

SCOTTS MIRACLE-GRO CO
Form 10-Q
August 09, 2012
Table of Contents

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER: 001-11593

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

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

14111 SCOTTSLAWN ROAD, 43041
MARYSVILLE, OHIO
(Address of principal executive offices) (Zip Code)
(937) 644-0011
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Class	Outstanding at August 06, 2012
Common Shares, \$0.01 stated value, no par value	61,156,686 common shares

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
INDEX

PAGE NO.

PART I. FINANCIAL INFORMATION:

<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations — Three and nine months ended June 30, 2012 and July 2, 2011</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flow — Nine months ended June 30, 2012 and July 2, 2011</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets — June 30, 2012, July 2, 2011 and September 30, 2011</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>41</u>
<u>Item 4. Controls and Procedures</u>	<u>41</u>

PART II. OTHER INFORMATION:

<u>Item 1. Legal Proceedings</u>	<u>41</u>
<u>Item 1A. Risk Factors</u>	<u>41</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>42</u>
<u>Item 6. Exhibits</u>	<u>42</u>
<u>Signatures</u>	<u>43</u>
<u>Index to Exhibits</u>	<u>44</u>

Table of Contents

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Statements of Operations

(In Millions, Except Per Common Share Data)

(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Net sales	\$1,062.2	\$1,058.7	\$2,446.9	\$2,418.5
Cost of sales	695.5	657.5	1,592.4	1,503.4
Cost of sales – product registration and recall matters	0.2	1.1	0.4	3.2
Gross profit	366.5	400.1	854.1	911.9
Operating expenses:				
Selling, general and administrative	197.5	192.4	557.5	551.8
Impairment, restructuring and other charges	(0.4	) 13.8	7.8	13.8
Product registration and recall matters	3.8	5.7	7.4	7.8
Other income, net	(2.4	) (4.2	) (4.6	) (5.0
Income from operations	168.0	192.4	286.0	343.5
Costs related to refinancing	—	1.2	—	1.2
Interest expense	16.6	14.0	49.8	37.3
Income from continuing operations before income taxes	151.4	177.2	236.2	305.0
Income tax expense from continuing operations	56.4	65.5	87.9	111.4
Income from continuing operations	95.0	111.7	148.3	193.6
Income (loss) from discontinued operations, net of tax	(1.7	) (0.1	) (1.7	) 27.7
Net income	\$93.3	\$111.6	\$146.6	\$221.3
Basic income per common share:				
Income from continuing operations	\$1.55	\$1.73	\$2.43	\$2.95
Income (loss) from discontinued operations	(0.02	) —	(0.03	) 0.42
Basic income per common share	\$1.53	\$1.73	\$2.40	\$3.37
Weighted-average common shares outstanding during the period	61.1	64.5	61.0	65.6
Diluted income per common share:				
Income from continuing operations	\$1.53	\$1.69	\$2.39	\$2.89
Income (loss) from discontinued operations	(0.03	) —	(0.03	) 0.41
Diluted income per common share	\$1.50	\$1.69	\$2.36	\$3.30
Weighted-average common shares outstanding during the period plus dilutive potential common shares	62.2	66.2	62.0	67.1
Dividends declared per common share	\$0.30	\$0.25	\$0.90	\$0.75

See notes to condensed consolidated financial statements.

Table of Contents

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

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

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

Cash and cash equivalents, beginning of period	130.9	88.1
Cash and cash equivalents, end of period	\$132.3	\$164.3

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$(48.8	)	\$(33.6)
Income taxes paid	(18.6	)	(63.1)

See notes to condensed consolidated financial statements.

4

Table of Contents

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

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

Organization and Basis of Presentation

The Company’s unaudited condensed consolidated financial statements for the three and nine months ended June 30, 2012 and July 2, 2011 are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The condensed consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company’s consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, this report should be read in conjunction with Scotts Miracle-Gro’s Annual Report on Form 10-K for the fiscal year ended September 30, 2011, which includes a complete set of footnote disclosures, including the Company’s significant accounting policies.

Use of Estimates

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

RECENT ACCOUNTING PRONOUNCEMENTS

Fair Value Measurement

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

Comprehensive Income

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

Testing for Goodwill Impairment

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

Table of Contents

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

Testing for Indefinite-Lived Intangible Asset Impairment

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

NOTE 2. DISCONTINUED OPERATIONS

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

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

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

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

Table of Contents

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

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

NOTE 3. PRODUCT REGISTRATION AND RECALL MATTERS

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES

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

Table of Contents

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

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

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

NOTE 5. INVENTORIES

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

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

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

NOTE 6. MARKETING AGREEMENT

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

In consideration for the rights granted to the Company under the Marketing Agreement for North America, the Company was required to pay a marketing fee of \$32 million to Monsanto. The Company has deferred this amount on the basis that the payment will provide a future benefit through commissions that will be earned under the Marketing Agreement. The economic useful life over which the marketing fee is being amortized is 20 years, with a remaining amortization period of less than seven years as of June 30, 2012.

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

Table of Contents

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Gross commission	\$38.2	\$32.9	\$71.6	\$65.9
Contribution expenses	(5.0)	(5.0)	(15.0)	(15.0)
Amortization of marketing fee	(0.2)	(0.2)	(0.6)	(0.6)
Net commission income	33.0	27.7	56.0	50.3
Reimbursements associated with Marketing Agreement	27.8	17.7	69.0	51.9
Total net sales associated with Marketing Agreement	\$60.8	\$45.4	\$125.0	\$102.2

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

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

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

NOTE 7. DEBT

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

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

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

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

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

Table of Contents

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

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

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

Estimated Fair Values

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

Credit Facility

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

7.25% Senior Notes

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

6.625% Senior Notes

The fair value of Scotts Miracle-Gro's 6.625% Senior Notes due 2020 (the "6.625% Senior Notes") can be determined based on the trading of the 6.625% Senior Notes in the open market. The difference between the carrying value and the fair value of the 6.625% Senior Notes represents the premium or discount on that date. Based on the trading value on or around June 30, 2012, July 2, 2011 and September 30, 2011, the fair value of the 6.625% Senior Notes was approximately \$215.0 million, \$204.0 million and \$198.1 million, respectively. The fair value measurement for the 6.625% Senior Notes was classified in Level 1 of the fair value hierarchy.

Accounts Receivable Pledged

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

Table of Contents

NOTE 8. COMPREHENSIVE INCOME (LOSS)

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

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

NOTE 9. RETIREMENT AND RETIREE MEDICAL PLANS

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

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

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

NOTE 10. SHAREHOLDERS' EQUITY

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

Table of Contents

Share-Based Awards

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

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

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

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

NOTE 11. INCOME TAXES

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

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

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

NOTE 12. CONTINGENCIES

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

the matters set out below.

14

Table of Contents

FIFRA Compliance, Corresponding Governmental Investigations and Related Litigation

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

Other Regulatory Matters

At June 30, 2012, \$3.9 million was accrued in the "Other liabilities" line in the Condensed Consolidated Balance Sheet for non-FIFRA compliance-related environmental actions, the majority of which is for site remediation. The amounts accrued are believed to be adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is reasonably possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

Other

The Company has been named as a defendant in a number of cases alleging injuries that the lawsuits claim resulted from exposure to asbestos-containing products, apparently based on the Company's historic use of vermiculite in certain of its products. In many of these cases, the complaints are not specific about the plaintiffs' contacts with the Company or its products. None of the claims seek damages from the Company alone. The Company believes that the claims against it are without merit and is vigorously defending against them. It is not currently possible to reasonably estimate a probable loss, if any, associated with these cases and, accordingly, no accrual or reserves have been recorded in the Company's condensed consolidated financial statements. The Company is reviewing agreements and policies that may provide insurance coverage or indemnity as to these claims and is pursuing coverage under some of these agreements and policies, although there can be no assurance of the results of these efforts. There can be no assurance that these cases, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material effect on the Company's financial condition, results of operations or cash flows.

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

NOTE 13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

Exchange Rate Risk Management

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

Interest Rate Risk Management

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

At June 30, 2012 and July 2, 2011, the Company had outstanding interest rate swap agreements with major financial institutions that effectively converted a portion of the Company's variable-rate debt to a fixed rate. The swap

agreements had a total U.S. dollar equivalent notional amount of \$700 million and \$900 million at June 30, 2012 and July 2, 2011, respectively. Included in the AOCI balance at June 30, 2012 was a loss of \$4.4 million related to interest rate swap agreements that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

Table of Contents

Commodity Price Risk Management

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

Periodically, the Company also uses derivatives to partially mitigate the effect of fluctuating diesel and gasoline costs on operating results. Any such derivatives that do not qualify for hedge accounting treatment in accordance with GAAP are recorded at fair value, with unrealized gains and losses on open contracts and realized gains or losses on settled contracts recorded as an element of cost of sales. Unrealized gains or losses in the fair value of contracts that do qualify for hedge accounting are recorded in OCI except for any ineffective portion of the change in fair value, which is immediately recorded in earnings. For the effective portion of the change in fair value, realized gains or losses remain as a component of AOCI until the related fuel is consumed. Upon consumption of the fuel, the gain or loss is reclassified to cost of sales. Included in the AOCI balance at June 30, 2012 was a gain of \$0.1 million related to fuel derivatives that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

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

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

Table of Contents

Fair Values of Derivative Instruments

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

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

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

		AMOUNT OF GAIN / (LOSS)			
		RECOGNIZED IN OCI			
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS		THREE MONTHS ENDED		NINE MONTHS ENDED	
		JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Interest rate swap agreements		\$(3.7)	\$(6.4)	\$(8.3)	\$(5.1)
Commodity hedging instruments		—	0.3	0.8	1.7
Total		\$(3.7)	\$(6.1)	\$(7.5)	\$(3.4)
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS		AMOUNT OF GAIN / (LOSS)			
		RECLASSIFIED FROM AOCI INTO EARNINGS			
		THREE MONTHS ENDED		NINE MONTHS ENDED	
		JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Interest rate swap agreements	Interest expense	\$ (2.4)	\$(3.3)	\$(9.5)	\$(10.1)
Commodity hedging instruments	Cost of sales	0.7	0.7	1.7	2.1
Total		\$(1.7)	\$(2.6)	\$(7.8)	\$(8.0)

Table of Contents

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

NOTE 14. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Derivatives

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

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

Cash equivalents

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

Other

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

Table of Contents

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at June 30, 2012 (in millions):

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

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

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

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

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

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

Derivatives

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

19

Table of Contents

NOTE 15. SEGMENT INFORMATION

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

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

Corporate & Other consists of the Company's professional seed business, revenues and expenses associated with the Company's supply agreements with ICL and the Roundup® Marketing Agreement, as well as corporate, general and administrative expenses and certain other income/expense items not allocated to the business segments. Corporate & Other assets primarily include deferred financing and debt issuance costs and corporate intangible assets, as well as deferred tax assets.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2012	JULY 2, 2011	JUNE 30, 2012	JULY 2, 2011
Net sales:				
Global Consumer	\$960.7	\$951.6	\$2,229.4	\$2,225.2
Scotts LawnService®	87.8	82.4	161.3	152.2
Segment total	1,048.5	1,034.0	2,390.7	2,377.4
Corporate & Other	13.7	24.7	56.2	41.1
Consolidated	\$1,062.2	\$1,058.7	\$2,446.9	\$2,418.5
Income from continuing operations before income taxes:				
Global Consumer	\$171.7	\$209.9	\$377.4	\$453.8
Scotts LawnService®	22.4	22.4	4.9	2.7
Segment total	194.1	232.3	382.3	456.5
Corporate & Other	(20.3)	(16.2)	(74.0)	(80.1)
Intangible asset amortization	(2.2)	(3.1)	(6.7)	(8.1)
Product registration and recall matters	(4.0)	(6.8)	(7.8)	(11.0)
Impairment, restructuring and other charges	0.4	(13.8)	(7.8)	(13.8)
Costs related to refinancing	—	(1.2)	—	(1.2)
Interest expense	(16.6)	(14.0)	(49.8)	(37.3)
Consolidated	\$151.4	\$177.2	\$236.2	\$305.0
	JUNE 30, 2012	JULY 2, 2011	SEPTEMBER 30, 2011	
Total assets:				
Global Consumer	\$1,967.3	\$2,037.9	\$1,552.4	
Scotts LawnService®	183.2	180.2	184.3	
Corporate & Other	233.6	309.1	315.5	
Consolidated	\$2,384.1	\$2,527.2	\$2,052.2	

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

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

20

Table of Contents

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

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

Table of Contents

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

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
Net sales	\$—	\$895.6	\$166.6	\$—	\$1,062.2
Cost of sales	—	577.5	118.0	—	695.5
Cost of sales – product registration and recall matters	—	0.2	—	—	0.2
Gross profit	—	317.9	48.6	—	366.5
Operating expenses:					
Selling, general and administrative	—	150.2	47.3	—	197.5
Impairment, restructuring and other charges	—	—	(0.4	) —	(0.4)
Product registration and recall matters	—	3.8	—	—	3.8
Other income, net	—	(2.1	) (0.3	) —	(2.4)
Income from operations	—	166.0	2.0	—	