SCOTTS MIRACLE-GRO CO
Form 10-Q
August 10, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 2, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-11593

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

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

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

(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

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

Class	Outstanding at August 5, 2016
Common Shares, $0.01 stated value, no par value	60,606,902 Common Shares

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PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, 2016	JUNE 27, 2015	JULY 2, 2016	JUNE 27, 2015
Net sales	$994.1	$1,111.3	$2,433.8	$2,352.6
Cost of sales	636.3	722.1	1,532.6	1,531.8
Cost of sales—impairment, restructuring and other	0.4	3.4	5.5	3.6
Gross profit	357.4	385.8	895.7	817.2
Operating expenses:				
Selling, general and administrative	151.9	155.3	466.1	449.5
Impairment, restructuring and other	(5.8)	40.9	(51.7)	54.0
Other income, net	(5.6)	(1.8)	(7.1)	(2.4)
Income from operations	216.9	191.4	488.4	316.1
Equity in loss of unconsolidated affiliates	3.5	—	3.5	—
Costs related to refinancing	—	—	8.8	—
Interest expense	16.9	14.3	52.3	39.0
Income from continuing operations before income taxes	196.5	177.1	423.8	277.1
Income tax expense from continuing operations	69.5	62.0	150.3	97.0
Income from continuing operations	127.0	115.1	273.5	180.1
Income from discontinued operations, net of tax	85.7	17.9	68.2	3.2
Net income	$212.7	$133.0	$341.7	$183.3
Net loss attributable to noncontrolling interest	0.4	0.4	0.2	0.1
Net income attributable to controlling interest	$213.1	$133.4	$341.9	$183.4
Basic income per common share:				
Income from continuing operations	$2.09	$1.89	$4.46	$2.95
Income from discontinued operations	1.40	0.29	1.11	0.06
Basic income per common share	$3.49	$2.18	$5.57	$3.01
Weighted-average common shares outstanding during the period	61.1	61.3	61.3	61.0
Diluted income per common share:				
Income from continuing operations	$2.06	$1.85	$4.40	$2.90
Income from discontinued operations	1.38	0.29	1.10	0.05
Diluted income per common share	$3.44	$2.14	$5.50	$2.95
Weighted-average common shares outstanding during the period plus dilutive potential common shares	61.9	62.3	62.2	62.1
Dividends declared per common share	$0.470	$0.450	$1.410	$1.350

See Notes to Condensed Consolidated Financial Statements.

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In millions)
(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, 2016	JUNE 27, 2015	JULY 2, 2016	JUNE 27, 2015
Net income	$212.7	$ 133.0	$341.7	$ 183.3
Other comprehensive income (loss):				
Net foreign currency translation adjustment	(12.3)	2.5	(14.8)	(8.8)
Net unrealized (gain) loss on derivative instruments, net of tax of $0.7, $0.3, $1.7 and $2.7, respectively	(1.2)	0.5	(2.8)	(4.4)
Reclassification of net unrealized losses on derivatives to net income, net of tax of $1.1, $1.4, $3.3 and $3.5, respectively	1.7	2.3	5.3	5.6
Reclassification of net pension and post-retirement benefit loss to net income, net of tax of $0.6, $0.5, $1.0 and $1.4, respectively	0.9	0.8	1.6	2.3
Total other comprehensive income (loss)	(10.9)	6.1	(10.7)	(5.3)
Comprehensive income	$201.8	$ 139.1	$331.0	$ 178.0

See Notes to Condensed Consolidated Financial Statements.

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

	NINE MONTHS ENDED	
	JULY 2, 2016	JUNE 27, 2015
OPERATING ACTIVITIES		
Net income	$341.7	$ 183.3
Adjustments to reconcile net income to net cash used in operating activities:		
Impairment, restructuring and other	0.2	4.3
Costs related to refinancing	2.2	—
Share-based compensation expense	13.7	11.4
Depreciation	40.2	38.2
Amortization	14.1	12.3
(Gain) loss on sale of assets	(1.2)	0.6
Gain on contribution of SLS Business	(142.6)	—
Equity in loss of unconsolidated affiliates	3.5	—
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(447.8)	(475.6)
Inventories	(52.6)	(21.1)
Prepaid and other assets	(27.5)	(15.7)
Accounts payable	51.1	125.8
Other current liabilities	147.2	114.4
Restructuring reserves	(9.6)	37.0
Other non-current items	44.8	3.2
Other, net	(6.3)	6.1
Net cash (used in) provided by operating activities	(28.9)	24.2
INVESTING ACTIVITIES		
Proceeds from sale of long-lived assets	2.4	5.3
Investments in property, plant and equipment	(35.7)	(41.2)
Investments in loans receivable	(90.0)	—
Net distributions from unconsolidated affiliates	194.1	—
Cash contributed to Joint Venture	(24.2)	—
Investments in acquired businesses, net of cash acquired	(161.4)	(179.1)
Net cash used in investing activities	(114.8)	(215.0)
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit and term loans	1,882.6	1,440.7
Repayments under revolving and bank lines of credit and term loans	(1,762.9)	(1,175.9)
Proceeds from issuance of 6.000% Senior Notes	400.0	—
Repayment of 6.625% Senior Notes	(200.0)	—
Financing and issuance fees	(11.2)	—
Dividends paid	(86.4)	(82.4)
Purchase of Common Shares	(81.2)	(14.8)
Payments on seller notes	(2.3)	(0.8)
Excess tax benefits from share-based payment arrangements	4.3	2.9

Cash received from the exercise of stock options	9.9	16.5
Net cash provided by financing activities	152.8	186.2
Effect of exchange rate changes on cash	(3.3)	(4.8)
Net increase in cash and cash equivalents	5.8	(9.4)
Cash and cash equivalents at beginning of period	71.4	89.3
Cash and cash equivalents at end of period	$77.2	$ 79.9
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$(48.1)	$ (39.3)
Call premium on 6.625% Senior Notes	(6.6)	—
Income taxes paid	(52.3)	(53.7)

See Notes to Condensed Consolidated Financial Statements.

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

	JULY 2, 2016	JUNE 27, 2015	SEPTEMBER 30, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$77.2	$79.9	$ 71.4
Accounts receivable, less allowances of $10.5, $9.2 and $6.5, respectively	359.7	406.7	157.7
Accounts receivable pledged	435.1	376.4	152.9
Inventories	469.9	399.8	395.8
Assets held for sale	—	223.2	220.3
Prepaid and other current assets	139.2	125.9	121.1
Total current assets	1,481.1	1,611.9	1,119.2
Investment in unconsolidated affiliate	94.4	—	—
Property, plant and equipment, net of accumulated depreciation of $623.5 $605.6 and $593.9, respectively	449.6	437.9	444.1
Goodwill	346.0	282.1	283.8
Intangible assets, net	750.6	661.6	655.1
Other assets	138.0	24.6	25.0
Total assets	$3,259.7	$3,018.1	$ 2,527.2
LIABILITIES AND EQUITY			
Current liabilities:			
Current portion of debt	$382.5	$314.0	$ 132.6
Accounts payable	249.5	308.6	193.1
Marketing and license agreement obligation	—	300.0	—
Liabilities held for sale	—	63.4	41.7
Other current liabilities	359.2	362.2	251.2
Total current liabilities	991.2	1,348.2	618.6
Long-term debt	1,130.3	734.9	1,025.0
Other liabilities	306.0	241.6	250.5
Total liabilities	2,427.5	2,324.7	1,894.1
Contingencies (Note 12)			
Shareholders' equity:			
Common shares and capital in excess of $.01 stated value per share; 60.8, 61.3 and 61.4 shares issued and outstanding, respectively	401.1	403.9	400.4
Retained earnings	938.6	737.1	684.2
Treasury shares, at cost; 7.3, 6.9 and 6.7 shares, respectively	(409.3)	(369.5)	(357.1)
Accumulated other comprehensive loss	(117.5)	(91.5)	(106.8)
Total shareholders' equity - controlling interest	812.9	680.0	620.7
Noncontrolling interest	19.3	13.4	12.4
Total equity	832.2	693.4	633.1
Total liabilities and equity	$3,259.7	$3,018.1	$ 2,527.2

See Notes to Condensed Consolidated Financial Statements.

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” or “Parent”) 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, food and drug stores, and indoor gardening and hydroponic stores. The Company’s products are sold primarily in North America and the European Union.
Prior to April 13, 2016, the Company operated the Scotts LawnService® business (the “SLS Business”), which provides residential and commercial lawn care, tree and shrub care and pest control services in the United States. On April 13, 2016, pursuant to the terms of the Contribution and Distribution Agreement (the “Contribution Agreement”) between the Company and TruGreen Holding Corporation (“TruGreen Holdings”), the Company completed the contribution of the SLS Business to a newly formed subsidiary of TruGreen Holdings (the “Joint Venture”) in exchange for a minority equity interest of approximately 30% in the Joint Venture. As a result, effective in its second quarter of fiscal 2016, the Company classified its results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale. See “NOTE 2. DISCONTINUED OPERATIONS” for further discussion. Prior to being reported as discontinued operations, the SLS Business was included as its own reportable segment. Refer to “NOTE 15. SEGMENT INFORMATION” for discussion of the Company’s new reportable segments identified effective in the second quarter of fiscal 2016.
Due to the nature of the consumer lawn and garden business, the majority of the Company’s 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 in excess of 75% of the Company’s annual net sales.
The Company follows a 13-week quarterly accounting cycle pursuant to which the first three fiscal quarters end on a Saturday and the fiscal year always ends on September 30. This fiscal calendar convention requires the Company to cycle forward the first three fiscal quarter ends every six years. Fiscal 2016 is the most recent year impacted by this process and, as a result, the first quarter of fiscal 2016 had six additional days and the fourth quarter of fiscal 2016 will have five less days compared to the corresponding quarters of fiscal 2015. In addition, the third quarter of fiscal 2016 began six days later than the third quarter of fiscal 2015 and these six days occurred during the Company’s peak selling season. The Company’s third quarter of fiscal 2016 ended on July 2, 2016 while the Company’s third quarter of fiscal 2015 ended on June 27, 2015.
Organization and Basis of Presentation
The Company’s unaudited condensed consolidated financial statements for the three and nine months ended July 2, 2016 and June 27, 2015 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. AeroGrow International, Inc. (“AeroGrow”) and Gavita Holdings B.V., and its subsidiaries (collectively, “Gavita”), in which the Company has controlling interests, are consolidated, with the equity owned by other shareholders shown as noncontrolling interest in the Condensed Consolidated Balance Sheets, and the other shareholders’ portion of net earnings and other comprehensive income shown as net income (loss) or comprehensive income attributable to noncontrolling interest in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income (Loss), respectively. 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, 2015 (the “2015 Annual Report”), which includes a complete set

of footnote disclosures, including the Company’s significant accounting policies.
The Company’s Condensed Consolidated Balance Sheet at September 30, 2015 has been derived from the Company’s audited Consolidated Balance Sheet at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

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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 condensed consolidated financial statements and accompanying notes 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.

Revenue Recognition

Revenue is recognized when title and risk of loss transfer, which generally occurs when products or services are received by the retail 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") pursuant to which the Company has served, since its 1998 fiscal year, as the exclusive agent to the Monsanto Company ("Monsanto") for the marketing and distribution of consumer Roundup® herbicide products, the Company performs certain functions, primarily manufacturing conversion services (in North America), 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 the "Cost of sales" line and the reimbursement of these costs in the "Net sales" line in the Condensed Consolidated Statements of Operations, with no effect on gross profit dollars or net income.

Under the terms of the Marketing, R&D and Ancillary Services Agreement (the "Services Agreement") with Bonnie Plants, Inc. ("Bonnie") and its sole shareholder, Alabama Farmers Cooperative ("AFC"), entered into in the second quarter of fiscal 2016, the Company provides marketing, research and development and certain ancillary services to Bonnie for reimbursement of certain costs and a commission fee earned based on a percentage of the growth in actual earnings before interest, income taxes and amortization of Bonnie's business of planting, growing, developing, manufacturing, distributing, marketing, and selling live plants, plant food, fertilizer and potting soil (the "Bonnie Business"). The commission earned under the Services Agreement is included in the "Net sales" line in the Condensed Consolidated Statements of Operations. Additionally, the Company records costs incurred under the Services Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in the "Cost of sales" line and the reimbursement of these costs in the "Net sales" line, with no effect on gross profit dollars or net income.

Loans Receivable

Loans receivable are carried at outstanding principal amount, and are recognized in the "Other assets" line in the Condensed Consolidated Balance Sheets. Loans receivable are impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. 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 the present value of expected future cash flows and classified as "Impairment, restructuring and other charges" within "Operating expenses" in the Condensed Consolidated Statements of Operations.

Interest income is recorded on an accrual basis, and is recognized in the "Other income, net" line in the Condensed Consolidated Statements of Operations. Interest income was $1.7 million and $2.2 million for the three and nine months ended July 2, 2016.

Long-lived Assets

The Company had non-cash investing activities of $1.9 million and $1.6 million during the nine months ended July 2, 2016 and June 27, 2015, respectively, representing unpaid liabilities incurred during each period to acquire property, plant and equipment.

Statements of Cash Flows

The Company uses the "cumulative earnings" approach for determining cash flow presentation of distributions from unconsolidated affiliates. Distributions received are included in the Condensed Consolidated Statements of Cash Flows as operating activities, unless the cumulative distributions exceed the portion of the cumulative equity in the net earnings of the unconsolidated affiliate, in which case the excess distributions are deemed to be returns of the investment and are classified as investing activities in the Condensed Consolidated Statements of Cash Flows.

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RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued amended accounting guidance that replaces most existing revenue recognition guidance under GAAP. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Subsequently, additional guidance was issued on several areas including guidance intended to improve the operability and understandability of the implementation of principal versus agent considerations and clarifications on the identification of performance obligations and implementation of guidance related to licensing. The provisions are effective for the Company's financial statements no later than the fiscal year beginning October 1, 2018. The standard allows for either a full retrospective or a modified retrospective transition method. The Company is currently evaluating the impact of this standard on its consolidated results of operations, financial position and cash flows.

Debt Issuance Costs

In April 2015, the FASB issued an accounting standard update that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the corresponding debt liability rather than as an asset. The provisions are effective retrospectively for the Company's financial statements for the fiscal year beginning October 1, 2016. The adoption of the amended guidance impacts presentation and disclosure of debt issuance costs and is not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

Business Combinations

In September 2015, the FASB issued an accounting standard update to simplify the accounting for measurement-period adjustments by requiring an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, and requiring disclosure of the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The provisions are effective prospectively for the Company's financial statements no later than the fiscal year beginning October 1, 2016 and are not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

Income Taxes

In November 2015, the FASB issued an accounting standard update to simplify the presentation of deferred income taxes by requiring that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The provisions are effective for the Company's financial statements no later than the fiscal year beginning October 1, 2017. The standard allows for either a retrospective or prospective transition method and is not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

Leases

In February 2016, the FASB issued an accounting standard update which significantly changes the accounting for leases. This guidance requires lessees to recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The provisions are effective for the Company's financial statements no later than the fiscal year beginning October 1, 2019 and require a modified retrospective transition approach for leases that exist or are entered into after the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of this standard on its consolidated results of operations, financial position and cash flows.

Stock Compensation

In March 2016, the FASB issued an accounting standard update that simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The provisions are effective for the Company's financial statements no later than the fiscal year beginning October 1, 2017. The Company is currently evaluating the impact of this standard on its consolidated results of operations, financial position and cash flows.

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NOTE 2. DISCONTINUED OPERATIONS

On April 13, 2016, pursuant to the terms of the Contribution Agreement, the Company completed the contribution of the SLS Business to the Joint Venture in exchange for a minority equity interest of approximately 30% in the Joint Venture. As a result, effective in its second quarter of fiscal 2016, the Company classified its results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale. The Company's gain on the contribution of $142.6 million, partially offset by the provision for deferred income taxes of $56.2 million, has been recorded in the third quarter of fiscal 2016 within results from discontinued operations. This amount is subject to further post-closing adjustments including working capital adjustments and finalization of the fair value of the approximately 30% interest in the Joint Venture.

The following table summarizes the results of the SLS Business within discontinued operations for each of the periods presented:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, 2016	JUNE 27, 2015	JULY 2, 2016	JUNE 27, 2015
	(In millions)			
Net sales	$9.2	$ 103.5	$101.2	$ 180.7
Operating costs	10.3	78.6	117.4	177.0
Impairment, restructuring and other	—	—	13.6	1.4
Other income, net	—	(1.4)	(1.5)	(2.6)
Gain on contribution of SLS Business	(142.6)	—	(142.6)	—
Income from discontinued operations before income taxes	141.5	26.3	114.3	4.9
Income tax expense from discontinued operations	55.8	8.4	46.1	1.7
Income from discontinued operations, net of tax	$85.7	$ 17.9	$68.2	$ 3.2

The following table summarizes the major classes of assets and liabilities of the SLS Business for each of the periods presented:

	JULY 2, 2016	JUNE 27, 2015	SEPTEMBER 30, 2015
	(In millions)		
Accounts receivable, net	$—	$ 29.8	$ 33.6
Inventories	—	16.0	11.8
Prepaid and other assets	—	9.3	8.3
Property, plant and equipment, net	—	10.0	9.6
Goodwill and intangible assets, net	—	158.1	157.0
Assets held for sale	$—	$ 223.2	$ 220.3
Current portion of debt	$—	$ 2.4	$ 2.2
Accounts payable	—	7.1	4.8
Other current liabilities	—	48.6	29.2
Long-term debt	—	3.5	3.5
Other liabilities	—	1.8	2.0
Liabilities held for sale	$—	$ 63.4	$ 41.7

The Condensed Consolidated Statements of Cash Flows do not present the cash flows from discontinued operations separately from cash flows from continuing operations. Cash provided by operating activities from the SLS Business was $38.9 million and $30.1 million for the nine months ended July 2, 2016 and June 27, 2015, respectively. Cash used in investing activities related to the SLS Business was $1.4 million and $23.4 million for the nine months ended July 2, 2016 and June 27, 2015, respectively.

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NOTE 3. ACQUISITIONS AND INVESTMENTS

Fiscal 2016

On May 26, 2016, the Company, through its subsidiary The Hawthorne Gardening Company, acquired majority control and a 75% economic interest in Gavita for $136.2 million. The remaining 25% interest was retained by Gavita's former ownership group. This transaction provides the Company's Other segment with a presence in the lighting category of indoor and urban gardening, which is a part of the Company's long-term growth strategy. Gavita, which is based in the Netherlands, is a leading producer and marketer of indoor lighting used in the greenhouse and hydroponic markets, predominately in the United States and Europe. The purchase price includes contingent consideration with an estimated fair value of $2.5 million, the payment of which will depend on the performance of the business through calendar year 2019. The preliminary valuation of the acquired assets included (i) $35.0 million of inventory and accounts receivable, (ii) $1.5 million in fixed assets, (iii) $13.6 million of accounts payable and other current liabilities, (iv) $5.5 million of short term debt, (v) $97.6 million of finite-lived identifiable intangible assets, and (vi) $60.2 million of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete arrangements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Net sales for Gavita included within the Other segment for the three and nine months ended July 2, 2016 were $7.0 million. Gavita's former ownership group has retained a 25% noncontrolling interest in Gavita consisting of ownership of 5% of the outstanding shares of Gavita and a loan with interest payable based on annual profits of Gavita. The loan represents a non-cash financing activity and has been recorded at fair value in the "Long-term debt" line in the Condensed Consolidated Balance Sheets, with changes in fair value recognized in the "Other income (loss), net" line in the Condensed Consolidated Statements of Operations. The preliminary valuation of the loan was $37.7 million at July 2, 2016. The fair value measurement was classified in Level 3 of the fair value hierarchy.

In the third quarter of fiscal 2016, the Company completed an acquisition within the Other segment to expand its Canadian growing media operations for an estimated purchase price of $34.4 million. The purchase price includes contingent consideration with an estimated fair value of $10.8 million, the payment of which will depend on the performance of the business in calendar years 2016 and 2017. The preliminary valuation of the acquired assets included (i) $4.2 million of inventory and accounts receivable, (ii) $18.8 million in fixed assets, (iii) $11.5 million of finite-lived identifiable intangible assets, and (iv) $0.9 million of tax-deductible goodwill. Identifiable intangible assets included peat bog lease rights, tradenames, customer relationships and non-compete arrangements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Net sales related to this acquisition included within the Other segment for the three and nine months ended July 2, 2016 were $3.2 million.

These acquisitions include non-cash investing activities of $13.3 million representing contingent consideration. The payment of these amounts will depend on the future performance of the business, subject to adjustment for certain contractually defined metrics.

Subsequent to July 2, 2016, the Company entered into a definitive agreement to acquire American Agritech, LLC d/b/a Botanicare, an Arizona-based leading producer of plant nutrients, plant supplements and growing systems used for hydroponic gardening. This acquisition is expected to close during calendar year 2016.

In the second quarter of fiscal 2016, the Company entered into definitive agreements with Bonnie and its sole shareholder, AFC, providing for the Company's participation in the Bonnie Business. The Company's participation includes a Term Loan Agreement from the Company to AFC, with Bonnie as guarantor, in the amount of $72.0 million with a fixed coupon rate of 6.95% (the "Term Loan") as well as a Services Agreement pursuant to which the Company will provide marketing, research and development and certain ancillary services to the Bonnie Business for a commission fee based on the profits of the Bonnie Business and the reimbursement of certain costs. These agreements also include options beginning in fiscal 2020 that provide for either (i) the Company to increase its economic interest in the Bonnie Business or (ii) AFC and Bonnie to repurchase the Company's economic interest in the Bonnie Business. During the three and nine months ended July 2, 2016, the Company recognized commission fees of $3.1 million and recognized cost reimbursements of $0.4 million and $0.6 million, respectively.

Fiscal 2015

On March 30, 2015, the Company acquired the assets of General Hydroponics, Inc. ("General Hydroponics") and Bio-Organic Solutions, Inc. ("Vermicrop") for $120.0 million and $15.0 million, respectively. This transaction provided the Company's Other segment with an additional entry into the indoor and urban gardening market, which is a part of the Company's long-term growth strategy. General Hydroponics and Vermicrop are leading producers of liquid plant food products, growing media, and accessories for the hydroponics markets. The General Hydroponics purchase price included non-cash investing activity of $1.0 million representing the deferral of a portion of the purchase price into fiscal 2016, of which $0.5 million was paid in the second quarter of fiscal 2016. The Vermicrop purchase price included $5.0 million of contingent consideration, which was paid during the third quarter of fiscal 2016. The Vermicrop purchase price and contingent consideration was paid in common shares of Scotts Miracle-Gro ("Common Shares") based on the average share price at the time of payment. The valuation of the acquired assets was determined during the third quarter of fiscal 2015 and included (i) $14.2 million of inventory and accounts receivable, (ii) $5.7 million in fixed assets, (iii) $65.0 million of finite-lived identifiable intangible assets, and (iv) $53.9 million of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete arrangements with useful lives ranging between 5 and 26 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Net sales for General Hydroponics and Vermicrop included within the Other segment for the three and nine months ended July 2, 2016 were $20.0 million and $48.2 million, respectively.

During fiscal 2015, the Company completed four acquisitions of growing media operations, two within the U.S. Consumer segment and two within the Other segment, for an aggregate purchase price of $40.2 million. These acquisitions expand the Company's growing media operations and distribution capabilities within its U.S. Consumer and Other segments. The valuation of the acquired assets for the transactions included (i) $10.1 million in finite-lived identifiable intangible assets, (ii) $11.4 million in fixed assets, (iii) $10.6 million in tax deductible goodwill, and (iv) $9.9 million of inventory and accounts receivable. Identifiable intangible assets include tradenames and customer relationships with useful lives ranging between 7 and 20 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

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

NOTE 4. INVESTMENT IN UNCONSOLIDATED AFFILIATE

As of July 2, 2016, the Company held a minority equity interest of approximately 30% in the Joint Venture. This interest was initially recorded at an estimated fair value of $294.0 million on the transaction date and subsequently is accounted for using the equity method of accounting, with the Company's proportionate share of Joint Venture earnings reflected in the Condensed Consolidated Statements of Operations. In addition, the Company and TruGreen Holdings entered into a limited liability company agreement (the "LLC Agreement") governing the management of the Joint Venture, as well as certain ancillary agreements including a transition services agreement and an employee leasing agreement. The LLC Agreement provides the Company with minority representation on the board of directors of the Joint Venture.

In connection with the closing of the transactions contemplated by the Contribution Agreement on April 13, 2016, the Joint Venture obtained debt financing and made an excess distribution of $196.2 million to the Company which has been recorded as a return of investment and classified as a cash inflow from investing activities in the Condensed Consolidated Statement of Cash Flows. The Company also provided an $18.0 million investment in second lien term loan financing to the Joint Venture. The Company was reimbursed $5.5 million during the three months ended July 2, 2016 and has accounts receivable of $30.0 million at July 2, 2016 for expenses incurred pursuant to a short-term transition services agreement and an employee leasing agreement.

The Company recognized equity in losses of unconsolidated affiliates of $3.5 million for the three and nine months ended July 2, 2016. Included within losses of unconsolidated affiliates for the three and nine months ended July 2, 2016 is the Company's share of impairment, restructuring and other charges of $17.0 million. These charges included $10.8 million for transaction costs, $0.6 million for nonrecurring integration and separation costs and $5.6 million for a non-cash fair value write-down adjustment on its deferred revenue. At July 2, 2016, consolidated retained earnings contained losses of $2.3 million, net of tax, of unconsolidated affiliates.

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NOTE 5. IMPAIRMENT, RESTRUCTURING AND OTHER
Activity described herein is classified within the "Impairment, restructuring and other" and the "Income from discontinued operations, net of tax" lines in the Condensed Consolidated Statements of Operations.
The following table details impairment, restructuring and other for each of the periods presented:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, 2016	JUNE 27, 2015	JULY 2, 2016	JUNE 27, 2015
	(In millions)			
Restructuring and other (recoveries) charges from continuing operations	$(5.4)	$ 44.3	$(46.2)	$ 57.6
Restructuring and other (recoveries) charges from discontinued operations	—	—	13.6	1.4
Total impairment, restructuring and other (recoveries) charges	$(5.4)	$ 44.3	$(32.6)	$ 59.0

The following table summarizes the activity related to liabilities associated with restructuring and other, excluding insurance reimbursement recoveries, during the nine months ended July 2, 2016 (in millions):

Amounts reserved for restructuring and other at September 30, 2015	$28.1
Restructuring and other charges from continuing operations	9.6
Restructuring and other charges from discontinued operations	13.6
Payments and other	(32.8)
Amounts reserved for restructuring and other at July 2, 2016	$18.5

Included in the restructuring reserves as of July 2, 2016 is $1.9 million that is classified as long-term. Payments against the long-term reserves will be incurred as the employees covered by the restructuring plan retire or through the passage of time. The remaining amounts reserved will continue to be paid out over the course of the next twelve months.
Fiscal 2016
In the first quarter of fiscal 2016, the Company announced a series of initiatives called Project Focus designed to maximize the value of its non-core assets and focus on emerging categories of the lawn and garden industry in its core U.S. business. On April 13, 2016, as part of this project, the Company completed the contribution of the SLS Business to the Joint Venture. As a result, effective in its second quarter of fiscal 2016, the Company classified its results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale. Refer to "NOTE 2: DISCONTINUED OPERATIONS" for more information. During the three and nine months ended July 2, 2016, the Company recognized zero and $9.0 million for the resolution of a prior SLS Business litigation matter, as well as zero and $4.4 million, respectively, in transaction related costs associated with the divestiture of the SLS Business within the "Income from discontinued operations, net of tax" line in the Condensed Consolidated Statements of Operations. In addition, during the three and nine months ended July 2, 2016, the Company recognized costs of $(0.3) million and $2.3 million, respectively, related to other transaction activity within the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations.
During the third quarter of fiscal 2015, the Company's U.S. Consumer segment began experiencing an increase in certain consumer complaints related to the reformulated Bonus® S fertilizer product sold in the southeastern United States during fiscal 2015 indicating customers were experiencing damage to their lawns after application. During the three and nine months ended July 2, 2016, the Company recognized $0.5 million and $6.9 million, respectively, in costs related to resolving these consumer complaints and the recognition of costs the Company expects to incur for current and expected consumer claims. Costs incurred to date since the inception of this matter, excluding insurance reimbursement recoveries, are $74.3 million. The Company has received reimbursement payments of $60.8 million through the third quarter of fiscal 2016, including $5.9 million and $40.9 million received during the three and nine months ended July 2, 2016, respectively. The Company recorded offsetting insurance reimbursement recoveries upon resolution of the insurer's review of claim documentation in the amount of $4.9 million in the fourth quarter of fiscal 2015, $50.0 million in the second quarter of fiscal 2016 and $5.9 million in the third quarter of fiscal 2016.

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Fiscal 2015

During the three and nine months ended June 27, 2015, the Company recognized $6.6 million and $19.9 million, respectively, in restructuring costs related to termination benefits provided to U.S. and international personnel as part of the Company's restructuring of its U.S. administrative and overhead functions, the continuation of the international profitability improvement initiative and the liquidation and exit from the U.K. Solus business. These restructuring charges included zero and $4.3 million of costs related to the acceleration of equity compensation expense for the three and nine months ended June 27, 2015, respectively.

During the third quarter of fiscal 2015, the Company recognized $37.7 million in costs related to consumer complaints and claims related to the reformulated Bonus® S fertilizer product sold in the southeastern United States during fiscal 2015.

NOTE 6. INVENTORIES

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

	JULY 2, 2016	JUNE 27, 2015	SEPTEMBER 30, 2015
	(In millions)		
Finished goods	$299.9	$ 247.4	$ 218.9
Work-in-process	46.6	39.3	48.3
Raw materials	123.4	113.1	128.6
Total inventories	$469.9	$ 399.8	$ 395.8

Adjustments to reflect inventories at net realizable values were $15.3 million at July 2, 2016, $20.9 million at June 27, 2015 and $17.8 million at September 30, 2015.

NOTE 7. MARKETING AGREEMENT

The Scotts Company LLC ("Scotts LLC") and Monsanto are parties to the Marketing Agreement, pursuant to which the Company has served, since its 1998 fiscal year, as 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. Under the terms of the Marketing Agreement, the Company is entitled to receive an annual commission from Monsanto as consideration for the performance of the Company's duties as agent. The annual gross commission under the Marketing Agreement is calculated as a percentage of the actual earnings before interest and income taxes of the consumer Roundup® business in the markets covered by the Marketing Agreement subject to the achievement of annual earnings thresholds. The Marketing Agreement also requires the Company to make annual payments of $20.0 million to Monsanto as a contribution against the overall expenses of the consumer Roundup® business. From 1998 until May 15, 2015, the Marketing Agreement covered the United States and other specified countries, including Australia, Austria, Belgium, Canada, France, Germany, the Netherlands and the United Kingdom. On May 15, 2015, the territories were expanded to cover additional countries as outlined below.

In consideration for the rights granted to the Company under the Marketing Agreement in 1998, the Company paid a marketing fee of $32 million to Monsanto. The Company 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 twenty years, with a remaining unamortized amount of $1.8 million and remaining amortization period of less than three years as of July 2, 2016.

On May 15, 2015, the Company and Monsanto entered into an Amendment to the Marketing Agreement (the "Marketing Agreement Amendment"), a Lawn and Garden Brand Extension Agreement (the "Brand Extension Agreement") and a Commercialization and Technology Agreement (the "Commercialization and Technology Agreement"). In consideration for these agreements, the Company paid $300.0 million to Monsanto on August 14, 2015 using borrowings under its credit facility.

Among other things, the Marketing Agreement Amendment amends the Marketing Agreement in the following significant respects:

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Expands the territories in which the Company may serve as Monsanto's exclusive agent in the consumer lawn and garden market to include all countries other than Japan and countries subject to a comprehensive U.S. trade embargo or certain other embargoes and trade restrictions.

- Eliminates the initial and renewal terms that the original Marketing Agreement applied to European Union ("EU") countries. As amended, the term of the Marketing Agreement will now continue indefinitely for all included markets,

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including EU countries within the included markets, unless and until otherwise terminated in accordance with the Marketing Agreement.

- Revises the procedures of the Marketing Agreement relating to a potential sale of the consumer Roundup® business to (1) require Monsanto to negotiate exclusively with the Company with respect to any potential Roundup® sale for 60 days after the Company receives notice from Monsanto regarding a potential Roundup® sale and (2) provide the Company with a right of first offer and a right of last look in connection with a potential Roundup® sale to a third party. In addition, if the Company makes a bid in connection with a Roundup® sale, the then-applicable termination fee would serve as a credit against the purchase price and the Monsanto board of directors would not be permitted to discount the value of the Company's bid compared to a competing bid as a result of the termination fee discount.
- Requires the Company to (1) provide notice to Monsanto of certain proposals and processes that may result in a sale of the Company and (2) conduct non-exclusive negotiations with Monsanto with respect to such a sale.
- Increases the minimum termination fee payable under the Marketing Agreement to the greater of (1) $200.0 million or (2) four times (A) the average of the program earnings before interest or income taxes for the three trailing program years prior to the year of termination, minus (B) the 2015 program earnings before interest or income taxes.
- Amends Monsanto's termination rights and provides additional rights to the Company in the event of a termination, as follows:
  - delays the effectiveness of a notice of termination given by Monsanto as a result of a change of control with respect to Monsanto or a sale of the consumer Roundup® business to a third party from (1) the end of the later of 12 months or the next program year to (2) the end of the fifth full program year after Monsanto gives such notice;
  - eliminates Monsanto's termination rights for a regional performance default, a change of significant ownership of the Company or an uncured or incurable egregious injury (as each is defined in the Marketing Agreement); and
  - eliminates Monsanto's termination rights in connection with a change in control of the Company or Scotts Miracle-Gro as long as the Company has determined, in its reasonable commercial opinion, that the acquirer can and will fully perform the duties and obligations of the Company under the Marketing Agreement.
- Expands the Company's termination rights to include termination for a brand decline event (as defined in the Marketing Agreement Amendment) occurring before program year 2023.
- Expands the Company's assignment rights to allow the Company to transfer its rights, interests and obligations under the Marketing Agreement with respect to (1) the North America territories and (2) one or more other included markets for up to three other assignments.
- Amends the commission structure by (1) eliminating the commission threshold for program years 2016, 2017 and 2018, (2) setting the commission threshold for the subsequent program years at $40 million and (3) establishing the commission payable by Monsanto to the Company for each program year at an amount equal to 50% of the program earnings before interest and income taxes for such program year.

The Brand Extension Agreement provides the Company a worldwide, exclusive license to use the Roundup® brand on additional products offered by the Company outside of the non-selective weed category within the residential lawn and garden market. The application of the Roundup® brand to these additional products is subject to a product review and approval process developed between the Company and Monsanto. Monsanto will maintain oversight of its brand, the handling of brand registrations covering these new products and new territories, as well as primary responsibility for brand enforcement. The Brand Extension Agreement has an initial term of twenty years, which will automatically renew for additional successive twenty year terms, at the Company's sole option, for no additional monetary consideration.

The Commercialization and Technology Agreement provides for the Company and Monsanto to further develop and commercialize new products and technology developed at Monsanto and intended for introduction into the residential lawn and garden market. Under the Commercialization and Technology Agreement, the Company receives an exclusive first look at new Monsanto technology and products and an annual review of Monsanto's developing products and technologies. The Commercialization and Technology Agreement has a term of thirty years (subject to early termination upon a termination event under the Marketing Agreement or the Brand Extension Agreement).

The Company recorded the $300.0 million consideration paid by the Company to Monsanto in connection with the entry into the Marketing Agreement Amendment, the Brand Extension Agreement and the Commercialization and

Technology Agreement

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as intangible assets and the related economic useful life of such assets is indefinite. The identifiable intangible assets include the Marketing Agreement Amendment and the Brand Extension Agreement with allocated fair value of $188.3 million and $111.7 million, respectively. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return.

Under the terms of the Marketing Agreement, the Company performs certain functions, primarily manufacturing conversion services (in North America), 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 the "Cost of sales" line and the reimbursement of these costs in the "Net sales" line in the Condensed Consolidated Statements of Operations, with no effect on gross profit dollars or net income.

The gross commission earned under the Marketing Agreement, the contribution payments to Monsanto and the amortization of the initial marketing fee paid to Monsanto in 1998 are included in the calculation of net sales in the Company's Condensed Consolidated Statements of Operations. The elements of the net commission and reimbursements earned under the Marketing Agreement and included in "Net sales" are as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, 2016	JUNE 27, 2015	JULY 2, 2016	JUNE 27, 2015
	(In millions)			
Gross commission	$37.4	$ 42.2	$92.3	$ 74.8
Contribution expenses	(5.0)	(5.0)	(15.0)	(15.0)
Amortization of marketing fee	(0.2)	(0.2)	(0.6)	(0.6)
Net commission	32.2	37.0	76.7	59.2
Reimbursements associated with Marketing Agreement	18.4	16.2	55.2	51.7
Total net sales associated with Marketing Agreement	$50.6	$ 53.2	$131.9	$