal 2010
The Company’s fiscal 2010 impairment review resulted in a charge of $18.5 million related to intangible assets of certain brands and sub-brands in its Global Consumer segment. The impairment charges are discussed further in “NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES.”
Total amortization expense for the years ended September 30, 2012, 2011 and 2010 was $10.9 million, $11.4 million and $10.7 million, respectively. Amortization expense is estimated to be as follows for the years ending September 30 (in millions):

2013	$11.3
2014	10.7
2015	8.4

2016	6.4
2017	5.2

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NOTE 6. DETAIL OF CERTAIN FINANCIAL STATEMENT ACCOUNTS

The following is detail of certain financial statement accounts:

	September 30, 2012	2011
	(In millions)	
INVENTORIES:		
Finished goods	$224.6	$130.7
Work-in-progress	48.3	34.3
Raw materials	142.0	222.0
	$414.9	$387.0
PREPAID AND OTHER ASSETS:		
Deferred tax asset	$76.5	$88.1
Accounts receivable, non-trade	13.4	16.9
Other	32.4	46.1
	$122.3	$151.1

	September 30, 2012	2011
	(In millions)	
PROPERTY, PLANT AND EQUIPMENT, NET:		
Land and improvements	$74.4	$70.1
Buildings	205.2	199.9
Machinery and equipment	462.9	437.0
Furniture and fixtures	45.1	42.9
Software	120.8	116.9
Aircraft	22.3	8.4
Construction in progress	39.3	30.0
	970.0	905.2
Less: accumulated depreciation	(542.6)	(510.5)
	$427.4	$394.7

	September 30, 2012	2011
	(In millions)	
OTHER CURRENT LIABILITIES:		
Payroll and other compensation accruals	$38.9	$37.9
Advertising and promotional accruals	152.5	132.8
Other	88.4	144.7
	$279.8	$315.4
OTHER NON-CURRENT LIABILITIES:		
Accrued pension and postretirement liabilities	$118.5	$112.1
Deferred tax liability	71.6	65.2
Other	67.7	54.7
	$257.8	$232.0

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	September 30, 2012	2011	2010
	(In millions)		
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Unrecognized loss on derivatives, net of tax of $10.6, $9.6 and $7.9	$(16.6)	$(15.7)	$(12.7)
Pension and other postretirement liabilities, net of tax of $36.1, $33.5 and $40.4	(67.6)	(56.9)	(69.1)
Foreign currency translation adjustment	(3.1)	(5.4)	4.7
	$(87.3)	$(78.0)	$(77.1)

NOTE 7. 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 six years as of September 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 or net income.

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

	Year Ended September 30		
	2012	2011	2010
	(In millions)		
Gross commission	$81.3	$77.9	$90.8
Contribution expenses	(20.0)	(20.0)	(20.0)
Amortization of marketing fee	(0.8)	(0.8)	(0.8)
Net commission income	60.5	57.1	70.0

Reimbursements associated with Marketing Agreement	79.6	63.7	65.0
Total net sales associated with Marketing Agreement	$140.1	$120.8	$135.0

The Marketing Agreement has no definite term except as it relates to the European Union countries (the “EU term”). The current 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.

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The Marketing Agreement provides Monsanto with the right to terminate the Marketing Agreement upon an event of default (as defined in the Marketing Agreement) by the Company, a change in control of Monsanto or the sale of the consumer Roundup® business. The Marketing Agreement provides the Company with the right to terminate the Marketing Agreement in certain circumstances, including an event of default by Monsanto or the sale of the consumer Roundup® business. Unless Monsanto terminates the Marketing Agreement due to an event of default by the Company, Monsanto is required to pay a termination fee to the Company that varies by program year. The termination fee is calculated as a percentage of the value of the Roundup® business exceeding a certain threshold, but in no event will the termination fee be less than $16 million. 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 8. ACQUISITIONS

During fiscal 2012 and fiscal 2011, the Company completed several acquisition within its home protection, growing media and Scotts LawnService® businesses that individually and in the aggregate were not significant. The aggregate purchase price of these acquisitions was $6.7 million and $10.9 million in fiscal 2012 and fiscal 2011, respectively. The Consolidated Financial Statements include the results of operations from these business combinations from the date of each acquisition.

NOTE 9. RETIREMENT PLANS

The Company sponsors a defined contribution 401(k) plan for substantially all U.S. associates. During 2010, the Company provided a base contribution equal to 2% of compensation up to 50% of the Social Security taxable wage base plus 4% of remaining compensation. Associates could also make pretax contributions from compensation that were matched by the Company at 100% of associates' initial 3% contribution and 50% of their remaining contribution up to 5%. Beginning January 1, 2011, the Company stopped providing base contributions and began matching 150% of associates' initial 4% contribution and 50% of their remaining contribution up to 6%. The Company recorded charges of $12.9 million, $13.2 million and $14.5 million under the plan in fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

The Company sponsors two defined benefit plans for certain U.S. associates. Benefits under these plans have been frozen and closed to new associates since 1997. The benefits under the primary plan are based on years of service and the associates' average final compensation or stated amounts. The Company's funding policy, consistent with statutory requirements and tax considerations, is based on actuarial computations using the Projected Unit Credit method. The second frozen plan is a non-qualified supplemental pension plan. This plan provides for incremental pension payments so that total pension payments equal amounts that would have been payable from the Company's pension plan if it were not for limitations imposed by the income tax regulations. In connection with the restructuring plan discussed in "NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES," the Company recognized a plan curtailment charge of $0.2 million in fiscal 2012 and 1.2 million in fiscal 2011 for an increase in the benefit obligation associated with these plans.

The Company sponsors defined benefit pension plans associated with its international businesses in the United Kingdom, Germany, France and the Netherlands. These plans generally cover all associates of the respective businesses, with retirement benefits primarily based on years of service and compensation levels. Two of the Company’s previously-sponsored international defined benefit plans were transferred to ICL in connection with the sale of Global Pro on February 28, 2011.

On July 1, 2010, the Company froze its two U.K. defined benefit pension plans and transferred participants to an amended defined contribution plan. Under the frozen plans, participants are no longer credited for future service; however, future salary increases will continue to be factored into each participant’s final pension benefit. As a result of the freeze, the Company measured the unfunded status of the U.K. defined benefit pension plans as of July 3, 2010. The results of the freeze and remeasurement did not affect the Company’s results of operations or cash flows, and did not significantly affect the Company’s financial position.

The following tables present information about benefit obligations, plan assets, annual expense, assumptions and other information about the Company's defined benefit pension plans. The defined benefit plans are valued using a September 30 measurement date.

	U.S. Defined Benefit Plans		International Defined Benefit Plans	
	2012	2011	2012	2011
	(In millions)			
Change in projected benefit obligation				
Benefit obligation at beginning of year	$109.6	$106.6	$159.6	$174.6
Service cost	—	—	1.1	1.3
Interest cost	4.6	4.8	8.6	8.9
Actuarial (gain) loss	11.5	3.5	22.2	(17.5)
Benefits paid	(7.1)	(6.5)	(6.6)	(5.9)
Curtailment loss	0.2	1.2	—	—
Other	—	—	(0.9)	(0.6)
Foreign currency translation	—	—	4.0	(1.2)
Projected benefit obligation at end of year	$118.8	$109.6	$188.0	$159.6
Accumulated benefit obligation at end of year	$118.8	$109.6	$179.9	$153.2
Change in plan assets				
Fair value of plan assets at beginning of year	$74.3	$69.7	$118.2	$115.8
Actual return on plan assets	13.0	3.5	15.3	2.5
Employer contribution	5.1	7.6	9.3	8.4
Actuarial gain (loss)	—	—	—	(0.4)
Benefits paid	(7.1)	(6.5)	(6.6)	(5.9)
Foreign currency translation	—	—	4.3	(1.1)
Other	—	—	(0.7)	(1.1)
Fair value of plan assets at end of year	$85.3	$74.3	$139.8	$118.2
Underfunded status at end of year	$(33.5)	$(35.3)	$(48.2)	$(41.4)
Information for pension plans with an accumulated benefit obligation in excess of plan assets				
Projected benefit obligation	$118.8	$109.6	$188.0	$159.6
Accumulated benefit obligation	118.8	109.6	179.9	153.2
Fair value of plan assets	85.3	74.3	139.8	118.2
Amounts recognized in the Consolidated Balance Sheets consist of:				
Current liabilities	$(0.2)	$(0.2)	$(0.9)	$(1.0)
Noncurrent liabilities	(33.4)	(35.1)	(47.3)	(40.4)
Total amount accrued	$(33.6)	$(35.3)	$(48.2)	$(41.4)
Amounts recognized in accumulated other comprehensive loss consist of:				
Actuarial loss	$48.8	$49.6	$55.5	$39.3
Prior service cost	—	—	0.5	1.1
Net amount recognized	$48.8	$49.6	$56.0	$40.4

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	U.S. Defined Benefit Plans		International Defined Benefit Plans	
	2012	2011	2012	2011
	(In millions, except percentage figures)			
Total change in other comprehensive loss attributable to:				
Pension benefit gain (loss) during the period	$5.1	$5.1	$14.8	$10.8
Reclassification of pension benefit losses to net income	(5.1)	(4.9)	(0.8)	(1.2)
Foreign currency translation	—	—	1.6	—
Total change in other comprehensive loss	$—	$0.2	$15.6	$9.6
Amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost in fiscal 2013 are as follows:				
Actuarial loss	$4.3		$0.7	
Prior service cost	—		0.1	
Amount to be amortized into net periodic benefit cost	$4.3		$0.8	
Weighted average assumptions used in development of projected benefit obligation				
Discount rate	3.39%	4.29%	4.45%	5.46%
Rate of compensation increase	n/a	n/a	3.4%	3.5%

	U.S. Defined Benefit Plans			International Defined Benefit Plans		
	2012	2011	2010	2012	2011	2010
	(In millions, except percentage figures)					
Components of net periodic benefit cost						
Service cost	$—	$—	$—	$1.1	$1.3	$1.8
Interest cost	4.6	4.8	5.1	8.6	8.9	8.4
Expected return on plan assets	(5.5)	(5.1)	(5.0)	(8.4)	(8.4)	(7.3)
Net amortization	5.1	4.9	4.3	0.8	1.2	1.7
Net periodic benefit cost	4.2	4.6	4.4	2.1	3.0	4.6
Curtailment loss	0.2	1.1	—	—	—	—
Contractual termination benefits	—	—	—	0.3	—	—
Total benefit cost	$4.4	$5.7	$4.4	$2.4	$3.0	$4.6
Weighted average assumptions used in development of net periodic benefit cost						
Discount rate	4.29%	4.66%	5.23%	5.46%	5.01%	5.46%
Expected return on plan assets	7.5%	7.5%	8.0%	7.0%	7.0%	7.1%
Rate of compensation increase	n/a	n/a	n/a	3.5%	3.5%	3.8%

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	U.S. Defined Benefit Plans		International Defined Benefit Plans	
	(In millions, except percentage figures)			
Other information:				
Plan asset allocations:				
Target for September 30, 2013:				
Equity securities	33	%	52	%
Debt securities	67	%	41	%
Cash and cash equivalents	—	%	1	%
Insurance Contracts	—	%	6	%
September 30, 2012:				
Equity securities	36	%	54	%
Debt securities	61	%	41	%
Cash and cash equivalents	3	%	—	%
Insurance Contracts	—	%	5	%
September 30, 2011:				
Equity securities	36	%	53	%
Debt securities	63	%	41	%
Cash and cash equivalents	1	%	1	%
Insurance Contracts	—	%	5	%
Expected company contributions in fiscal 2013	$2.8		$7.2	
Expected future benefit payments:				
2013	$7.1		$5.8	
2014	7.1		6.2	
2015	7.2		6.9	
2016	7.2		7.0	
2017	7.3		7.8	
2018 – 2022	36.2		45.6	

The following tables set forth the fair value of the Company's pension plan assets, segregated by level within the fair value hierarchy:

	September 30, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	(In millions)			
U.S. Defined Benefit Plan Assets				
Cash and cash equivalents	$2.3	$—	$—	$2.3
Mutual funds—equities	30.8	—	—	30.8

Mutual funds—fixed income	52.2	—	—	52.2
Total	$85.3	$—	$—	$85.3
International Defined Benefit Plan Assets				
Cash and cash equivalents	$1.0	$—	$—	$1.0
Insurance contracts	—	3.4	4.4	7.8
Mutual funds—equities	—	73.2	—	73.2
Mutual funds—fixed income	—	57.9	—	57.9
Total	$1.0	$134.5	$4.4	$139.9

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	September 30, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	(In millions)			
U.S. Defined Benefit Plan Assets				
Cash and cash equivalents	$0.8	$—	$—	$0.8
Mutual funds—equities	26.9	—	—	26.9
Mutual funds—fixed income	46.6	—	—	46.6
Total	$74.3	$—	$—	$74.3
International Defined Benefit Plan Assets				
Cash and cash equivalents	$0.4	$—	$—	$0.4
Insurance contracts	—	2.6	3.7	6.3
Mutual funds—equities	—	63.1	—	63.1
Mutual funds—fixed income	—	48.4	—	48.4
Total	$0.4	$114.1	$3.7	$118.2

The fair value of the mutual funds are valued at the exchange-listed year end closing price or at the net asset value of shares held by the fund at the end of the year. Insurance contracts are valued by discounting the related cash flows using a current year end market rate or at cash surrender value, which is presumed to equal fair value. Funds of hedge funds are valued at the net asset value of shares held by the fund at the end of the year.

The table below sets forth a summary of changes in the fair value of the Company’s level 3 pension plan assets:

	Level 3 Assets Insurance contracts	
	(In millions)	
Balance at September 30, 2010	$4.1	
Realized gain on plan assets	0.2	
Unrealized gain on plan assets	(0.4	)
Foreign currency translation	(0.1	)
Purchases, sales, issuances and settlements (net)	(0.1	)
Balance at September 30, 2011	3.7	
Realized gain on plan assets	1.0	
Unrealized gain on plan assets	—	
Foreign currency translation	(0.1	)
Purchases, sales, issuances and settlements (net)	(0.2	)
Balance at September 30, 2012	$4.4	

Investment Strategy
Target allocation percentages among various asset classes are maintained based on an individual investment policy established for each of the various pension plans. Asset allocations are designed to achieve long-term objectives of return while mitigating against downside risk and considering expected cash requirements necessary to fund benefit

payments. However, the Company cannot predict future investment returns and therefore cannot determine whether future pension plan funding requirements could materially and adversely affect its financial condition, results of operations or cash flows.

Basis for Long-Term Rate of Return on Asset Assumptions

The Company’s expected long-term rate of return on asset assumptions are derived from studies conducted by third parties. The studies include a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plans to determine the average rate of earnings

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expected. While the studies give appropriate consideration to recent fund performance and historical returns, the assumptions primarily represent expectations about future rates of return over the long term.

NOTE 10. ASSOCIATE MEDICAL BENEFITS

The Company provides comprehensive major medical benefits to certain of its retired associates and their dependents. Substantially all of the Company's domestic associates who were hired before January 1, 1998 become eligible for these benefits if they retire at age 55 or older with more than ten years of service. The retiree medical plan requires certain minimum contributions from retired associates and includes provisions to limit the overall cost increases the Company is required to cover. The Company funds its portion of retiree medical benefits on a pay-as-you-go basis. The following table sets forth information about the retiree medical plan for domestic associates. The retiree medical plan is valued using a September 30 measurement date.

	2012	2011
	(In millions, except percentage figures)	
Change in Accumulated Plan Benefit Obligation (APBO)		
Benefit obligation at beginning of year	$34.4	$31.7
Service cost	0.5	0.5
Interest cost	1.6	1.6
Plan participants' contributions	1.0	0.9
Actuarial loss	1.5	1.9
Curtailment loss	—	1.1
Benefits paid (net of federal subsidy of $0.3 and $0.3)	(2.9)	(3.3)
Benefit obligation at end of year	$36.3	$34.4
Change in plan assets		
Fair value of plan assets at beginning of year	$—	$—
Employer contribution	2.0	2.7
Plan participants' contributions	1.0	0.9
Gross benefits paid	(3.0)	(3.6)
Fair value of plan assets at end of year	—	—
Unfunded status at end of year	$(36.3)	$(34.4)
Amounts recognized in the Consolidated Balance Sheets consist of:		
Current liabilities	$(2.5)	$(2.3)
Noncurrent liabilities	(33.8)	(32.1)
Total amount accrued	$(36.3)	$(34.4)
Amounts recognized in accumulated other comprehensive loss consist of:		
Actuarial loss	$3.4	$3.4
Total change in other comprehensive loss attributable to:		
Benefit losses during the period	$1.6	$2.0
Curtailment loss amortized during the year	0.1	—
Total change in other comprehensive loss	$1.7	$2.0
The estimated actuarial gain that will be amortized from accumulated loss into net periodic benefit cost over the next fiscal year is immaterial		
Discount rate used in development of APBO	3.66%	4.66%

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	2012	2011	2010
Components of net periodic benefit cost			
Service cost	$0.6	$0.5	$0.5
Interest cost	1.6	1.6	1.7
Curtailment loss	—	1.1	—
Total postretirement benefit cost	$2.2	$3.2	$2.2
Discount rate used in development of net periodic benefit cost	4.66 %	4.91 %	5.50 %

In connection with the restructuring plan discussed in "NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES," the Company recognized a plan curtailment charge of $1.1 million in fiscal 2011 for an increase in the benefit obligation associated with its retiree medical plan.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act (the "Act") became law. The Act provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the benefit established by the Act. The APBO at September 30, 2012, has been reduced by a deferred actuarial gain in the amount of $0.5 million to reflect the effect of the subsidy related to benefits attributed to past service. The amortization of the actuarial gain and reduction of service and interest costs served to reduce net periodic post retirement benefit cost for fiscal 2012, fiscal 2011 and fiscal 2010 by $0.2 million, $1.1 million and $0.5 million, respectively.

The Company has historically received a federal retiree drug subsidy as it offers retiree prescription drug coverage that is at a minimum as valuable as Medicare Part D coverage. The Patient Protection and Affordable Care Act ("PPACA"), which was enacted on March 23, 2010, repealed the existing rule that permitted a tax deduction for the portion of the drug coverage expense that was offset by the Medicare Part D subsidy received by the Company. This provision of PPACA was to be effective beginning with the Company's fiscal 2012 tax year. On March 30, 2010, a companion bill, the Health Care and Education Reconciliation Act of 2010 ("HCERA"), was enacted. HCERA delayed the effective date of the reduction under PPACA until the Company's fiscal 2014 tax year. As a result of this new legislation, the Company recorded a $1.9 million charge to tax expense during its second quarter of fiscal 2010 to reduce its deferred tax asset for the portion of the subsidy that will no longer be deductible when paid after fiscal 2013.

For measurement as of September 30, 2012, management has assumed that health care costs will increase at an annual rate of 7.25% in fiscal 2012, decreasing 0.25% per year to an ultimate trend of 5.00% in 2021. A 1% increase in health cost trend rate assumptions would increase the APBO by $1.2 million as of September 30, 2012. A 1% decrease in health cost trend rate assumptions would decrease the APBO by $1.3 million as of September 30, 2012. A 1% increase or decrease in the same rate would not have a material effect on service or interest costs.

The following benefit payments under the plan are expected to be paid by the Company and the retirees for the fiscal years indicated:

	Gross Benefit Payments	Retiree Contributions	Medicare Part D Subsidy	Net Company Payments
	(In millions)			
2013	$4.1	$(1.2)	$(0.4)	$2.5
2014	4.4	(1.5)	(0.4)	2.5
2015	4.6	(1.7)	(0.4)	2.5
2016	4.9	(2.0)	(0.5)	2.4
2017	5.1	(2.2)	(0.5)	2.4
2018 – 2022	28.8	(14.6)	(3.1)	11.1

The Company also provides comprehensive major medical benefits to its associates. The Company is self-insured for certain health benefits up to $0.3 million per occurrence per individual. The cost of such benefits is recognized as expense in the period the claim is incurred. This cost was $28.7 million, $27.9 million and $27.6 million in fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

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NOTE 11. DEBT

The components of long-term debt are as follows:

	September 30, 2012	2011
	(In millions)	
Credit Facilities:		
Revolving loans	$377.1	$387.2
Term loans	—	—
Senior Notes – 7.25%	200.0	200.0
Senior Notes – 6.625%	200.0	200.0
Other	5.5	7.8
	782.6	795.0
Less current portions	1.5	3.2
Long term debt	$781.1	$791.8

The Company’s debt matures as follows for each of the next five fiscal years and thereafter (in millions):

2013	$1.5
2014	1.0
2015	0.5
2016	377.6
2017	0.5
Thereafter	401.5
	$782.6

Credit Facilities

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, the Company may request up to an additional $450 million in revolving and/or term commitments, subject to certain specified conditions, including approval from the Company’s lenders. The credit facility replaced the Company’s 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.

The terms of the credit facility provide for customary representations and warranties and affirmative covenants. The credit facility also contains customary negative covenants setting forth limitations, subject to negotiated carve-outs on liens; contingent obligations; fundamental changes; acquisitions, investments, loans and advances; indebtedness; restrictions on subsidiary distributions; transactions with affiliates and officers; sales of assets; sale and leaseback transactions; changing the Company’s fiscal year end; modifications of certain debt instruments; negative pledge clauses; entering into new lines of business; and restricted payments, which are limited 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. The credit facility is secured by collateral that includes the capital stock of specified subsidiaries of Scotts Miracle-Gro, substantially all domestic accounts receivable (exclusive of any “sold” receivables), inventory and equipment. The credit facility is guaranteed by

substantially all of Scotts Miracle-Gro’s domestic subsidiaries.
Loans made under the credit facility bear interest, at the Company’s election, at a rate per annum equal to either the ABR or LIBOR rate, (both as defined) plus an applicable margin. Amounts outstanding under the credit facility at September 30, 2012 were at interest rates based on LIBOR applicable to the borrowed currencies plus 225 basis points. Under the credit facility, the Company has the ability to issue letter of credit commitments up to $75 million. At September 30, 2012, the Company had letters of credit in the aggregate face amount of $25.9 million outstanding, and $1.3 billion of availability under its credit facility.

Senior Notes- 7.25%

On January 14, 2010, Scotts Miracle-Gro issued $200 million aggregate principal amount of 7.25% Senior Notes due 2018 (the “7.25% Senior Notes”). The net proceeds of the offering were used to reduce outstanding borrowings under the Company’s then existing credit facilities. The 7.25% Senior Notes represent general unsecured senior obligations of Scotts Miracle-Gro, and were sold to the public at 99.254% of the principal amount thereof, to yield 7.375% to maturity. The 7.25% Senior Notes have interest payment dates of January 15 and July 15 of each year, which began on July 15, 2010 and may be redeemed prior to maturity at applicable redemption premiums. The 7.25% Senior Notes contain usual and customary incurrence-based covenants, which include, but are not limited to, restrictions on the incurrence of additional indebtedness, the incurrence of liens and the issuance of certain preferred shares, and the making of certain distributions, investments and other restricted payments, as well as other usual and customary covenants, which include, but are not limited to, restrictions on sale and leaseback transactions, restrictions on purchases or redemptions of Scotts Miracle-Gro stock and prepayments of subordinated debt, limitations on asset sales and restrictions on transactions with affiliates. The 7.25% Senior Notes mature on January 15, 2018. Substantially all of Scotts Miracle-Gro's domestic subsidiaries serve as guarantors of the 7.25% Senior Notes.

Senior Notes- 6.625%

On December 16, 2010, Scotts Miracle-Gro issued $200 million aggregate principal amount of 6.625% Senior Notes due 2020 (the “6.625%" Senior Notes”) in a private placement exempt from the registration requirements under the Securities Act of 1933, as amended. The net proceeds of the offering were used to repay outstanding borrowings under the Company’s then existing credit facilities and for general corporate purposes. The 6.625% Senior Notes represent general unsecured senior obligations of Scotts Miracle-Gro and rank equal in right of payment with the Company’s existing and future unsecured senior debt, including, without limitation, the 7.25% Senior Notes. The 6.625% Senior Notes have interest payment dates of June 15 and December 15 of each year, which began on June 15, 2011, and may be redeemed prior to maturity at applicable redemption premiums. The 6.625% Senior Notes contain usual and customary incurrence-based covenants, as well as other usual and customary covenants, substantially similar to those contained in the 7.25% Senior Notes. The 6.625% Senior Notes mature on December 15, 2020. Substantially all of Scotts Miracle-Gro’s domestic subsidiaries serve as guarantors of the 6.625% Senior Notes.

The Company was in compliance with the terms of all debt covenants at September 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 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 September 30, 2012. The Company’s leverage ratio was 2.93 at September 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 year ended September 30, 2012. The Company’s interest coverage ratio was 4.90 for the year ended September 30, 2012. The weighted average interest rates on average debt were 6.0% and 5.9% for fiscal 2012 and fiscal 2011, respectively.

Interest Rate Swap Agreements

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

Notional Amount	Effective	Expiration	Fixed

(in millions)		Date (a)	Date	Rate	
$50		2/14/2012	2/14/2016	3.78	%
150	(b)	2/7/2012	5/7/2016	2.42	%
150	(c)	11/16/2009	5/16/2016	3.26	%
50	(b)	2/16/2010	5/16/2016	3.05	%
100	(b)	2/21/2012	5/23/2016	2.40	%
150	(c)	12/20/2011	6/20/2016	2.61	%
50	(d)	12/6/2012	9/6/2017	2.96	%

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

Master Accounts Receivable Purchase Agreement

On November 15, 2012, the Company entered into a new Master Accounts Receivable Purchase Agreement (the "2012 MARP Agreement"), with an initial stated termination date of October 30, 2013, or such later date as may be mutually agreed by the Company and the banks party thereto. The 2012 MARP Agreement, which is uncommitted, provides for the discretionary sale by the Company, and the discretionary purchase by the banks, on a revolving basis, of accounts receivable generated by sales to three specified account debtors in an aggregate amount not to exceed $400 million, with debtor sublimits ranging from $100 million to $200 million. Under the terms of the 2012 MARP Agreement, the banks have the opportunity to purchase those accounts receivable offered by the Company at a discount (from the agreed base value thereof) effectively equal to the greater of 7-day or 3-month LIBOR plus 0.75%. The 2012 MARP Agreement replaced the Company's previous Master Accounts Receivable Purchase Agreement, which provided for the discounted sale, on an uncommitted, revolving basis, of accounts receivable generated by two specified account debtors in an aggregate amount not to exceed $325 million and an interest rate effectively equal to the greater of 7-day or 3-month LIBOR plus 1.05%. The previous Master Accounts Receivable Purchase Agreement expired on September 21, 2012.

The Company accounts for the sale of receivables under its Master Accounts Receivable Purchase Agreements 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 no short-term borrowings under the Master Accounts Receivable Purchase Agreements as of September 30, 2012 and 2011.

Estimated Fair Values

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

Credit Facility

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

7.25% Senior Notes

The fair value of 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 September 30, 2012 and September 30, 2011, the fair value of the 7.25% Senior Notes was approximately $212.0 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 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 September 30, 2012 and September 30, 2011, the fair value of the 6.625% Senior Notes was approximately $217.5 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.

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

The estimated fair values of the Company’s debt instruments are as follows:

	Year Ended September 30,			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Revolving loans	$377.1	$377.1	$387.2	$387.2
Senior Notes – 7.25%	200.0	212.0	200.0	206.0
Senior Notes – 6.625%	200.0	217.5	200.0	198.1
Other	5.5	5.5	7.8	7.8

NOTE 12. SHAREHOLDERS’ EQUITY
Authorized and issued capital shares consisted of the following:

	September 30,	
	2012	2011
	(In millions)	
Preferred shares, no par value:		
Authorized	0.2 shares	0.2 shares
Issued	0.0 shares	0.0 shares
Common shares, no par value, $.01 stated value per share		
Authorized	100.0 shares	100.0 shares
Issued	68.1 shares	68.1 shares

In fiscal 1995, The Scotts Company merged with Stern’s Miracle-Gro Products, Inc. (“Miracle-Gro”). At September 30, 2012, the former shareholders of Miracle-Gro, including Hagedorn Partnership L.P., owned approximately 30% of Scotts Miracle-Gro’s outstanding common shares and, thus, have the ability to significantly influence the election of directors and other actions requiring the approval of Scotts Miracle-Gro’s shareholders.
Under the terms of the merger agreement with Miracle-Gro, the former shareholders of Miracle-Gro may not collectively acquire, directly or indirectly, beneficial ownership of Voting Stock (as that term is defined in the Miracle-Gro merger agreement) representing more than 49% of the total voting power of the outstanding Voting Stock, except pursuant to a tender offer for 100% of that total voting power, which tender offer is made at a price per share which is not less than the market price per share on the last trading day before the announcement of the tender offer and is conditioned upon the receipt of at least 50% of the Voting Stock beneficially owned by shareholders of Scotts Miracle-Gro other than the former shareholders of Miracle-Gro and their affiliates and associates.
In August 2010, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to $500 million of Scotts Miracle-Gro’s common shares (the “Common Shares”) over a four-year period through September 30, 2014. 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 authorization provides the Company with flexibility to purchase the Common Shares from

time to time in open market purchases or through privately negotiated transactions. All or part of the repurchases may be made under Rule 10b5-1 plans, which the Company may enter from time to time and which enable the repurchases to occur on a more regular basis, or pursuant to accelerated share repurchases. The share repurchase authorization, which expires September 30, 2014, may be suspended or discontinued at any time, and there can be no guarantee as to the timing or amount of any repurchases. Since the inception of this program in the fourth quarter of fiscal 2010 through September 30, 2012, Scotts Miracle-Gro has repurchased approximately 7.8 million Common Shares for $401.2 million to be held in treasury. Scotts Miracle-Gro repurchased 0.4 million Common Shares for $17.5 million in fiscal 2012. Common Shares held in treasury totaling 1.1 million and 1.2 million were reissued in support of share-based compensation awards and employee purchases under the employee stock purchase plan during fiscal 2012 and fiscal 2011, respectively.

Share-Based Awards

Scotts Miracle-Gro grants share-based awards annually to officers, certain other employees of the Company and non-employee directors of Scotts Miracle-Gro. The share-based awards typically consist of stock options, restricted stock, restricted stock units and deferred stock units. Performance-based awards have also been made. Stock appreciation rights ("SARs") have been granted, though not in recent years. SARs result in less dilution than stock options as the SAR holder receives a net share settlement upon exercise. All of these share-based awards have been made under plans approved by the shareholders. Generally, employee share-based awards provide for three-year cliff vesting. Vesting for non-employee director awards varies based on the length of service and age of each director at the time of the award. Vesting of performance-based awards are dependent on service and achievement of specified performance targets. Share-based awards are forfeited if a holder terminates employment or service with the Company prior to the vesting date. The Company estimates that 10-15% of its share-based awards will be forfeited based on an analysis of historical trends. This assumption is re-evaluated on an annual basis and adjusted as appropriate. Stock options and SAR awards have exercise prices equal to the market price of the underlying common shares on the date of grant with a term of 10 years. If available, Scotts Miracle-Gro will typically use treasury shares, or if not available, newly-issued Common Shares, in satisfaction of its share-based awards.

A maximum of 18 million Common Shares are available for issuance under share-based award plans. At September 30, 2012, approximately 0.1 million Common Shares were not subject to outstanding awards and were available to underlie the grant of new share-based awards.

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

	Year Ended September 30,		
	2012	2011	2010
Employees			
Options	464,061	429,700	367,600
Restricted stock units	107,373	65,939	259,353
Performance shares	—	—	4,200
Performance units	110,079	53,874	—
Board of Directors			
Deferred stock units	30,943	30,296	28,854
Total share-based awards	712,456	579,809	660,007
Aggregate fair value at grant dates (in millions)	$17.4	$13.8	$16.9

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

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Share-based compensation	$12.5	$16.0	$16.4
Tax benefit recognized	4.8	6.2	6.3

As of September 30, 2012, total unrecognized compensation cost related to non-vested share-based awards amounted to $12.0 million. This cost is expected to be recognized over a weighted-average period of 1.9 years. The tax benefit realized from the tax deductions associated with the exercise of share-based awards and the vesting of restricted stock totaled $17.1 million for fiscal 2012.

Stock Options/SARs

Aggregate stock option and SARs activity consisted of the following for the year ended September 30, 2012 (options/SARs in millions):

	No. of Options/SARs	WTD. Avg. Exercise Price
Beginning balance	3.8	$33.47
Granted	0.5	47.66
Exercised	(0.9)	25.93
Forfeited	(0.1)	48.07
Ending balance	3.3	37.28
Exercisable	2.2	32.20

At September 30, 2012, the Company expects 1.0 million stock options (after forfeitures), with a weighted-average exercise price of $47.66, intrinsic value of $0.5 million and average remaining term of 8.5 years, to vest in the future.

The following summarizes certain information pertaining to stock option and SAR awards outstanding and exercisable at September 30, 2012 (options/SARs in millions):

	Awards Outstanding			Awards Exercisable		
Range of Exercise Price	No. of Options/ SARs	WTD. Avg. Remaining Life	WTD. Avg. Exercise Price	No. of Options/ SARS	WTD. Avg. Remaining Life	WTD. Avg. Exercise Price
$20.12 – $21.65	0.4	5.43	$21.60	0.4	5.43	$21.60
$24.45 – $28.72	0.4	1.41	25.65	0.4	1.41	25.65
$29.01 – $31.62	0.3	2.37	29.18	0.3	2.37	29.18
$33.25 – $37.48	0.3	3.07	35.83	0.3	3.07	35.83
$37.89 – $38.90	0.7	4.59	38.57	0.7	4.59	38.57
$40.81 – $51.73	1.2	7.86	47.14	0.1	3.99	43.72
	3.3	5.24	$37.28	2.2	3.66	$32.20

The intrinsic value of the stock option and SAR awards outstanding and exercisable at September 30 were as follows (in millions):

	2012
Outstanding	$25.8
Exercisable	25.3

The grant date fair value of stock option awards are estimated using a binomial model and the assumptions in the following table. Expected market price volatility is based on implied volatilities from traded options on Scotts Miracle-Gro's common shares and historical volatility specific to the common shares. Historical data, including demographic factors impacting historical exercise behavior, is used to estimate stock option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life (normally ten years) of the stock option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of stock options is based on historical experience and expectations for grants outstanding. The weighted average assumptions for awards granted are as follows for the periods indicated:

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	Year Ended September 30,					
	2012		2011		2010	
Expected market price volatility	33.2	%	31.9	%	32.1	%
Risk-free interest rates	1.2	%	2.4	%	2.8	%
Expected dividend yield	2.5	%	1.9	%	1.2	%
Expected life of stock options in years	5.96		5.97		6.00	
Estimated weighted-average fair value per stock option	11.50		14.06		12.90	

The total intrinsic value of stock options exercised was $23.9 million, $22.4 million and $25.9 million during fiscal 2012, fiscal 2011and fiscal 2010, respectively. Cash received from the exercise of stock options for fiscal 2012 and fiscal 2011was $17.6 million and $31.5 million, respectively.

Restricted share-based awards

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

	No. of Shares		WTD. Avg. Grant Date Fair Value per Share
Awards outstanding at September 30, 2009	707,949		$31.32
Granted	288,207		41.53
Vested	(129,130	)	41.15
Forfeited	(26,600	)	27.24
Awards outstanding at September 30, 2010	840,426		33.52
Granted	96,235		51.99
Vested	(136,355	)	38.44
Forfeited	(103,400	)	32.76
Awards outstanding at September 30, 2011	696,906		35.22
Granted	138,316		47.53
Vested	(301,132	)	22.25
Forfeited	(36,891	)	45.28
Awards outstanding at September 30, 2012	497,199		45.75

The total fair value of restricted stock vested was $3.6 million, $4.6 million and $5.2 million during fiscal 2012, fiscal 2011 and fiscal 2010, respectively. The total fair value of restricted stock units vested was $3.1 million, $0.6 million and $0.4 million during fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

Performance-based awards

Performance-based award activity was as follows:

	No. of Units	WTD. Avg. Grant Date Fair Value per Unit
Awards outstanding at September 30, 2009	30,000	$27.98
Granted	4,200	38.76
Vested	(10,000)	27.98
Forfeited	—	—
Awards outstanding at September 30, 2010	24,200	29.85
Granted	53,874	51.91
Vested	(35,774)	32.57
Forfeited	—	—
Awards outstanding at September 30, 2011	42,300	51.73
Granted	114,279	47.63
Vested	—	—
Forfeited	(2,670)	47.66
Awards outstanding at September 30, 2012	153,909	45.48

NOTE 13. EARNINGS PER COMMON SHARE

Basic earnings per common share are computed by dividing income from continuing operations, income from discontinued operations or net income by the weighted average number of common shares outstanding. Diluted earnings per common share are computed by dividing income from continuing operations, income from discontinued operations or net income by the weighted average number of common shares outstanding plus all potentially dilutive securities. Stock options with exercise prices greater than the average market price of the underlying common shares are excluded from the computation of diluted earnings per common share because they are out-of-the-money and the effect of their inclusion would be anti-dilutive. The number of common shares covered by out-of-the-money stock options was 0.7 million, 0.2 million and 0.2 million for the years ended September 30, 2012, 2011 and 2010, respectively. The following table presents information necessary to calculate basic and diluted earnings per common share.

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	Year Ended September 30,		
	2012	2011	2010
	(In millions, except per share data)		
Income from continuing operations	$113.2	$139.9	$207.7
Income (loss) from discontinued operations	(6.7)	28.0	(3.6)
Net income	$106.5	$167.9	$204.1
BASIC EARNINGS PER COMMON SHARE:			
Weighted-average common shares outstanding during the period	61.0	64.7	66.3
Income from continuing operations	$1.86	$2.16	$3.13
Income (loss) from discontinued operations	(0.11)	0.44	(0.05)
Net income	$1.75	$2.60	$3.08
DILUTED EARNINGS PER COMMON SHARE:			
Weighted-average common shares outstanding during the period	61.0	64.7	66.3
Dilutive potential common shares	1.1	1.5	1.3
Weighted-average number of common shares outstanding and dilutive potential common shares	62.1	66.2	67.6
Income from continuing operations	$1.82	$2.11	$3.07
Income (loss) from discontinued operations	(0.11)	0.43	(0.05)
Net income	$1.71	$2.54	$3.02

NOTE 14. INCOME TAXES

The provision (benefit) for income taxes allocated to continuing operations consisted of the following:

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Current:			
Federal	$31.0	$66.2	$87.6
State	6.0	8.3	7.7
Foreign	7.2	5.4	6.3
Total Current	44.2	79.9	101.6
Deferred:			
Federal	23.5	2.2	20.0
State	1.3	(0.1)	1.3
Foreign	(0.4)	0.7	0.6
Total Deferred	24.4	2.8	21.9
Provision for income taxes	$68.6	$82.7	$123.5

The domestic and foreign components of income from continuing operations before income taxes were as follows:

	Year Ended September 30,		
	2012	2011	2010
	(In millions)		
Domestic	$165.3	$205.7	$319.1
Foreign	16.5	16.9	12.1

Income from continuing operations before income taxes	$181.8	$222.6	$331.2

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A reconciliation of the federal corporate income tax rate and the effective tax rate on income from continuing operations before income taxes is summarized below:

	Year Ended September 30,					
	2012		2011		2010	
Statutory income tax rate	35.0	%	35.0	%	35.0	%
Effect of foreign operations	(0.5	)	(0.3	)	(0.2	)
State taxes, net of federal benefit	3.1		2.8		2.9	
Domestic Production Activities Deduction permanent difference	(1.5	)	(2.3	)	(1.3	)
Effect of other permanent differences	2.4		1.9		0.6	
Research and Experimentation and other federal tax credits	(0.1	)	(0.2	)	—	
Resolution of prior tax contingencies	(0.9	)	0.7		0.3	
Other	0.2		(0.4	)	—	
Effective income tax rate	37.7	%	37.2	%	37.3	%

Included in "Effect of other permanent differences" in the effective tax rate reconciliation table above are nondeductible fines and penalties of $4.8 million and $7.7 million for the fiscal years ended September 30, 2012 and September 30, 2011, respectively, from the settlement of the product registration and recall matters more fully discussed at Note 3 herein. No related penalties were recorded in the fiscal year ended September 30, 2010 and none are expected to recur in future periods.

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, and operating loss and tax credit carryforwards for tax purposes. The components of the deferred income tax assets and liabilities were as follows:

	September 30,			
	2012		2011	
	(In millions)			
DEFERRED TAX ASSETS				
Inventories	$17.0		$18.3	
Accrued liabilities	61.5		70.3	
Postretirement benefits	41.2		40.7	
Accounts receivable	7.9		10.8	
State NOL carryovers	1.9		1.6	
Foreign NOL carryovers	48.2		42.7	
Foreign tax credit carryovers	8.3		7.8	
Interest rate swaps	11.0		10.3	
Other	4.2		5.7	
Gross deferred tax assets	201.2		208.2	
Valuation allowance	(48.4	)	(44.3	)
Total deferred tax assets	152.8		163.9	
DEFERRED TAX LIABILITIES				
Property, plant and equipment	(58.9	)	(60.6	)
Intangible assets	(85.8	)	(74.5	)
Other	(3.2	)	(5.9	)
Total deferred tax liabilities	(147.9	)	(141.0	)
Net deferred tax asset	$4.9		$22.9	

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The net current and non-current components of deferred income taxes recognized in the Consolidated Balance Sheets were:

	September 30, 2012	2011
	(In millions)	
Net current deferred tax assets (classified with prepaid and other assets)	$76.5	$88.1
Net non-current deferred tax liabilities (classified with other liabilities)	(71.6)	(65.2)
Net deferred tax asset	$4.9	$22.9

GAAP requires that a valuation allowance be recorded against a deferred tax asset if it is more likely than not that the tax benefit associated with the asset will not be realized in the future. As shown in the table above, valuation allowances were recorded against $48.4 million and $44.3 million of deferred tax assets as of September 30, 2012 and 2011, respectively. Most of these valuation allowances relate to certain foreign net operating losses, and the remainder relates to certain state net operating losses and a capital loss carryover. Each of these items is explained more fully below.

The Company has elected to treat certain foreign entities as disregarded entities for U.S. tax purposes, which results in their net income or loss being recognized currently in the Company’s U.S. tax return. As such, the tax benefit of net operating losses available for foreign statutory tax purposes has already been recognized for U.S. purposes. Accordingly, a full valuation allowance is required on the tax benefit of these net operating losses on global consolidation. The foreign net operating losses of these foreign disregarded entities were $176.3 million at September 30, 2012, the majority of which have indefinite carryforward periods. The statutory tax benefit of these net operating loss carryovers, and related full valuation allowances thereon, amounted to $46.4 million and $41.5 million for the fiscal years ended September 30, 2012 and 2011, respectively.

Foreign net operating losses of certain controlled foreign corporations were $7.2 million as of September 30, 2012, the majority of which have indefinite carryforward periods. Due to a history of losses in these entities, a full valuation allowance has also been placed against the statutory tax benefit associated with these losses amounting to $1.8 million and $1.2 million at September 30, 2012 and 2011, respectively.

State net operating losses were $31.8 million as of September 30, 2012, with carryforward periods ranging from 5 to 20 years. Any losses not utilized within a specific state’s carryforward period will expire. State net operating loss carryforwards included $0.3 million and $0.4 million of tax benefits relating to Smith & Hawken at September 30, 2012 and 2011, respectively. As these losses may only be used against income of Smith & Hawken, and cannot be used to offset income of the consolidated group, a full valuation allowance has been recorded against this tax asset.

Tax benefits associated with state tax credits will expire if not utilized and amounted to $0.5 million at both September 30, 2012 and 2011. No valuation allowance has been placed against these credits as the Company should fully utilize the credits within their respective carryover periods.

Lastly, with respect to valuation allowances, a $1.2 million valuation allowance was placed against a capital loss carryover during the fiscal year-ended September 30, 2011 related to the Company's minority interest in the stock of Turf-Seed Europe. This capital loss was ultimately utilized against capital gains from the sale of the Company's Global Professional business in the same year. As such, the capital loss and related valuation allowance no longer exist as of September 30, 2012.

Deferred taxes have not been provided on unremitted earnings approximating $144.0 million of certain foreign subsidiaries and foreign corporate joint ventures as such earnings have been indefinitely reinvested. These foreign entities held cash and cash equivalents of $118.6 million and $121.1 million at September 30, 2012 and 2011, respectively. Our current plans do not demonstrate a need to, nor do we have plans to, repatriate the retained earnings from these subsidiaries 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 subsidiaries, we may be required to pay associated taxes on the repatriation. We may also be required to withhold foreign taxes depending on the foreign jurisdiction from which the funds are repatriated. The effective rate of tax on such repatriations may materially differ from the federal statutory tax rate, thereby having a material impact on tax expense in the year of repatriation; however, the Company cannot reasonably estimate the amount of such a tax event.

GAAP provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. The amount recognized is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement.

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The Company had \$7.0 million, \$8.9 million and \$7.8 million of gross unrecognized tax benefits related to uncertain tax positions at September 30, 2012, 2011 and 2010, respectively. Included in the September 30, 2012, 2011 and 2010 balances were \$6.9 million, \$7.3 million and \$6.4 million, respectively, of unrecognized tax benefits that, if recognized, would have an impact on the effective tax rate.

A reconciliation of the unrecognized tax benefits is as follows:

	Year Ended September 30,	
	2012	2011