

**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 December 28, 2013

OR

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

For the transition period from _____ to _____

commission file number: 001-11593

The Scotts Miracle-Gro Company

(Exact name of registrant as specified in its charter)

OHIO

(State or other jurisdiction of
incorporation or organization)

31-1414921

(I.R.S. Employer
Identification No.)

**14111 SCOTTSLAWN ROAD,
MARYSVILLE, OHIO**

(Address of principal executive offices)

43041

(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

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 February 4, 2014

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

62,057,874 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	
	DECEMBER 28, 2013	DECEMBER 29, 2012
Net sales	\$ 196.4	\$ 205.8
Cost of sales	161.5	174.7
Gross profit	34.9	31.1
Operating expenses:		
Selling, general and administrative	125.1	124.5
Impairment, restructuring and other	0.3	(0.4)
Other income, net	(1.0)	(1.1)
Loss from operations	(89.5)	(91.9)
Interest expense	13.9	13.2
Loss from continuing operations before income taxes	(103.4)	(105.1)
Income tax benefit from continuing operations	(37.8)	(36.8)
Loss from continuing operations	(65.6)	(68.3)
Income from discontinued operations, net of tax	—	0.6
Net loss	\$ (65.6)	\$ (67.7)
Basic loss per common share:		
Loss from continuing operations	\$ (1.06)	\$ (1.11)
Income from discontinued operations	—	0.01
Basic loss per common share	\$ (1.06)	\$ (1.10)
Weighted-average common shares outstanding during the period	62.1	61.4
Diluted loss per common share:		
Loss from continuing operations	\$ (1.06)	\$ (1.11)
Income from discontinued operations	—	0.01
Diluted loss per common share	\$ (1.06)	\$ (1.10)
Weighted-average common shares outstanding during the period plus dilutive potential common shares	62.1	61.4
Dividends declared per common share	\$ 0.438	\$ 0.330

See notes to condensed consolidated financial statements.

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

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
Net loss	\$ (65.6)	\$ (67.7)
Other comprehensive income (loss), net of tax:		
Net foreign currency translation adjustment	(1.4)	(3.7)
Net unrealized gain (loss) on derivative instruments, net of tax of \$0.2 and \$1.2, respectively	0.4	(1.9)
Reclassification of net unrealized loss on derivatives to net income, net of tax of \$1.9 and \$0.7, respectively	3.1	1.1
Net unrealized loss in pension and other post-retirement benefits, net of tax of \$0.2 and \$0, respectively	(0.3)	—
Reclassification of net pension and post-retirement benefit loss to net income, net of tax of \$0.5 and \$0.8, respectively	0.8	1.2
Total other comprehensive income (loss)	2.6	(3.3)
Comprehensive loss	\$ (63.0)	\$ (71.0)

See notes to condensed consolidated financial statements.

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

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
OPERATING ACTIVITIES		
Net loss	\$ (65.6)	\$ (67.7)
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairment, restructuring and other	—	4.6
Share-based compensation expense	1.8	1.9
Depreciation	13.0	13.6
Amortization	3.1	2.7
Loss on sale of long-lived assets	0.1	—
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	145.5	163.6
Inventories	(278.9)	(231.8)
Prepaid and other assets	(6.9)	(2.3)
Accounts payable	98.5	48.2
Other current liabilities	(88.1)	(92.2)
Restructuring reserves	(4.2)	(3.1)
Other non-current items	1.7	(3.7)
Other, net	(0.2)	(2.4)
Net cash used in operating activities	(180.2)	(168.6)
INVESTING ACTIVITIES		
Proceeds from sale of long-lived assets	—	0.1
Investments in property, plant and equipment	(43.4)	(25.0)
Investment in acquired business, net of cash acquired	(60.0)	(3.2)
Net cash used in investing activities	(103.4)	(28.1)
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit	508.3	463.8
Repayments under revolving and bank lines of credit	(197.1)	(264.2)
Financing and issuance fees	(6.1)	—
Dividends paid	(27.3)	(19.9)
Purchase of common shares	(8.5)	—
Excess tax benefits from share-based payment arrangements	2.8	0.4
Cash received from the exercise of stock options	5.1	0.7
Net cash provided by financing activities	277.2	180.8
Effect of exchange rate changes on cash	1.2	(0.4)
Net decrease in cash and cash equivalents	(5.2)	(16.3)
Cash and cash equivalents, beginning of period	129.8	131.9
Cash and cash equivalents, end of period	\$ 124.6	\$ 115.6
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ (11.6)	\$ (11.4)
Income taxes paid	(2.2)	(2.8)

See notes to condensed consolidated financial statements.

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Balance Sheets
(In millions, except stated value per share)

	DECEMBER 28, 2013	DECEMBER 29, 2012	SEPTEMBER 30, 2013
	(UNAUDITED)	(UNAUDITED)	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 124.6	\$ 115.6	\$ 129.8
Accounts receivable, less allowances of \$8.8, \$8.7 and \$9.5, respectively	158.2	168.4	206.6
Accounts receivable pledged	9.3	—	106.7
Inventories	605.7	646.7	324.9
Prepaid and other current assets	117.9	126.2	113.0
Total current assets	1,015.7	1,056.9	881.0
Property, plant and equipment, net of accumulated depreciation of \$586.6, \$556.4 and \$573.4, respectively	447.5	424.0	422.3
Goodwill	335.0	314.4	315.1
Intangible assets, net	320.0	303.3	284.4
Other assets	41.2	29.5	34.4
Total assets	\$ 2,159.4	\$ 2,128.1	\$ 1,937.2
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of debt	\$ 229.7	\$ 4.3	\$ 92.4
Accounts payable	230.8	185.5	137.7
Other current liabilities	188.4	186.6	279.7
Total current liabilities	648.9	376.4	509.8
Long-term debt	652.3	981.9	478.1
Other liabilities	236.9	256.0	238.8
Total liabilities	1,538.1	1,614.3	1,226.7
Contingencies (note 11)			
Shareholders' equity:			
Common shares and capital in excess of \$.01 stated value per share, 62.2, 61.5 and 62.0 shares issued and outstanding, respectively	394.2	405.3	397.5
Retained earnings	610.2	542.2	703.4
Treasury shares, at cost: 6.0, 6.7 and 6.1 shares, respectively	(307.9)	(343.1)	(312.6)
Accumulated other comprehensive loss	(75.2)	(90.6)	(77.8)
Total shareholders' equity	621.3	513.8	710.5
Total liabilities and shareholders' equity	\$ 2,159.4	\$ 2,128.1	\$ 1,937.2

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

Organization and Basis of Presentation

The Company’s unaudited condensed consolidated financial statements for the three months ended December 28, 2013 and December 29, 2012 are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The condensed consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company’s consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, this report should be read in conjunction with Scotts Miracle-Gro’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013, which includes a complete set of footnote disclosures, including the Company’s significant accounting policies.

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

Balance Sheet Offsetting

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

NOTE 2. DISCONTINUED OPERATIONS

In the fourth quarter of fiscal year 2012, the Company completed the wind down of the Company’s professional seed business. As a result, effective in its fourth quarter of fiscal 2012, the Company classified its results of operations for all periods presented to reflect the professional seed business as a discontinued operation.

The following table summarizes the results of the professional seed business within discontinued operations for the periods presented:

	THREE MONTHS ENDED	
	DECEMBER 29, 2012	
	(In millions)	
Net sales	\$	—
Operating costs		(0.8)
Other income, net		—
Income from discontinued operations before income taxes		0.8
Income tax expense from discontinued operations		0.2
Income from discontinued operations	\$	0.6

NOTE 3. ACQUISITIONS

On October 14, 2013, the Company completed the \$60.0 million all-cash acquisition of the Tomcat[®] consumer rodent control business from Bell Laboratories, Inc. located in Madison, Wisconsin. Tomcat[®] consumer products are sold at home centers, mass retailers, grocery, drug and general merchandise stores across the U.S., Canada, Europe and Australia. The assessment of fair value is preliminary and is based on information that was available at the time the consolidated financial statements were prepared. The valuation of acquired assets resulted in the recognition of finite-lived identifiable intangible assets of \$38.1 million, goodwill of \$19.9 million and inventory of \$2.0 million. Identifiable intangible assets included tradename, technology, customer relationships, product registrations and non-compete agreements with useful lives ranging between 10 - 30 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return.

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

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

NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER

Activity described herein is classified within the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations.

During the three months ended December 28, 2013, the Company recognized \$0.3 million in restructuring costs related to termination benefits provided to international employees as part of the profitability improvement initiative announced in December 2012, associated with the international restructuring plan to reduce headcount and streamline management decision making within the Global Consumer segment.

During the three months ended December 29, 2012, the Company recognized income of \$4.7 million related to the reimbursement by a vendor of a portion of the costs incurred for the development and commercialization of products including the active ingredient MAT 28 for the Global Consumer segment. During the first quarter of fiscal 2013, the Company also recognized a \$4.3 million asset impairment charge as a result of issues with the commercialization of an insect repellent technology for the Global Consumer segment.

The following table summarizes the activity related to liabilities associated with the restructuring and other charges during the three months ended December 28, 2013 (in millions):

Amounts reserved for restructuring and other charges at September 30, 2013	\$	11.1
Restructuring and other charges		0.3
Payments and other		(4.2)
Amounts reserved for restructuring and other charges at December 28, 2013	\$	7.2

Included in the restructuring reserves as of December 28, 2013 is \$3.1 million that is classified as long-term. Payments against the long-term reserves will be incurred as the employees covered by the 2012 restructuring plan retire. The remaining amounts reserved will continue to be paid out over the course of the remainder of fiscal 2014.

NOTE 5. INVENTORIES

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

	DECEMBER 28, 2013	DECEMBER 29, 2012	SEPTEMBER 30, 2013
	(In millions)		
Finished goods	\$ 412.4	\$ 411.2	\$ 182.6
Work-in-process	49.8	63.3	42.7
Raw materials	143.5	172.2	99.6
Total inventories	\$ 605.7	\$ 646.7	\$ 324.9

Adjustments to reflect inventories at net realizable values were \$19.4 million at December 28, 2013, \$16.9 million at December 29, 2012 and \$19.7 million at September 30, 2013.

NOTE 6. MARKETING AGREEMENT

The Company is Monsanto's exclusive agent for the marketing and distribution of consumer Roundup[®] herbicide products (with additional rights to new products containing glyphosate or other similar non-selective herbicides) in the consumer lawn and garden market within the United States and other specified countries, including Australia, Austria, Belgium, Canada, France, Germany, the Netherlands and the United Kingdom. Under the terms of the

Marketing Agreement, the Company is entitled to receive an annual commission from Monsanto as consideration for the performance of the Company's duties as agent. The annual gross commission under the Marketing Agreement is calculated as a percentage of the actual earnings before interest and income taxes of the consumer Roundup® business in the markets covered by the Marketing Agreement and is based on the achievement of two earnings thresholds, as defined in the Marketing Agreement. The Marketing Agreement also requires the Company to make annual payments to Monsanto as a contribution against the overall expenses of the consumer Roundup® business. The annual contribution payment is defined in the Marketing Agreement as \$20 million.

In consideration for the rights granted to the Company under the Marketing Agreement for North America, the Company was required to pay a marketing fee of \$32 million to Monsanto. The Company has deferred this amount on the basis that the payment will provide a future benefit through commissions that will be earned under the Marketing Agreement. The economic useful life over which the marketing fee is being amortized is 20 years, with a remaining amortization period of less than five years as of December 28, 2013.

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

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

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
	(In millions)	
Gross commission	\$ —	\$ —
Contribution expenses	(5.0)	(5.0)
Amortization of marketing fee	(0.2)	(0.2)
Net commission loss	(5.2)	(5.2)
Reimbursements associated with Marketing Agreement	15.1	13.7
Total net sales associated with Marketing Agreement	<u>\$ 9.9</u>	<u>\$ 8.5</u>

The Marketing Agreement has no definite term except as it relates to the European Union countries (the “EU term”). The EU term extends through September 30, 2015. Thereafter, the Marketing Agreement provides that the parties may agree to renew the EU term for an additional three years.

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

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

NOTE 7. DEBT

The components of long-term debt are as follows:

	DECEMBER 28, 2013	DECEMBER 29, 2012	SEPTEMBER 30, 2013
	(In millions)		
Credit facility – revolving loans	\$ 447.4	\$ 575.5	\$ 73.0
Senior Notes – 7.25% (redeemed in January 2014)	200.0	200.0	200.0
Senior Notes – 6.625%	200.0	200.0	200.0
Master Accounts Receivable Purchase Agreement	7.4	—	85.3
Other	27.2	10.7	12.2
	882.0	986.2	570.5
Less current portions	229.7	4.3	92.4
Total long-term debt	\$ 652.3	\$ 981.9	\$ 478.1

On January 15, 2014, the Company redeemed all of its outstanding \$200 million aggregate principal amount of 7.25% senior notes due 2018 (the “7.25% Senior Notes”) paying a redemption price of \$214.5 million, which included \$7.25 million of accrued and unpaid interest, \$7.25 million of call premium, and \$200 million for outstanding principal amount. The \$7.25 million call premium charge will be recognized in the Company’s second quarter of fiscal 2014. As of December 28, 2013, the Company has classified the \$200 million of the 7.25% Senior Notes as current portion of debt on the Consolidated Balance Sheet. Additionally, the Company has \$3.5 million in unamortized bond issuance costs as of December 28, 2013, which are expected to be written-off in the Company’s second quarter of fiscal 2014.

On December 20, 2013, the Company entered into a third amended and restated senior secured credit agreement, providing the Company and certain of its subsidiaries with a five-year senior secured revolving loan facility in the aggregate principal amount of up to \$1.7 billion. The third amended and restated senior secured credit agreement also provides the Company with the right to seek to increase the credit facility by an aggregate amount of up to \$450.0 million, subject to certain specified conditions. The credit agreement replaces the Company’s second amended and restated senior secured credit agreement, which was entered into on June 30, 2011.

The terms of the credit agreement include customary representations and warranties, customary affirmative and negative covenants, customary financial covenants and customary events of default. The proceeds of the credit facility may be used: (i) to finance working capital requirements and other general corporate purposes of the Company and its subsidiaries; and (ii) to refinance the amounts outstanding under the existing credit agreement. The credit facility will be available for issuance of up to \$75 million of letters of credit and for borrowings under swing line loans of up to \$100 million. The credit facility will terminate on December 20, 2018. The existing second amended and restated senior secured credit agreement would have terminated on June 30, 2016, if it had not been terminated early pursuant to the credit facility.

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

As of December 28, 2013, there was \$1,229.3 million 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 obtain letters of credit up to \$75 million outstanding. At December 28, 2013, the Company had letters of credit in the aggregate face amount of \$23.3 million outstanding on the credit facility.

The senior secured credit agreement contains, among other obligations, an affirmative covenant regarding the Company's leverage ratio, calculated as average total indebtedness, as described in the Company's credit facility, relative to the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted pursuant to the terms of the credit facility ("Adjusted EBITDA"). Under the terms of the credit facility, the maximum leverage ratio was 4.00 as of December 28, 2013. The Company's leverage ratio was 2.04 at December 28, 2013. The Company's credit facility also includes an affirmative covenant regarding its interest coverage ratio. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the credit facility, and excludes costs related to refinancings. Under the terms of the credit facility, the minimum interest coverage ratio was 3.50 for the twelve months ended December 28, 2013. The Company's interest coverage ratio was 7.06 for the twelve months ended December 28, 2013. The Company may make restricted payments (as defined in the credit agreement); provided that if after giving effect to any such restricted payment the leverage ratio is not greater than 3.0 to 1.0. Otherwise the Company may only make restricted payments in an aggregate amount for each fiscal year not to exceed the amount set forth for such fiscal year (\$150.0 million for 2014 and 2015 and \$175.0 million for 2016 and in each fiscal year thereafter).

The Company accounts for the sale of receivables under the Master Accounts Receivable Purchase Agreement ("MARP Agreement") as short-term debt and continues to carry the receivables on its Consolidated Balance Sheet, primarily as a result of the Company's right to repurchase receivables sold. Refer to "NOTE 10. DEBT" in the Company's Form 10-K for the year ended September 30, 2013 for more information regarding the MARP Agreement. There were \$7.4 million in borrowings under the MARP Agreement as of December 28, 2013 and no borrowings as of December 29, 2012. The carrying value of the receivables pledged as collateral was \$9.3 million as of December 28, 2013.

Estimated Fair Values

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

Credit Facility

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

7.25% Senior Notes (redeemed in January 2014)

The fair value of Scotts Miracle-Gro's 7.25% senior notes due 2018 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 December 28, 2013, December 29, 2012 and September 30, 2013, the fair value of the 7.25% Senior Notes was approximately \$207.3 million, \$214.3 million and \$209.5 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 December 28, 2013, December 29, 2012 and September 30, 2013, the fair value of the 6.625% Senior Notes was approximately \$216.2 million, \$220.5 million and \$213.5 million, respectively. The fair value measurement for the 6.625% Senior Notes was classified in Level 1 of the fair value hierarchy.

Interest Rate Swap Agreements

At December 28, 2013, December 29, 2012 and September 30, 2013, the Company had outstanding interest rate swap agreements with major financial institutions that effectively converted a portion of the Company's variable-rate debt to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of \$1,100 million at December 28, 2013, December 29, 2012 and September 30, 2013. Interest payments made between the effective date and expiration date are hedged by the swap agreements, except as noted below. The notional amount, effective date, expiration date and rate of each of these swap agreements are shown in the table below.

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

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

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

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

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

Accounts Receivable Pledged

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

NOTE 8. RETIREMENT AND RETIREE MEDICAL PLANS

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

	THREE MONTHS ENDED					
	DECEMBER 28, 2013			DECEMBER 29, 2012		
	U.S. Pension	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
	(In millions)					
Service cost	\$ —	\$ 0.5	\$ 0.1	\$ —	\$ 0.4	\$ 0.1
Interest cost	1.1	3.2	0.3	1.0	2.5	0.3
Expected return on plan assets	(1.3)	(3.6)	—	(1.3)	(2.7)	—
Net amortization	1.0	0.5	—	1.2	0.4	0.1
Net periodic benefit cost	<u>\$ 0.8</u>	<u>\$ 0.6</u>	<u>\$ 0.4</u>	<u>\$ 0.9</u>	<u>\$ 0.6</u>	<u>\$ 0.5</u>

NOTE 9. SHAREHOLDERS' EQUITY

During the three months ended December 28, 2013, Scotts Miracle-Gro repurchased 0.2 million of its common shares (the "Common Shares") for \$8.5 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 December 28, 2013, Scotts Miracle-Gro has repurchased approximately 8.0 million Common Shares for \$409.7 million to be held in treasury.

Share-Based Awards

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

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
Restricted stock units (including deferred stock units)	32,067	8,693
Aggregate fair value at grant dates (in millions)	\$ 1.9	\$ 0.4

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

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
Share-based compensation	\$ 1.8	\$ 1.9

Subsequent to December 28, 2013, Scotts Miracle-Gro awarded performance share units, restricted stock units and deferred stock units covering 0.2 million Common Shares to employees and members of the Board of Directors with an estimated fair value of \$13.9 million on the date of the grant.

NOTE 10. INCOME TAXES

The effective tax rate related to continuing operations for the three months ended December 28, 2013 was 36.6%, compared to 35.0% for the three months ended December 29, 2012. 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 further below, the Company is no longer subject to examination by these tax authorities for fiscal years prior to 2010. The Company is currently under examination by the Internal Revenue Service and certain foreign and U.S. state and local tax authorities. The U.S. federal examination is limited to fiscal year 2011. Regarding the foreign jurisdictions, an audit is currently underway in France covering fiscal years 2010 through 2012. In regard to the multiple U.S., state and local audits, the tax periods under examination are limited to fiscal years 1997 through 2011. In addition to the aforementioned audits, certain other tax deficiency notices and refund claims for previous years remain unresolved.

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

NOTE 11. CONTINGENCIES

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

Regulatory Matters

At December 28, 2013, \$4.1 million was accrued in the "Other liabilities" line in the Consolidated Balance Sheet for environmental actions, the majority of which are for site remediation. The amounts accrued are believed to be adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is reasonably possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

Other

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

In connection with the sale of wild bird food products that were the subject of a voluntary recall in 2008, the Company has been named as a defendant in four putative class actions filed on and after June 27, 2012, which have now been consolidated in the United States District Court for the Southern District of California as *In re Morning Song Bird Food Litigation*, Lead Case No. 3:12-cv-01592-JAH-RBB. The plaintiffs allege various statutory and common law claims associated with the Company's sale of wild bird food products and a plea agreement entered into in previously pending government proceedings associated with such sales. The plaintiffs allege, among other things, a purported class action on behalf of all persons and entities in the United States who purchased certain bird food products. The plaintiffs seek monetary damages (actual, compensatory, consequential, punitive, and treble); reimbursement, restitution, and disgorgement for benefits unjustly conferred; injunctive and declaratory relief; pre-judgment and post-judgment interest; and costs and attorneys' fees. The Company intends to vigorously defend the consolidated action. Given the early stages of the action, the Company cannot make a determination as to whether it could have a material effect on the Company's financial condition, results of operations or cash flows and the Company has not recorded any accruals with respect thereto.

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

NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

Exchange Rate Risk Management

The Company periodically uses foreign currency swap contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. At December 28, 2013, the notional amount of outstanding foreign currency swap contracts was \$103.7 million, with a negative fair value of \$0.5 million. At December 29, 2012, the notional amount of outstanding foreign currency swap contracts was \$306.7 million, with a fair value of \$0.3 million. At September 30, 2013, the notional amount of outstanding foreign currency swap contracts was \$80.4 million, with a negative fair value of \$2.1 million. The fair value of foreign currency swap contracts is determined based on changes in spot rates. The outstanding contracts will mature over the next fiscal year.

Interest Rate Risk Management

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

At December 28, 2013, December 29, 2012 and September 30, 2013, the Company had outstanding interest rate swap agreements with major financial institutions that effectively converted a portion of the Company's variable-rate debt to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of \$1,100 million at December 28, 2013, December 29, 2012 and September 30, 2013. Included in the AOCI balance at December 28, 2013 was a loss of \$2.7 million related to interest rate swap agreements that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

Commodity Price Risk Management

The Company had outstanding hedging arrangements at December 28, 2013 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 within the Condensed Consolidated Balance Sheets. Realized gains or losses remain as a component of AOCI until the related inventory is sold. Upon sale of the underlying inventory, the gain or loss is reclassified to cost of sales. Included in the AOCI balance at December 28, 2013 was a loss of \$0.2 million related to urea derivatives that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

Periodically, the Company also uses derivatives to partially mitigate the effect of fluctuating diesel and gasoline costs on operating results. Any such derivatives that do not qualify for hedge accounting treatment in accordance with GAAP are recorded at fair value, with unrealized gains and losses on open contracts and realized gains or losses on settled contracts recorded as an element of cost of sales. Unrealized gains or losses in the fair value of contracts that do qualify for hedge accounting are recorded in AOCI except for any ineffective portion of the change in fair value, which is immediately recorded in earnings. For the effective portion of the change in fair value, realized gains or losses remain as a component of AOCI until the related fuel is consumed. Upon consumption of the fuel, the gain or loss is reclassified to cost of sales. Included in the AOCI balance at December 28, 2013 was a gain of \$0.2 million related to fuel derivatives that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

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

<u>Commodity</u>	<u>DECEMBER 28, 2013</u>	<u>DECEMBER 29, 2012</u>	<u>SEPTEMBER 30, 2013</u>
Urea	25,500 tons	40,500 tons	49,500 tons
Diesel	4,830,000 gallons	5,796,000 gallons	3,528,000 gallons
Gasoline	672,000 gallons	350,000 gallons	630,000 gallons
Heating Oil	4,494,000 gallons	4,746,000 gallons	2,940,000 gallons

Fair Values of Derivative Instruments

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

<u>DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS</u>	<u>BALANCE SHEET LOCATION</u>	<u>ASSETS / (LIABILITIES)</u>		
		<u>DECEMBER 28, 2013</u>	<u>DECEMBER 29, 2012</u>	<u>SEPTEMBER 30, 2013</u>
		<u>FAIR VALUE</u>		
		<u>(In millions)</u>		
Interest rate swap agreements	Other assets	\$ 4.8	\$ —	\$ 3.7
	Other current liabilities	(8.4)	(8.2)	(8.3)
	Other liabilities	(12.0)	(20.9)	(12.1)
Commodity hedging instruments	Prepaid and other current assets	1.1	0.1	0.1
	Other current liabilities	—	(0.7)	(2.0)
Total derivatives designated as hedging instruments		\$ (14.5)	\$ (29.7)	\$ (18.6)
<u>DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS</u>	<u>BALANCE SHEET LOCATION</u>			
Foreign currency swap contracts	Prepaid and other current assets	\$ —	\$ 0.8	\$ —
	Other current liabilities	(0.5)	(0.5)	(2.1)
Commodity hedging instruments	Prepaid and other current assets	0.4	0.2	—
	Other current liabilities	—	—	(0.3)
Total derivatives not designated as hedging instruments		\$ (0.1)	\$ 0.5	\$ (2.4)
Total derivatives		\$ (14.6)	\$ (29.2)	\$ (21.0)

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

<u>DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS</u>	<u>AMOUNT OF GAIN / (LOSS) RECOGNIZED IN AOCI</u>	
	<u>THREE MONTHS ENDED</u>	
	<u>DECEMBER 28, 2013</u>	<u>DECEMBER 29, 2012</u>
<u>(In millions)</u>		
Interest rate swap agreements	\$ (0.8)	\$ (0.9)
Commodity hedging instruments	1.2	(1.0)
Total	\$ 0.4	\$ (1.9)

<u>DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS</u>	<u>RECLASSIFIED FROM AOCI INTO STATEMENT OF OPERATIONS</u>	<u>AMOUNT OF GAIN / (LOSS)</u>	
		<u>THREE MONTHS ENDED</u>	
		<u>DECEMBER 28, 2013</u>	<u>DECEMBER 29, 2012</u>
<u>(In millions)</u>			
Interest rate swap agreements	Interest expense	\$ (3.1)	\$ (1.2)
Commodity hedging instruments	Cost of sales	—	0.1
Total		\$ (3.1)	\$ (1.1)

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS	RECOGNIZED IN STATEMENT OF OPERATIONS	AMOUNT OF GAIN / (LOSS)	
		THREE MONTHS ENDED	
		DECEMBER 28, 2013	DECEMBER 29, 2012
		(In millions)	
Foreign currency swap contracts	Interest expense	\$ (1.3)	\$ (1.6)
Commodity hedging instruments	Cost of sales	0.6	(0.5)
Total		\$ (0.7)	\$ (2.1)

NOTE 13. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Derivatives

Derivatives consist of foreign currency, interest rate and commodity derivative instruments. Foreign currency 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 current assets and other current liabilities.

Cash Equivalents

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

Other

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

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at December 28, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
(In millions)				
Assets				
Cash equivalents	\$ 85.6	\$ —	\$ —	\$ 85.6
Derivatives				
Interest rate swap agreements	—	4.8	—	4.8
Commodity hedging instruments	—	1.5	—	1.5
Other	7.6	—	—	7.6
Total	\$ 93.2	\$ 6.3	\$ —	\$ 99.5
Liabilities				
Derivatives				
Interest rate swap agreements	\$ —	\$ (20.4)	\$ —	\$ (20.4)
Foreign currency swap contracts	—	(0.5)	—	(0.5)
Total	\$ —	\$ (20.9)	\$ —	\$ (20.9)

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at December 29, 2012:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
(In millions)				
Assets				
Cash equivalents	\$ 83.3	\$ —	\$ —	\$ 83.3
Derivatives				
Foreign currency swap contracts	—	0.8	—	0.8
Commodity hedging instruments	—	0.3	—	0.3
Other	6.5	—	—	6.5
Total	\$ 89.8	\$ 1.1	\$ —	\$ 90.9
Liabilities				
Derivatives				
Interest rate swap agreements	\$ —	\$ (29.1)	\$ —	\$ (29.1)
Foreign currency swap contracts	—	(0.5)	—	(0.5)
Commodity hedging instruments	—	(0.7)	—	(0.7)
Total	\$ —	\$ (30.3)	\$ —	\$ (30.3)

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

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

NOTE 14. SEGMENT INFORMATION

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

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

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

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

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
(In millions)		
Net sales:		
Global Consumer	\$ 145.3	\$ 153.2
Scotts LawnService®	46.2	44.8
Segment total	191.5	198.0
Corporate & Other	4.9	7.8
Consolidated	\$ 196.4	\$ 205.8
Income (loss) from continuing operations before income taxes:		
Global Consumer	\$ (67.3)	\$ (68.7)
Scotts LawnService®	2.6	(0.9)
Segment total	(64.7)	(69.6)
Corporate & Other	(21.6)	(20.2)
Intangible asset amortization	(2.9)	(2.5)
Impairment, restructuring and other	(0.3)	0.4
Interest expense	(13.9)	(13.2)
Consolidated	\$ (103.4)	\$ (105.1)

	DECEMBER 28, 2013	DECEMBER 29, 2012	SEPTEMBER 30, 2013
	(In millions)		
Total assets:			
Global Consumer	\$ 1,812.2	\$ 1,751.2	\$ 1,564.2
Scotts LawnService®	168.0	166.4	189.8
Corporate & Other	179.2	210.5	183.2
Consolidated	\$ 2,159.4	\$ 2,128.1	\$ 1,937.2

NOTE 15. 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 at December 28, 2013 by certain of its domestic subsidiaries and, therefore, the Company has disclosed condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*. The guarantees are “full and unconditional”, as those terms are used in Regulation S-X Rule 3-10, except that a subsidiary’s guarantee will be automatically released in certain customary circumstances, such as (1) upon any sale or other disposition of all or substantially all of the assets of the subsidiary (including by way of merger or consolidation) to any person other than Scotts Miracle-Gro or any “restricted subsidiary” under the applicable indenture; (2) if the subsidiary merges with and into Scotts Miracle-Gro, with Scotts Miracle-Gro surviving such merger; (3) if the subsidiary is designated an “unrestricted subsidiary” in accordance with the applicable indenture or otherwise ceases to be a “restricted subsidiary” (including by way of liquidation or dissolution) in a transaction permitted by such indenture; (4) upon legal or covenant defeasance; (5) upon satisfaction and discharge of the Senior Notes; or (6) if the subsidiary ceases to be a “wholly owned restricted subsidiary” and the subsidiary is not otherwise required to provide a guarantee of the Senior Notes pursuant to the applicable indenture. The following 100% directly or indirectly owned subsidiaries fully and unconditionally guarantee at December 28, 2013 the Senior Notes on a joint and several basis: EG Systems, Inc., dba Scotts LawnService®; Gutwein & Co., Inc.; Hyponex Corporation; Miracle-Gro Lawn Products, Inc.; OMS Investments, Inc.; Rod McLellan Company; Sanford Scientific, Inc.; Scotts Temecula Operations, LLC; Scotts Manufacturing Company; Scotts Products Co.; Scotts Professional Products Co.; Scotts-Sierra Investments LLC; SMG Growing Media, Inc.; Swiss Farms Products, Inc.; SMGM LLC; and The Scotts Company LLC (collectively, the “Guarantors”). On January 15, 2014, the Company redeemed all of its outstanding \$200 million aggregate principal amount of the 7.25% Senior Notes.

The following information presents Condensed Consolidating Statements of Operations for the three months ended December 28, 2013 and December 29, 2012, Condensed Consolidating Statements of Comprehensive Loss for the three months ended December 28, 2013 and December 29, 2012, Condensed Consolidating Statements of Cash Flows for the three months ended December 28, 2013 and December 29, 2012, and Condensed Consolidating Balance Sheets as of December 28, 2013, December 29, 2012 and September 30, 2013. The condensed consolidating financial information presents, in separate columns, financial information for: Scotts Miracle-Gro on a Parent-only basis, carrying its investment in subsidiaries under the equity method; Guarantors on a combined basis, carrying their investments in subsidiaries which do not guarantee the debt (collectively, the “Non-Guarantors”) under the equity method; Non-Guarantors on a combined basis; and eliminating entries. The eliminating entries primarily reflect intercompany transactions, such as interest expense, accounts receivable and payable, short and long-term debt, and the elimination of equity investments, return on investments and income in subsidiaries. Because the Parent is obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors or Non-Guarantors under the credit facility (and was obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors and Non-Guarantors under the previous senior secured five-year revolving loan facility), the borrowings and related interest expense for the loans outstanding of the Guarantors and Non-Guarantors are also presented in the accompanying Parent-only financial information, and are then eliminated. Included in the Parent Condensed Consolidating Statement of Cash Flow for December 28, 2013 and December 29, 2012, respectively are \$35.8 million and \$19.9 million of dividends paid by the Guarantors to the Parent.

In the Condensed Consolidating Statement of Cash Flows for the three months ended December 29, 2012 (which was previously presented in our Form 10-Q dated February 7, 2013 and is presented herein), the Company reclassified intercompany dividends received by Parent from Guarantors from “Net Cash (Used In) Provided By Financing Activities” to “Net Cash (Used In) Provided By Operating Activities”. In the Condensed Consolidating Balance Sheet as of September 30, 2013 (which was previously presented in our Form 10-K dated November 20, 2013 and is presented herein), the Company made a correction to properly reflect the Senior Notes and the credit agreement as Parent debt and the Company made related correcting adjustments to Parent intercompany assets and the elimination entries. The Company believes these changes are immaterial.

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

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended December 28, 2013

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
Net sales	\$ —	\$ 148.6	\$ 47.8	\$ —	\$ 196.4
Cost of sales	—	123.0	38.5	—	161.5
Gross profit	—	25.6	9.3	—	34.9
Operating expenses:					
Selling, general and administrative	—	98.3	26.8	—	125.1
Impairment, restructuring and other	—	—	0.3	—	0.3
Other income, net	—	(1.0)	—	—	(1.0)
Loss from operations	—	(71.7)	(17.8)	—	(89.5)
Equity income in subsidiaries	55.5	3.4	—	(58.9)	—
Other non-operating income	(3.2)	—	(5.8)	9.0	—
Interest expense	13.6	9.1	0.2	(9.0)	13.9
Loss from continuing operations before income taxes	(65.9)	(84.2)	(12.2)	58.9	(103.4)
Income tax benefit from continuing operations	(0.3)	(33.0)	(4.5)	—	(37.8)
Loss from continuing operations	(65.6)	(51.2)	(7.7)	58.9	(65.6)
Income from discontinued operations, net of tax	—	—	—	—	—
Net loss	\$ (65.6)	\$ (51.2)	\$ (7.7)	\$ 58.9	\$ (65.6)

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Comprehensive Loss
for the three months ended December 28, 2013

(In millions)
(Unaudited)

	<u>Parent</u>	<u>Subsidiary Guarantors</u>	<u>Non- Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net loss	\$ (65.6)	\$ (51.2)	\$ (7.7)	\$ 58.9	\$ (65.6)
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	—	—	(1.4)	—	(1.4)
Net change in derivatives	1.1	2.4	—	—	3.5
Net change in pension and other post retirement benefits	—	0.6	(0.1)	—	0.5
Total other comprehensive income (loss)	1.1	3.0	(1.5)	—	2.6
Comprehensive loss	<u>\$ (64.5)</u>	<u>\$ (48.2)</u>	<u>\$ (9.2)</u>	<u>\$ 58.9</u>	<u>\$ (63.0)</u>

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the three months ended December 28, 2013

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 26.7	\$ (128.4)	\$ (42.7)	\$ (35.8)	\$ (180.2)
INVESTING ACTIVITIES					
Investments in property, plant and equipment	—	(41.5)	(1.9)	—	(43.4)
Investment in acquired business, net of cash acquired	—	(60.0)	—	—	(60.0)
Net cash used in investing activities	—	(101.5)	(1.9)	—	(103.4)
FINANCING ACTIVITIES					
Borrowings under revolving and bank lines of credit	—	389.5	118.8	—	508.3
Repayments under revolving and bank lines of credit	—	(96.0)	(101.1)	—	(197.1)
Financing and issuance fees	(6.1)	—	—	—	(6.1)
Dividends paid	(27.3)	(35.8)	—	35.8	(27.3)
Purchase of common shares	(8.5)	—	—	—	(8.5)
Excess tax benefits from share-based payment arrangements	—	2.8	—	—	2.8
Cash received from the exercise of stock options	5.1	—	—	—	5.1
Intercompany financing	10.1	(31.9)	21.8	—	—
Net cash (used in) provided by financing activities	(26.7)	228.6	39.5	35.8	277.2
Effect of exchange rate changes on cash	—	—	1.2	—	1.2
Net decrease in cash and cash equivalents	—	(1.3)	(3.9)	—	(5.2)
Cash and cash equivalents, beginning of period	—	2.6	127.2	—	129.8
Cash and cash equivalents, end of period	\$ —	\$ 1.3	\$ 123.3	\$ —	\$ 124.6

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of December 28, 2013
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ —	\$ 1.3	\$ 123.3	\$ —	\$ 124.6
Accounts receivable, net	—	73.7	84.5	—	158.2
Accounts receivable pledged	—	9.3	—	—	9.3
Inventories	—	492.6	113.1	—	605.7
Prepaid and other current assets	—	78.1	39.8	—	117.9
Total current assets	—	655.0	360.7	—	1,015.7
Property, plant and equipment, net	—	404.0	43.5	—	447.5
Goodwill	—	334.4	0.6	—	335.0
Intangible assets, net	—	281.1	38.9	—	320.0
Other assets	32.4	14.0	29.1	(34.3)	41.2
Equity investment in subsidiaries	399.0	—	—	(399.0)	—
Intercompany assets	1,066.1	—	—	(1,066.1)	—
Total assets	\$ 1,497.5	\$ 1,688.5	\$ 472.8	\$ (1,499.4)	\$ 2,159.4

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:					
Current portion of debt	\$ 200.0	\$ 9.3	\$ 20.4	\$ —	\$ 229.7
Accounts payable	—	166.4	64.4	—	230.8
Other current liabilities	16.7	103.7	68.0	—	188.4
Total current liabilities	216.7	279.4	152.8	—	648.9
Long-term debt	647.4	439.4	12.9	(447.4)	652.3
Other liabilities	12.1	213.1	46.0	(34.3)	236.9
Equity investment in subsidiaries	—	170.3	—	(170.3)	—
Intercompany liabilities	—	451.3	167.4	(618.7)	—
Total liabilities	876.2	1,553.5	379.1	(1,270.7)	1,538.1
Shareholders' equity	621.3	135.0	93.7	(228.7)	621.3
Total liabilities and shareholders' equity	\$ 1,497.5	\$ 1,688.5	\$ 472.8	\$ (1,499.4)	\$ 2,159.4

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended December 29, 2012

(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
Net sales	\$ —	\$ 153.3	\$ 52.5	\$ —	\$ 205.8
Cost of sales	—	132.0	42.7	—	174.7
Gross profit	—	21.3	9.8	—	31.1
Operating expenses:					
Selling, general and administrative	—	97.9	26.6	—	124.5
Impairment, restructuring and other	—	(0.4)	—	—	(0.4)
Other income, net	—	(1.0)	(0.1)	—	(1.1)
Loss from operations	—	(75.2)	(16.7)	—	(91.9)
Equity income in subsidiaries	60.0	11.8	—	(71.8)	—
Other non-operating income	(4.0)	—	—	4.0	—
Interest expense	10.5	3.8	1.4	(2.5)	13.2
Loss from continuing operations before income taxes	(66.5)	(90.8)	(18.1)	70.3	(105.1)
Income tax benefit from continuing operations	(0.2)	(30.2)	(6.4)	—	(36.8)
Loss from continuing operations	(66.3)	(60.6)	(11.7)	70.3	(68.3)
Income from discontinued operations, net of tax	—	0.6	—	—	0.6
Net loss	\$ (66.3)	\$ (60.0)	\$ (11.7)	\$ 70.3	\$ (67.7)

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Comprehensive Loss
for the three months ended December 29, 2012

(In millions)
(Unaudited)

	<u>Parent</u>	<u>Subsidiary Guarantors</u>	<u>Non- Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net loss	\$ (66.3)	\$ (60.0)	\$ (11.7)	\$ 70.3	\$ (67.7)
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	—	—	(3.7)	—	(3.7)
Net change in derivatives	0.3	(1.1)	—	—	(0.8)
Net change in pension and other post retirement benefits	—	1.3	(0.1)	—	1.2
Total other comprehensive income (loss)	0.3	0.2	(3.8)	—	(3.3)
Comprehensive loss	<u>\$ (66.0)</u>	<u>\$ (59.8)</u>	<u>\$ (15.5)</u>	<u>\$ 70.3</u>	<u>\$ (71.0)</u>

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the three months ended December 29, 2012

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ 14.1	\$ (131.1)	\$ (31.7)	\$ (19.9)	\$ (168.6)
INVESTING ACTIVITIES					
Proceeds from sale of long-lived assets	—	0.1	—	—	0.1
Investments in property, plant and equipment	—	(21.9)	(3.1)	—	(25.0)
Investment in acquired business, net of cash acquired	—	(3.2)	—	—	(3.2)
Net cash used in investing activities	—	(25.0)	(3.1)	—	(28.1)
FINANCING ACTIVITIES					
Borrowings under revolving and bank lines of credit	—	451.0	12.8	—	463.8
Repayments under revolving and bank lines of credit	—	(26.5)	(237.7)	—	(264.2)
Dividends paid	(19.9)	(19.9)	—	19.9	(19.9)
Excess tax benefits from share-based payment arrangements	—	0.4	—	—	0.4
Cash received from the exercise of stock options	0.7	—	—	—	0.7
Intercompany financing	5.1	(250.6)	245.5	—	—
Net cash (used in) provided by financing activities	(14.1)	154.4	20.6	19.9	180.8
Effect of exchange rate changes on cash	—	—	(0.4)	—	(0.4)
Net decrease in cash and cash equivalents	—	(1.7)	(14.6)	—	(16.3)
Cash and cash equivalents, beginning of period	—	2.6	129.3	—	131.9
Cash and cash equivalents, end of period	\$ —	\$ 0.9	\$ 114.7	\$ —	\$ 115.6

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of December 29, 2012
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ —	\$ 0.9	\$ 114.7	\$ —	\$ 115.6
Accounts receivable, net	—	97.0	71.4	—	168.4
Inventories	—	531.6	115.1	—	646.7
Prepaid and other current assets	—	87.3	38.9	—	126.2
Total current assets	—	716.8	340.1	—	1,056.9
Property, plant and equipment, net	—	378.1	45.9	—	424.0
Goodwill	—	313.8	0.6	—	314.4
Intangible assets, net	—	260.6	42.7	—	303.3
Other assets	28.9	11.2	31.4	(42.0)	29.5
Equity investment in subsidiaries	748.4	—	—	(748.4)	—
Intercompany assets	748.8	190.0	—	(938.8)	—
Total assets	<u>\$ 1,526.1</u>	<u>\$ 1,870.5</u>	<u>\$ 460.7</u>	<u>\$ (1,729.2)</u>	<u>\$ 2,128.1</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt	\$ —	\$ 2.3	\$ 2.0	\$ —	\$ 4.3
Accounts payable	—	127.8	57.7	—	185.5
Other current liabilities	16.5	90.0	80.1	—	186.6
Total current liabilities	16.5	220.1	139.8	—	376.4
Long-term debt	975.5	526.3	55.6	(575.5)	981.9
Other liabilities	20.3	224.9	52.8	(42.0)	256.0
Equity investment in subsidiaries	—	321.0	—	(321.0)	—
Intercompany liabilities	—	—	363.3	(363.3)	—
Total liabilities	1,012.3	1,292.3	611.5	(1,301.8)	1,614.3
Shareholders' equity	513.8	578.2	(150.8)	(427.4)	513.8
Total liabilities and shareholders' equity	<u>\$ 1,526.1</u>	<u>\$ 1,870.5</u>	<u>\$ 460.7</u>	<u>\$ (1,729.2)</u>	<u>\$ 2,128.1</u>

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of September 30, 2013
(In millions)
(Unaudited)

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

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion is to provide an understanding of the financial condition and results of operations of The Scotts Miracle-Gro Company (“Scotts Miracle-Gro”) and its subsidiaries (collectively, together with Scotts Miracle-Gro, the “Company,” “we” or “us”) by focusing on changes in certain key measures from year-to-year. Management’s Discussion and Analysis is divided into the following sections:

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

This discussion and analysis should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Scotts Miracle-Gro’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

EXECUTIVE SUMMARY

We are a leading manufacturer and marketer of consumer branded products for lawn and garden care in North America and Europe. We are Monsanto’s exclusive agent for the marketing and distribution of consumer Roundup® non-selective herbicide products within the United States and other contractually specified countries. We have a presence in similar consumer branded products in Australia, the Far East and Latin America. We also operate Scotts LawnService®, the second largest lawn care service business in the United States. Our operations are divided into the following reportable segments: Global Consumer and Scotts LawnService®.

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

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

	Percent of Net Sales from Continuing Operations by Quarter		
	2013	2012	2011
First Quarter	7.3%	7.1%	8.1%
Second Quarter	36.2%	41.4%	40.1%
Third Quarter	40.8%	37.3%	37.4%
Fourth Quarter	15.7%	14.2%	14.4%

In August 2010, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to \$500 million of Scotts Miracle-Gro's common shares (the "Common Shares") over a four-year period through September 30, 2014. In May 2011, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to an additional \$200 million of the Common Shares, resulting in authority to repurchase up to a total of \$700 million of the Common Shares through September 30, 2014. Since inception of the program in the fourth quarter of fiscal 2010 through December 28, 2013, Scotts Miracle-Gro has repurchased 8.0 million Common Shares for \$409.7 million to be held in treasury, leaving \$290.3 million authorized for repurchases through September 30, 2014.

Further, on August 6, 2013, we announced that the Scotts Miracle-Gro Board of Directors had approved an increase in our quarterly dividend from \$0.325 to \$0.4375 per Common Share. The decision to increase the amount of cash we intend to return to our shareholders reflects our continued confidence in the business and our desire to maintain a consistent capital structure.

RESULTS OF OPERATIONS

We classified our professional seed business as discontinued operations, for all periods presented, beginning in our fourth quarter of fiscal 2012. As a result, and unless specifically stated, all discussions regarding results for the three months ended December 28, 2013 and December 29, 2012, reflect results from our continuing operations.

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

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
Net sales	100.0 %	100.0 %
Cost of sales	82.2	84.9
Gross profit	17.8	15.1
Operating expenses:		
Selling, general and administrative	63.7	60.5
Impairment, restructuring and other	0.2	(0.2)
Other income, net	(0.5)	(0.5)
Loss from operations	(45.6)	(44.7)
Interest expense	7.0	6.4
Loss from continuing operations before income taxes	(52.6)	(51.1)
Income tax benefit from continuing operations	(19.2)	(17.9)
Loss from continuing operations	(33.4)	(33.2)
Income from discontinued operations, net of tax	—	0.3
Net loss	(33.4)%	(32.9)%

Net Sales

Net sales for the three months ended December 28, 2013 were \$196.4 million, a decrease of 4.6% from net sales of \$205.8 million for the three months ended December 29, 2012. The change in net sales was attributable to the following:

	THREE MONTHS ENDED
	DECEMBER 28, 2013
Volume	(8.1)%
Pricing	0.6
Foreign exchange rates	(0.4)
Acquisitions	3.3
Change in net sales	(4.6)%

The decrease in net sales for the three months ended December 28, 2013, was primarily driven by:

- decreased volume in our Global Consumer segment, driven by the timing of shipments to retailers closer to the peak of the lawn and garden season;
- a decrease in net sales related to ICL supply agreements, which were entered into in connection with the sale of Global Pro in February 2011;
- unfavorable impact of foreign exchange rates as a result of the slight strengthening of the U.S. dollar relative to other currencies;
- partially offset by net sales from the Tomcat® acquisition within our Global Consumer segment and acquisitions within our Scotts LawnService® segment;
- favorable impact of increased pricing in the Global Consumer segment, primarily in the U.S.; and
- an increase in net sales attributable to reimbursements under our marketing agreement with Monsanto.

Cost of Sales

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

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
	(In millions)	
Materials	\$ 84.8	\$ 96.0
Manufacturing labor and overhead	25.3	26.6
Distribution and warehousing	36.3	38.4
Roundup® reimbursements	15.1	13.7
	<u>\$ 161.5</u>	<u>\$ 174.7</u>

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

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	
	(In millions)	
Material costs	\$	(1.7)
Volume and product mix		(12.3)
Roundup® reimbursements		1.4
Foreign exchange rates		(0.6)
Change in cost of sales	<u>\$</u>	<u>(13.2)</u>

The decrease in cost of sales, for the three months ended December 28, 2013, was primarily driven by:

- decreased volume in our Global Consumer segment, driven by the timing of shipments to retailers closer to the peak of the lawn and garden season;
- favorable impact of foreign exchange rates as a result of a slight strengthening of the U.S. dollar relative to other currencies;
- decline in material costs in our Scotts LawnService® segment; and
- partially offset by higher reimbursements attributable to our Marketing Agreement with Monsanto.

Gross Profit

As a percentage of net sales, our gross profit rate was 17.8% and 15.1% for the three months ended December 28, 2013 and December 29, 2012, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	
Pricing		0.7 %
Material costs		0.2
Product mix and volume:		
Roundup® commissions and reimbursements		(0.1)
Acquisitions		0.6
Corporate & Other		0.3
Scotts LawnService®		1.3
Global Consumer mix and volume		(0.3)
Change in gross profit rate		2.7 %

The increase in the gross profit rate, for the three months ended December 28, 2013, was primarily driven by:

- increased volume in our Scotts LawnService® segment due to increased customer count, acquisitions and improved cost related to management of material and field service costs;
- favorable impact of increased pricing for the Global Consumer segment, primarily in the U.S.; and
- favorable impact due to the acquisition of the Tomcat® business within the Global Consumer segment.

Selling, General and Administrative Expenses

The following table sets forth the components of selling, general and administrative expenses:

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
	(In millions)	
Advertising	\$ 7.5	\$ 9.5
Share-based compensation	1.8	1.9
Research and development	11.1	10.4
Amortization of intangibles	2.4	2.0
Other selling, general and administrative	102.3	100.7
	<u>\$ 125.1</u>	<u>\$ 124.5</u>

Selling, general and administrative (“SG&A”) expenses increased \$0.6 million, or 0.5%, to \$125.1 million for the first quarter of fiscal 2014 compared to the same period of fiscal 2013. The decrease in advertising of \$2.0 million was driven by delayed timing of media and marketing purchases within Scotts LawnService®. The increase in other SG&A of \$1.6 million was driven by higher employee related costs, including compensation and benefits.

Impairment, Restructuring and Other

For the three months ended December 28, 2013, we recognized expense for employee severance charges of \$0.3 million related to termination benefits provided to international employees as part of the profitability improvement initiative announced in December 2012, associated with the international restructuring plan to reduce headcount and streamline management decision making within the Global Consumer segment.

For the three months ended December 29, 2012, we recognized income of \$4.7 million related to the reimbursement by a vendor of a portion of the costs incurred for the development and commercialization of products including the active ingredient MAT 28 for the Global Consumer segment. We also recognized a \$4.3 million asset impairment charge as a result of issues with the commercialization of an insect repellent technology for the Global Consumer segment.

Other Income, net

Other income was \$1.0 million for the three months ended December 28, 2013 compared to \$1.1 million for the three months ended December 29, 2012. Other income is comprised of activities outside our normal business operations, such as royalty income from the licensing of certain of our brand names, franchise fee income from our Scotts LawnService® business, foreign exchange gains/losses and gains/losses from the sale of non-inventory assets.

Interest Expense

Interest expense was \$13.9 million for the three months ended December 28, 2013 compared to \$13.2 million for the three months ended December 29, 2012. The increase in interest expense of \$0.7 million was driven by the acceleration of interest expense of \$2.0 million for the ineffective portion of our interest rate hedges impacted by entering into our third amended and restated credit agreement in December 2013, partially offset by a decline in average borrowings of approximately \$149.8 million, excluding the impact of foreign exchange rates, during the three months ended December 28, 2013, as compared to the same prior year period. The decline in average borrowings was driven by carryover impact of a reduction in inventories in fiscal year 2013.

Income Tax Expense

The effective tax rate related to continuing operations for the three months ended December 28, 2013 was 36.6% compared to 35.0% for the three months ended December 29, 2012. The effective tax rate used for interim purposes was based on our best estimate of factors impacting the effective tax rate for the full fiscal year. Factors affecting the estimated effective tax rate include assumptions as to income by jurisdiction (domestic and foreign), the availability and utilization of tax credits and the existence of elements of income and expense that may not be taxable or deductible. The estimated effective tax rate is subject to revision in later interim periods and at fiscal year end as facts and circumstances change during the course of the fiscal year. There can be no assurances that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

Loss from Continuing Operations

We reported a loss from continuing operations of \$65.6 million, or \$1.06 per diluted share, for the first quarter of fiscal 2014 compared to \$68.3 million, or \$1.11 per diluted share, for the first quarter of fiscal 2013. We anticipated a loss in our first fiscal quarter due to the seasonal nature of our business, in which sales are heavily weighted to the spring and summer selling seasons. The decrease in our loss from continuing operations for the three months ended December 28, 2013 was driven primarily by the favorable results in our Scotts LawnService® segment, partially offset by an increase in SG&A expenses and the impact of lower volume in our Global Consumer segment. Diluted average common shares used in the diluted net income per common share calculation were 62.1 million for the first quarter of fiscal 2014 compared to 61.4 million for the same period a year ago. The increase in dilutive average common shares for the three months ended December 28, 2013 was a result of the exercise and issuance of share-based compensation awards partially offset by share repurchases.

SEGMENT RESULTS

Our continuing operations are divided into the following reportable segments: Global Consumer and Scotts LawnService®. This division of reportable segments is consistent with how the segments report to and are managed by the chief operating decision maker of the Company. Corporate & Other consists of revenues and expenses associated with our supply agreements with ICL and amortization related to the Roundup® Marketing Agreement, as well as corporate, general and administrative expenses and certain other income/expense items not allocated to the business segments.

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

The following table sets forth net sales by segment:

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
	(In millions)	
Global Consumer	\$ 145.3	\$ 153.2
Scotts LawnService®	46.2	44.8
Segment total	191.5	198.0
Corporate & Other	4.9	7.8
Consolidated	\$ 196.4	\$ 205.8

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

	THREE MONTHS ENDED	
	DECEMBER 28, 2013	DECEMBER 29, 2012
	(In millions)	
Global Consumer	\$ (67.3)	\$ (68.7)
Scotts LawnService®	2.6	(0.9)
Segment total	(64.7)	(69.6)
Corporate & Other	(21.6)	(20.2)
Intangible asset amortization	(2.9)	(2.5)
Impairment, restructuring and other	(0.3)	0.4
Interest expense	(13.9)	(13.2)
Consolidated	\$ (103.4)	\$ (105.1)

Global Consumer

Global Consumer segment net sales were \$145.3 million in the first quarter of fiscal 2014, a decrease of 5.2% from the first quarter of fiscal 2013 sales of \$153.2 million. For the three months ended December 28, 2013, acquisitions and pricing favorably impacted net sales by 3.7% and 0.9%, respectively, partially offset by unfavorable volume and and foreign exchange rates of 9.3% and 0.5%, respectively.

Net sales in the U.S. decreased \$4.8 million, or 4.5% for the first quarter of fiscal 2014, as compared to the same period in fiscal 2013. The decrease in U.S. net sales for the first quarter was driven by our retailers continued shift to move shipments closer to the peak of the lawn and garden season.

Excluding the impact of changes in foreign exchange rates, net sales internationally decreased by \$2.4 million, or 5.1% for the first quarter of fiscal 2014. The decrease in sales internationally was primarily driven by lower sales within Europe.

Global Consumer segment operating loss decreased by \$1.4 million, or 2.0% in the first quarter of fiscal 2014, as compared to the same periods of fiscal 2013. Excluding the impact of changes in foreign exchange rates, the decrease was 2.6% for the first quarter of fiscal 2014. The decrease was primarily driven by the favorable impact of pricing, acquisitions and product mix.

Scotts LawnService®

Scotts LawnService® net sales increased by \$1.4 million, or 3.1% in the first quarter of fiscal 2014 as compared to the same periods of fiscal 2013. The increase in net sales in the first quarter of fiscal 2014 was driven by increased customer count and acquisitions.

The operating income for Scotts LawnService® increased by \$3.5 million, to \$2.6 million in the first quarter of fiscal 2014, as compared to the same period of fiscal 2013. The increase in performance was primarily driven by improved margins due to higher net sales and improved cost management of material and field service costs.

Corporate & Other

The net operating loss for Corporate & Other was \$21.6 million for the three months ended December 28, 2013 compared to \$20.2 million for the three months ended December 29, 2012. The increase for the three months ended December 28, 2013 was primarily related to higher employee related costs, including compensation and benefits.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash used in operating activities totaled \$180.2 million and \$168.6 million for the three months ended December 28, 2013 and December 29, 2012, respectively. Cash used by operating activities increased \$11.6 million primarily due to an increase in cash used for working capital of \$16.5 million and the non-recurring reimbursement of \$4.6 million in the prior year associated with the costs incurred for the development and commercialization of products including the active ingredient MAT 28, partially offset by a decrease in net loss of \$2.1 million. The increase in cash used for working capital was primarily due to increased inventory production in the first quarter of fiscal 2014 compared to the same period of fiscal 2013.

Investing Activities

Cash used in investing activities totaled \$103.4 million and \$28.1 million for the three months ended December 28, 2013 and December 29, 2012, respectively. Cash used for investments in property, plant and equipment during the first three months of fiscal 2014 and fiscal 2013 was \$43.4 million and \$25.0 million, respectively. The increase was primarily related to a \$30 million down payment on a purchase order to acquire a new corporate aircraft and investments to increase efficiencies at existing production facilities. We anticipate entering into a lease arrangement once we take title to the new corporate aircraft, which is expected to be completed in late fiscal 2014. Additionally, during the three months ended December 28, 2013, we completed the all-cash acquisition of the Tomcat[®] consumer rodent control business from Bell Laboratories, Inc. within our Global Consumer segment for \$60.0 million. For the three months ended December 29, 2012, we completed acquisitions of two franchisee businesses within our Scotts LawnService[®] segment.

Financing Activities

Financing activities provided cash of \$277.2 million and \$180.8 million for the three months ended December 28, 2013 and December 29, 2012, respectively. The increase in cash provided by financing activities was primarily the result of higher net borrowings under our credit facility of \$111.6 million during the first quarter of fiscal 2014 as compared to fiscal 2013 and an increase in net cash received from stock option activity of \$6.8 million, partially offset by an increase in repurchases of our Common Shares in fiscal 2014 of \$8.5 million, additional dividends paid of \$7.4 million and financing fees associated with our new credit facility of \$6.1 million.

Cash and Cash Equivalents

Our cash and cash equivalents were held in cash depository accounts with major financial institutions around the world or invested in high quality, short-term liquid investments with a balance of \$124.6 million as of December 28, 2013, compared to \$115.6 million as of December 29, 2012. The cash and cash equivalents balance at December 28, 2013 included \$119.8 million held by controlled foreign corporations. Our current plans do not demonstrate a need to, nor do we have plans to, repatriate the retained earnings from these foreign corporations as the earnings are indefinitely reinvested. However, in the future, if we determine it is necessary to repatriate these funds, or we sell or liquidate any of these foreign corporations, we may be required to pay associated taxes on the repatriation.

Borrowing Agreements

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

Under our credit facility, we have the ability to obtain letters of credit up to \$75 million. At December 28, 2013, we had letters of credit in the aggregate face amount of \$23.3 million outstanding and \$1,229.3 million of availability under our credit facility, subject to our continued compliance with covenants discussed below.

The Company maintains a Master Accounts Receivable Purchase Agreement ("MARPA Agreement"), which is uncommitted and provides for the discretionary sale by the Company, and the discretionary purchase by the banks, on a revolving basis, of accounts receivable generated by sales to three specified account debtors in an aggregate amount not to exceed \$400 million. On October 25, 2013, the Company signed an amendment to the existing MARPA Agreement which extended the termination date to

August 29, 2014, or such later date as may be mutually agreed by the Company and the banks party thereto. Under the amended terms of the MARP Agreement, the banks have the opportunity to purchase those accounts receivable offered by the Company at a discount (from the agreed base value thereof) effectively equal to the one-week LIBOR plus 0.75%. There were \$7.4 million of short-term borrowings as of December 28, 2013 and no short-term borrowings as of December 29, 2012 under the MARP Agreement. The carrying value of the receivables pledged as collateral was \$9.3 million as of December 28, 2013.

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

As of December 28, 2013, we were in compliance with all debt covenants. Our credit facility contains, among other obligations, an affirmative covenant regarding our leverage ratio, calculated as indebtedness relative to our earnings before interest, taxes, depreciation and amortization. Under the terms of the credit facility, the maximum leverage ratio was 4.00 as of December 28, 2013. Our leverage ratio was 2.04 at December 28, 2013. Our credit facility also includes an affirmative covenant regarding our interest coverage. Under the terms of the credit facility, the minimum interest coverage ratio was 3.50 for the twelve months ended December 28, 2013. Our interest coverage ratio was 7.06 for the twelve months ended December 28, 2013.

We continue to monitor our compliance with the leverage ratio, interest coverage ratio and other covenants contained in the credit facility and, based upon our current operating assumptions, we expect to remain in compliance with the permissible leverage ratio and interest coverage ratio throughout fiscal 2014. However, an unanticipated charge to earnings, an increase in debt or other factors could materially affect our ability to remain in compliance with the financial or other covenants of our credit facility, potentially causing us to have to seek an amendment or waiver from our lending group which could result in repricing of our credit facility. While we believe we have good relationships with our banking group, we can provide no assurance that such a request would result in a modified or replacement credit facility on reasonable terms, if at all.

In our opinion, cash flows from operations and borrowings under our credit agreement will be sufficient to meet debt service and working capital needs, capital expenditures, cash dividends and purchases of our Common Shares for the foreseeable future. However, we cannot ensure that our business will generate sufficient cash flow from operations or that future borrowings will be available under our credit facility in amounts sufficient to pay indebtedness or fund other liquidity needs. Actual results of operations will depend on numerous factors, many of which are beyond our control.

Judicial and Administrative Proceedings

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

Contractual Obligations

There have been no material changes outside of the ordinary course of business, in our outstanding contractual obligations since the end of fiscal 2013 and through December 28, 2013.

REGULATORY MATTERS

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking actions aimed at ensuring compliance with, such laws and regulations. We are involved in several legal actions with various governmental agencies related to environmental matters. While it is difficult to quantify the potential financial impact of actions involving these environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established reserves, should not have a material effect on our financial condition, results of operations or cash flows. However, there can be no assurance that the resolution of these matters will not materially affect our future quarterly or annual results of operations, financial condition or cash flows. Additional information on environmental matters affecting us is provided in Scotts Miracle Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2013, under "ITEM 1. BUSINESS — Regulatory Considerations" and "ITEM 3. LEGAL PROCEEDINGS."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preceding discussion and analysis of our consolidated results of operations and financial condition should be read in conjunction with our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2013 includes additional information about us, our operations, our financial condition, our critical accounting policies and accounting estimates, and should be read in conjunction with this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks have not changed significantly from those disclosed in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

ITEM 4. CONTROLS AND PROCEDURES

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

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

In addition, there were no changes in the Registrant's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Registrant's fiscal quarter ended December 28, 2013 that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than as discussed in “NOTE 11. CONTINGENCIES” of the Notes to Condensed Consolidated Financial Statements, pending material legal proceedings have not changed significantly since those disclosed in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

ITEM 1A. RISK FACTORS

The Company's risk factors as of December 28, 2013 have not changed materially from those described in “ITEM 1A. RISK FACTORS” in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the exhibits hereto and the information incorporated by reference herein, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. Other than statements of historical fact, information regarding activities, events and developments that we expect or anticipate will or may occur in the future, including, but not limited to, information relating to our future growth and profitability targets and strategies designed to increase total shareholder value, are forward-looking statements based on management's estimates, assumptions and projections. Forward-looking statements also include, but are not limited to, statements regarding our future economic and financial condition and results of operations, the plans and objectives of management and our assumptions regarding our performance and such plans and objectives, as well as the amount and timing of repurchases of Scotts Miracle-Gro Common Shares. These forward-looking statements generally can be identified through the use of words such as “guidance,” “outlook,” “projected,” “believe,” “target,” “predict,” “estimate,” “forecast,” “strategy,” “may,” “goal,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will,” “should” and other similar words and variations.

Forward-looking statements contained in this Quarterly Report on Form 10-Q are predictions only and actual results could differ materially from management's expectations due to a variety of factors, including those described in “ITEM 1A. RISK FACTORS” in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2013. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

The forward-looking statements that we make in this Quarterly Report on Form 10-Q are based on management's current views and assumptions regarding future events and speak only as of their dates. We disclaim any obligation to update developments of these risk factors or to announce publicly any revisions to any of the forward-looking statements that we make, or to make corrections to reflect future events or developments, except as required by the federal securities laws.

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

The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The Company's third amended and restated credit agreement restricts future dividend payments to an aggregate of \$150 million annually through fiscal 2014 and 2015 and \$175 million annually beginning in fiscal 2016 if our leverage ratio, after giving effect to any such annual dividend payment, exceeds 3.0. Our leverage ratio was 2.04 at December 28, 2013.

(a) Issuer Purchases of Equity Securities

The following table shows the purchases of Common Shares made by or on behalf of Scotts Miracle-Gro or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each fiscal month in the three months ended December 28, 2013:

Period	Total Number of Common Shares Purchased(1)	Average Price Paid per Common Share(2)	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs(3)
October 1, 2013 through October 26, 2013	126,609	\$ 55.63	126,609	\$ 291,774,075
October 27, 2013 through November 23, 2013	25,071	\$ 57.71	24,900	\$ 290,337,333
November 24, 2013 through December 28, 2013	902	\$ 60.04	—	\$ 290,337,333
Total	152,582	\$ 59.91	151,509	

- (1) All of the Common Shares purchased during the quarter were purchased in open market transactions. The total number of Common Shares purchased during the quarter includes 1,073 Common Shares purchased by the trustee of the rabbi trust established by the Company as permitted pursuant to the terms of The Scotts Company LLC Executive Retirement Plan (the "ERP"). The ERP is an unfunded, non-qualified deferred compensation plan which, among other things, provides eligible employees the opportunity to defer compensation above specified statutory limits applicable to The Scotts Company LLC Retirement Savings Plan and with respect to any Executive Management Incentive Pay (as defined in the ERP), Performance Award (as defined in the ERP) or other bonus awarded to such eligible employees. Pursuant to the terms of the ERP, each eligible employee has the right to elect an investment fund, including a fund consisting of Common Shares (the "Scotts Miracle-Gro Common Stock Fund"), against which amounts allocated to such employee's account under the ERP, including employer contributions, will be benchmarked (all ERP accounts are bookkeeping accounts only and do not represent a claim against specific assets of the Company). Amounts allocated to employee accounts under the ERP represent deferred compensation obligations of the Company. The Company established the rabbi trust in order to assist the Company in discharging such deferred compensation obligations. When an eligible employee elects to benchmark some or all of the amounts allocated to such employee's account against the Scotts Miracle-Gro Common Stock Fund, the trustee of the rabbi trust purchases the number of Common Shares equivalent to the amount so benchmarked. All Common Shares purchased by the trustee are purchased on the open market and are held in the rabbi trust until such time as they are distributed pursuant to the terms of the ERP. All assets of the rabbi trust, including any Common Shares purchased by the trustee, remain, at all times, assets of the Company, subject to the claims of its creditors. The terms of the ERP do not provide for a specified limit on the number of Common Shares that may be purchased by the trustee of the rabbi trust.
- (2) The average price paid per Common Share is calculated on a settlement basis and includes commissions.
- (3) In August 2010, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to \$500 million of the Common Shares over a four-year period (through September 30, 2014). On May 4, 2011, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to an additional \$200 million of the Common Shares, resulting in authority to repurchase up to a total of \$700 million of the Common Shares through September 30, 2014. The dollar amounts in the "Approximate Dollar Value" column reflect the total \$700 million authorized repurchase program.

ITEM 6. EXHIBITS

See Index to Exhibits at page 44 for a list of the exhibits included herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SCOTTS MIRACLE-GRO COMPANY

Date: February 6, 2014

/s/ LAWRENCE A. HILSHEIMER

Printed Name: Lawrence A. Hilsheimer

Title: Executive Vice President and Chief Financial Officer

THE SCOTTS MIRACLE-GRO COMPANY
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED DECEMBER 28, 2013

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION
4.1	Third Supplemental Indenture, dated as of September 30, 2013, among The Scotts Miracle-Gro Company, the Guarantors named therein, and U.S. Bank National Association, as trustee	*
4.2	Second Supplemental Indenture, dated as of September 30, 2013, among The Scotts Miracle-Gro Company, the Guarantors named therein, and U.S. Bank National Association, as trustee	*
10.1	Executive Severance Agreement, dated as of December 11, 2013, by and between The Scotts Company LLC and James Hagedorn	Incorporated herein by reference to the Current Report on Form 8-K of the Registrant filed December 17, 2013 (File No. 1-11593) [Exhibit 10.1]
10.2	Employee Confidentiality, Noncompetition, Nonsolicitation Agreement, dated as of December 12, 2013, by and between The Scotts Company LLC, all companies controlled by, controlling or under common control with The Scotts Company LLC, and James Hagedorn	Incorporated herein by reference to the Current Report on Form 8-K of the Registrant filed December 17, 2013 (File No. 1-11593) [Exhibit 10.2]
10.3	Third Amended and Restated Credit Agreement, dated as of December 20, 2013, by and among The Scotts Miracle-Gro Company as the “Borrower”; the Subsidiary Borrowers (as defined in the Third Amended and Restated Credit Agreement); JPMorgan Chase Bank, N.A., as Administrative Agent; Bank of America, N.A., as Syndication Agent; CoBank, ACB, BNP Paribas, Crédit Agricole Corporate and Investment Bank, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Citizens Bank of Pennsylvania, and Wells Fargo Bank, N.A., as Documentation Agents; and the several other banks and other financial institutions from time to time parties to the Third Amended and Restated Credit Agreement (collectively, the “Lenders”)	Incorporated herein by reference to the Current Report on Form 8-K of the Registrant filed December 26, 2013 (File No. 1-11593) [Exhibit 4.1]
10.4	Third Amended and Restated Guarantee and Collateral Agreement, dated as of December 20, 2013, made by The Scotts Miracle-Gro Company, each domestic Subsidiary Borrower under the Third Amended and Restated Credit Agreement, and certain of its and their domestic subsidiaries, in favor of JPMorgan Chase Bank, N.A., as Administrative Agent	Incorporated herein by reference to the Current Report on Form 8-K of the Registrant filed December 26, 2013 (File No. 1-11593) [Exhibit 4.2]
10.5	Fourth Amendment to The Scotts Company LLC Executive Retirement Plan, as Amended and Restated as of January 1, 2011 (effective as of December 31, 2013)	*
10.6	Separation Agreement and Release of All Claims, dated as of January 22, 2014, by and between The Scotts Company LLC and James R. Lyski	Incorporated herein by reference to the Current Report on Form 8-K of the Registrant filed January 23, 2014 (File No. 1-11593) [Exhibit 10.1]
10.7	The Scotts Company LLC Amended and Restated Executive Incentive Plan (effective as of January 30, 2014)	Incorporated herein by reference to the Current Report on Form 8-K of the Registrant filed February 5, 2014 (File No. 1-11593) [Exhibit 10.1]
10.8	Specimen form of Deferred Stock Unit Award Agreement for Nonemployee Directors (with Related Dividend Equivalents) used to evidence grants of Deferred Stock Units which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan (post-January 30, 2014)	*
10.9	Specimen form of Deferred Stock Unit Award Agreement for Nonemployee Directors (with Related Dividend Equivalents) used to evidence grants of Deferred Stock Units which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan (Deferral of Cash Retainer — post-January 30, 2014)	*

10.10	Specimen form of Restricted Stock Unit Award Agreement for Employees (with Related Dividend Equivalents) used to evidence grants of Restricted Stock Units made on December 11, 2013 to James Hagedorn under The Scotts Miracle-Gro Company Long-Term Incentive Plan	*
10.11	Specimen form of Restricted Stock Unit Award Agreement for Employees (with Related Dividend Equivalents) used to evidence grants of Restricted Stock Units made on January 31, 2014 to Barry W. Sanders and Denise S. Stump under The Scotts Miracle-Gro Company Long-Term Incentive Plan	*
31.1	Rule 13a-14(a)/15d-14(a) Certifications (Principal Executive Officer)	*
31.2	Rule 13a-14(a)/15d-14(a) Certifications (Principal Financial Officer)	*
32	Section 1350 Certifications (Principal Executive Officer and Principal Financial Officer)	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase	*
101.LAB	XBRL Taxonomy Extension Label Linkbase	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	*

* Included herewith

THE SCOTTS MIRACLE-GRO COMPANY, as Issuer
THE GUARANTORS PARTY HERETO, as Guarantors
AND
U.S. BANK NATIONAL ASSOCIATION,
as Trustee

7.25% Senior Notes due 2018

THIRD SUPPLEMENTAL INDENTURE DATED AS OF
September 30, 2013
TO THE INDENTURE DATED AS OF
January 14, 2010

THIRD SUPPLEMENTAL INDENTURE

This THIRD SUPPLEMENTAL INDENTURE, dated as of September 30, 2013 (this “**Third Supplemental Indenture**”), is by and among The Scotts Miracle-Gro Company, an Ohio corporation (such corporation and any successor, the “**Company**”), the existing Guarantors (as defined in the Indenture referred to herein) (the “**Existing Guarantors**”), SMGM LLC, an Ohio limited liability company (the “**New Guarantor**”), and U.S. Bank National Association, a national banking association, as trustee under the Indenture referred to herein (such corporation and any successor, the “**Trustee**”). The New Guarantor and the Existing Guarantors are sometimes referred to collectively herein as the “**Guarantors**,” or individually as a “**Guarantor**.”

WITNESSETH:

WHEREAS, the Company, the Existing Guarantors and the Trustee are parties to an indenture, dated as of January 14, 2010, as supplemented by the First Supplemental Indenture, dated as of January 14, 2010 (the “**First Supplemental Indenture**”), by and among the Company, the Existing Guarantees and the Trustee, as further supplemented by the Second Supplemental Indenture, dated as of September 28, 2011, by and among the Company, the Existing Guarantors and the Trustee (as so supplemented, the “**Indenture**”), relating to the Company’s 7.25% Senior Notes due 2018 (the “**Securities**”);

WHEREAS, pursuant to Section 11.01(5) of the Indenture, without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more supplemental indentures, in form satisfactory to the Trustee, to add any Person as a Guarantor; and

WHEREAS, all conditions precedent provided for in the Indenture relating to this Third Supplemental Indenture have been complied with.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantor, the Existing Guarantors, the Company and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Securities as follows:

1. Definitions. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.
2. Joinder of New Guarantor. The New Guarantor hereby joins in the Indenture as a “Guarantor” thereunder. The New Guarantor hereby assumes the duties and obligations of a Guarantor under the Indenture. The New Guarantor agrees to keep and perform all of the covenants, obligations and conditions of a Guarantor under the Indenture, on the terms and subject to the conditions set forth in Article Seventeen of the Indenture, and to be bound by all other applicable provisions of the Indenture. Upon request from time to time by the Trustee, the New Guarantor shall execute and deliver to the Trustee a notation relating to the New Guarantor’s Guarantee, substantially in the form attached to the supplemental indenture for the applicable Debt Securities.

3. Effect of Third Supplemental Indenture. Except as amended by this Third Supplemental Indenture, the terms and provisions of the Indenture shall remain in full force and effect.

4. Governing Law. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS THIRD SUPPLEMENTAL INDENTURE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

5. Counterparts. The parties may sign any number of copies of this Third Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. This Third Supplemental Indenture may be executed in multiple counterparts which, when taken together, shall constitute one instrument.

6. Effect of Headings. The section headings herein are for convenience only and shall not affect the construction hereof.

7. Trustee. Except as otherwise expressly provided herein, no duties, responsibilities or liabilities are assumed, or shall be construed to be assumed, by the Trustee by reason of this Third Supplemental Indenture. This Third Supplemental Indenture is executed and accepted by the Trustee subject to all the terms and conditions set forth in the Indenture.

[Remainder of Page Intentionally Left Blank; Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Third Supplemental Indenture to be duly executed and delivered all as of the day and year first above written.

COMPANY:

THE SCOTTS MIRACLE-GRO COMPANY

By: /s/ LAWRENCE A. HILSHEIMER
Name: Lawrence A. Hilsheimer
Title: Executive Vice President and Chief Financial Officer

NEW GUARANTOR:

SMGM LLC

By: /s/ AIMEE M. DELUCA
Name: Aimee M. DeLuca
Title: Vice President, Tax and Assistant Secretary

EXISTING GUARANTORS:

EG SYSTEMS, INC., DBA SCOTTS
LAWNSERVICE
GUTWEIN & CO., INC.
HYPONEX CORPORATION
MIRACLE-GRO LAWN PRODUCTS, INC.
ROD MCLELLAN COMPANY
SANFORD SCIENTIFIC, INC.
SCOTTS TEMECULA OPERATIONS, LLC
SCOTTS MANUFACTURING COMPANY
SCOTTS PRODUCTS CO.
SCOTTS PROFESSIONAL PRODUCTS CO.
SMG GROWING MEDIA, INC.
THE SCOTTS COMPANY LLC

By: /s/ LAWRENCE A. HILSHEIMER
Name: Lawrence A. Hilsheimer
Title: Executive Vice President and Chief Financial Officer

OMS INVESTMENTS, INC.
SMG BRANDS, INC.
SWISS FARMS PRODUCTS, INC.
SCOTTS-SIERRA INVESTMENTS, INC.

By: /s/ AIMEE M. DELUCA
Name: Aimee M. DeLuca
Title: President and Chief Executive Officer

TRUSTEE:
U.S. BANK NATIONAL ASSOCIATION

By: /s/ SCOTT MILLER
Name: Scott Miller
Title: Vice President

THE SCOTTS MIRACLE-GRO COMPANY, as Issuer
THE GUARANTORS PARTY HERETO, as Guarantors
AND
U.S. BANK NATIONAL ASSOCIATION,
as Trustee

6.625% Senior Notes due 2020

SECOND SUPPLEMENTAL INDENTURE DATED AS OF
September 30, 2013
TO THE INDENTURE DATED AS OF
December 16, 2010

SECOND SUPPLEMENTAL INDENTURE

This SECOND SUPPLEMENTAL INDENTURE, dated as of September 30, 2013 (this “*Second Supplemental Indenture*”), is by and among The Scotts Miracle-Gro Company, an Ohio corporation (such corporation and any successor, the “*Company*”), the existing Guarantors (as defined in the Indenture referred to herein) (the “*Existing Guarantors*”), SMGM LLC, an Ohio limited liability company (the “*New Guarantor*”), and U.S. Bank National Association, a national banking association, as trustee under the Indenture referred to herein (such corporation and any successor, the “*Trustee*”). The New Guarantor and the Existing Guarantors are sometimes referred to collectively herein as the “*Guarantors*,” or individually as a “*Guarantor*.”

WITNESSETH:

WHEREAS, the Company, the Existing Guarantors and the Trustee are parties to an indenture, dated as of December 16, 2010, as supplemented by the First Supplemental Indenture dated as of September 28, 2011 (as so supplemented, the “*Indenture*”), relating to the Company’s 6.625% Senior Notes due 2020 (the “*Securities*”);

WHEREAS, pursuant to Section 9.01(5) of the Indenture, without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more supplemental indentures, in form satisfactory to the Trustee, to add any Person as a Guarantor; and

WHEREAS, all conditions precedent provided for in the Indenture relating to this Second Supplemental Indenture have been complied with.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantor, the Existing Guarantors, the Company and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Securities as follows:

1. Definitions. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.
2. Joinder of New Guarantor. The New Guarantor hereby joins in the Indenture as a “Guarantor” thereunder. The New Guarantor hereby assumes the duties and obligations of a Guarantor under the Indenture. The New Guarantor agrees to keep and perform all of the covenants, obligations and conditions of a Guarantor under the Indenture, on the terms and subject to the conditions set forth in Article X of the Indenture, and to be bound by all other applicable provisions of the Indenture. Upon request from time to time by the Trustee, the New Guarantor shall execute and deliver to the Trustee a notation relating to the New Guarantor’s Guarantee, substantially in the form attached as Exhibit E to the Indenture.
3. Effect of Second Supplemental Indenture. Except as amended by this Second Supplemental Indenture, the terms and provisions of the Indenture shall remain in full force and effect.

4. Governing Law. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS SECOND SUPPLEMENTAL INDENTURE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

5. Counterparts. The parties may sign any number of copies of this Second Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. This Second Supplemental Indenture may be executed in multiple counterparts which, when taken together, shall constitute one instrument.

6. Effect of Headings. The section headings herein are for convenience only and shall not affect the construction hereof.

7. Trustee. Except as otherwise expressly provided herein, no duties, responsibilities or liabilities are assumed, or shall be construed to be assumed, by the Trustee by reason of this Second Supplemental Indenture. This Second Supplemental Indenture is executed and accepted by the Trustee subject to all the terms and conditions set forth in the Indenture.

[Remainder of Page Intentionally Left Blank; Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed and delivered all as of the day and year first above written.

COMPANY:

THE SCOTTS MIRACLE-GRO COMPANY

By: /s/ LAWRENCE A. HILSHEIMER
Name: Lawrence A. Hilsheimer
Title: Executive Vice President and Chief Financial Officer

NEW GUARANTOR:

SMGM LLC

By: /s/ AIMEE M. DELUCA
Name: Aimee M. DeLuca
Title: Vice President, Tax and Assistant Secretary

EXISTING GUARANTORS:

EG SYSTEMS, INC., DBA SCOTTS
LAWNSERVICE
GUTWEIN & CO., INC.
HYPONEX CORPORATION
MIRACLE-GRO LAWN PRODUCTS, INC.
ROD MCLELLAN COMPANY
SANFORD SCIENTIFIC, INC.
SCOTTS TEMECULA OPERATIONS, LLC
SCOTTS MANUFACTURING COMPANY
SCOTTS PRODUCTS CO.
SCOTTS PROFESSIONAL PRODUCTS CO.
SMG GROWING MEDIA, INC.
THE SCOTTS COMPANY LLC

By: /s/ LAWRENCE A. HILSHEIMER
Name: Lawrence A. Hilsheimer
Title: Executive Vice President and Chief Financial Officer

OMS INVESTMENTS, INC.
SMG BRANDS, INC.
SWISS FARMS PRODUCTS, INC.
SCOTTS-SIERRA INVESTMENTS, INC.

By: /s/ AIMEE M. DELUCA
Name: Aimee M. DeLuca
Title: President and Chief Executive Officer

TRUSTEE:

U.S. BANK NATIONAL ASSOCIATION

By: /s/ SCOTT MILLER
Name: Scott Miller
Title: Vice President

THE SCOTTS COMPANY LLC

Certificate

I, Denise S. Stump, the Executive Vice President, Global Human Resources, of The Scotts Company LLC, hereby certify that the Fourth Amendment to *The Scotts Company LLC Executive Retirement Plan, as Amended and Restated as of January 1, 2011*, attached hereto as Exhibit I, was implemented by me this day and made effective as of the date set forth herein.

This action is taken by me on behalf of The Scotts Company LLC pursuant to delegations made to me by the Compensation and Organization Committee of the Board of Directors of The Scotts Miracle-Gro Company on December 11, 2013, and August 8, 2007, which delegations remain in full force and effect as of the date of this Certificate.

**THE SCOTTS
COMPANY LLC**

/s/ DENISE S. STUMP
Denise S. Stump
Executive Vice President,
Global Human Resources

Dated: December 31, 2013

**FOURTH AMENDMENT
TO
THE SCOTTS COMPANY LLC EXECUTIVE RETIREMENT PLAN
(Amended and Restated as of January 1, 2011)**

WHEREAS, The Scotts Company LLC (the “Company”) sponsors *The Scotts Company LLC Executive Retirement Plan* (as the same has been amended through the date hereof, the “Plan”); and

WHEREAS, Plan Section XI provides that the Plan may be amended by the Compensation and Organization Committee of the Board of Directors or its delegate; and

WHEREAS, the Company wants to amend the Plan as set forth herein; and

WHEREAS, capitalized terms used herein but not defined herein have the meanings given to such terms under the Plan;

NOW THEREFORE, the Plan is amended as follows, effective January 1, 2014:

I. Plan Section I, “Name and Purpose,” is amended by adding the following paragraph at the end thereof:

Effective with respect to calendar years beginning on and after January 1, 2014, the Plan was revised to include provisions regarding Supplemental Retirement Awards.

II. Plan Section II, “Definitions,” is amended by replacing the second sentence of the definition of “Account” or “Accounts” with the following sentence:

A Participant’s Account shall consist of an Incentive Deferral Account (effective January 1, 2009; previously the Deferred Executive Management Incentive Pay Account), a Deferred Compensation Account, a Matching Account, a Retirement Account (with respect to Employer allocations under Section IV.D(1) for Plan Years ended prior to January 1, 2011), a Transitional Contributions Account, a Retention Award Account and a Supplemental Retirement Award Account.

III. Plan Section II, “Definitions,” is further amended by replacing the definition of “Executive Management Incentive Plan” with the following:

“Executive Management Incentive Plan” means The Scotts Company LLC Management Incentive Plan or The Scotts Company LLC Amended and Restated Executive Incentive Plan.

IV. Plan Section II, “Definitions,” is further amended by adding the following sentence at the end of the definition of “Separation from Service:”

Notwithstanding the foregoing, Separation from Service does not include a Participant's termination of employment on account of death or Disability.

V. Plan Section II, "Definitions," is further amended by adding a definition of "Supplemental Retirement Award" to read as follows:

"Supplemental Retirement Award" means an award, allocable to a Participant's Supplemental Retirement Award Account in accordance with Section IV.D(6). The designation of the Participants who receive a Supplemental Retirement Award and the amount of such Supplemental Retirement Award shall be determined by the Committee in its discretion.

VI. Section A, "Establishment of Accounts," of Plan Section IV, "Accounts," is amended by replacing the second sentence with the following sentence:

A Participant's Account shall consist of an Incentive Deferral Account (effective January 1, 2009; previously a Deferred Executive Management Incentive Pay Account), a Deferred Compensation Account, a Matching Account, a Retirement Account (with respect to Employer allocations under Section IV.D(1) for Plan Years ended prior to January 1, 2011), a Transitional Contributions Account, a Retention Award Account and a Supplemental Retirement Award Account.

VII. Subsection 2(b) of Section D, "Employer Contributions," of Plan Section IV, "Accounts," is amended by replacing the final sentence with the following sentence:

Matching contributions shall be determined and credited to a Participant's Matching Account between January 1 and March 31 of the Plan Year following the Plan Year to which they apply.

VIII. Section D, "Employer Contributions," of Plan Section IV, "Accounts," is amended by adding the following subsection IV.D. (6):

(6) Supplemental Retirement Award. The Employer shall allocate the amount, if any, as determined by the Committee to the Participant's Supplemental Retirement Award Account at the time specified by the Committee.

IX. The first paragraph of Section A, "Time of Distribution," of Plan Section V, "Method of Distribution of Deferred Compensation," is amended by deleting the phrase "(other than a Retention Award Account)" each time it appears therein and replacing it with the phrase "(other than a Retention Award Account or a Supplemental Retirement Award Account)".

X. Section A, "Time of Distribution," of Plan Section V, "Method of Distribution of Deferred Compensation," is further amended by adding the following language as the third paragraph thereof:

Amounts credited to a Participant's Supplemental Retirement Award Account shall be distributed upon the earliest to occur of (a) the Participant's Separation from Service, (b) the Participant's death or (c) the Participant's Disability.

XI. The fourth sentence of Section B, "Form of Distribution," of Plan Section V, "Method of Distribution of Deferred Compensation," is amended to read as follows:

Effective for calendar years beginning on or after January 1, 2009, or fiscal years beginning on or after October 1, 2008, as applicable, a Participant shall elect one form of distribution with respect to any Base Salary Deferral Election (other than elections made under Section IV.C(2) in such calendar year), Performance Award Deferral Election, Bonus Deferral Election or Supplemental Retirement Award made in the same calendar year, and shall deliver such form of distribution election to the recordkeeper at the time the deferral elections for the applicable calendar or fiscal years are made, or in the case of distributions from the Retention Award Account, in accordance with the written agreement evidencing the Participant's Retirement Award.

XII. Section F, "Personal Liability," of Plan Section XII, "General Provisions," is amended to read as follows:

Personal Liability. Except as otherwise expressly provided herein, no member of the Benefits Administrative Committee or the Committee, and no officer, director, employee or agent of the Employer, shall have any liability to any person, firm or corporation based on or arising out of the Plan, except in the case of willful misconduct or fraud.

**THE SCOTTS MIRACLE-GRO COMPANY
LONG-TERM INCENTIVE PLAN
(As Amended And Restated January 17, 2013)**

**DEFERRED STOCK UNIT AWARD AGREEMENT
FOR NONEMPLOYEE DIRECTORS
(WITH RELATED DIVIDEND EQUIVALENTS)**

**DEFERRED STOCK UNITS GRANTED TO
[Director's Name] ON [Grant Date]**

This Award Agreement describes the type of Award that you have been granted and the terms and conditions of your Award.

1. DESCRIPTION OF YOUR DEFERRED STOCK UNITS. You have been granted [**insert Number**] deferred stock units (“DSUs”) and an equal number of related dividend equivalents. The “Grant Date” of your Award is [**Grant Date**]. Each whole DSU represents the right to receive one full Share for each vested whole DSU at the time and in the manner described in this Award Agreement. Each dividend equivalent represents the right to receive additional DSUs (determined in accordance with Section 5) in respect of the dividends that are declared and paid during the period beginning on the Grant Date and ending on the Settlement Date (as described in Section 4(a)) with respect to the Share represented by the related vested DSU. To accept this Award Agreement, you must return a signed copy of this Award Agreement no later than [**Date 30 Days After Grant Date**], to [**Third Party Administrator**] (the “Third Party Administrator”) as follows:

[**Third Party Administrator**]
Attention: [**TPA Contact's Name**]
[**TPA Contact's Address**]
[**TPA Telephone Number**]

2. INCORPORATION OF PLAN AND DEFINITIONS.

- (a) This Award Agreement and your DSUs and dividend equivalents are granted pursuant to and in accordance with the terms of The Scotts Miracle-Gro Company Long-Term Incentive Plan as amended and restated January 17, 2013 (the “Plan”). All provisions of the Plan are incorporated herein by reference, and your DSUs and dividend equivalents are subject to the terms of the Plan and this Award Agreement. To the extent there is a conflict between this Award Agreement and the Plan, the Plan will govern.
- (b) Capitalized terms that are not defined in this Award Agreement have the same meanings as in the Plan.

3. **VESTING.** The DSUs described in this Award Agreement will vest as follows:

- (a) **General Vesting.** If your Board services continue from the Grant Date until the earlier of the first anniversary of the Grant Date or the date of the annual meeting of the Company's shareholders in 2015 (the "Vesting Date"), your DSUs described in this Award Agreement will become 100% vested on the Vesting Date, including any DSUs credited pursuant to Section 5 on or prior to the Vesting Date. Any DSUs received pursuant to Section 5 following the Vesting Date will be 100% vested on the date they are credited to you; or
- (b) **Accelerated Vesting.** Your DSUs described in this Award Agreement, including any DSUs credited pursuant to Section 5, will become 100% vested as of the date you Terminate because of your death or because you become Disabled. For purposes of this Award Agreement, "Disabled" means that you have been determined to be totally disabled by the Social Security Administration.

4. **SETTLEMENT.**

- (a) Subject to the terms of the Plan and this Award Agreement, your vested DSUs, including any DSUs credited pursuant to Section 5, shall be settled in a lump sum as soon as administratively practicable, but no later than 90 days following the earliest date to occur of: (i) your Termination; or (ii) the third anniversary of the Grant Date (the "Settlement Date"). Your whole DSUs shall be settled in full Shares, and any fractional DSU shall be settled in cash, determined based upon the Fair Market Value of a Share on the Settlement Date.
- (b) Except as provided in Section 5 below, you will have none of the rights of a shareholder with respect to Shares underlying the DSUs unless and until you become the record holder of such Shares.
- (c) Normally, your DSUs will vest and be settled only under the circumstances described above. However, if there is a Change in Control, your DSUs, including any DSUs credited pursuant to Section 5, will become 100% vested on the date of the Change in Control and will be settled as described in the Plan. See the Plan for further details.

5. **DIVIDEND EQUIVALENTS.** With respect to each dividend equivalent:

- (a) If a cash dividend is declared and paid on the Shares underlying the DSUs, you will be credited with an additional number of DSUs equal to the quotient of:
 - (i) The product of (I) the number of DSUs granted under this Award Agreement (including additional DSUs previously credited in accordance with this Section 5) that have not been settled as of the dividend payment date, multiplied by (II) the amount of the cash dividend paid per Share; divided by

(ii) The Fair Market Value (which shall be equal to the closing price) of a Share on the date such cash dividend is paid.

(b) If a Share dividend is declared and paid on the Shares underlying the DSUs, you will be credited with an additional number of DSUs equal to the product of:

(i) The number of DSUs granted under this Award Agreement (including additional DSUs previously credited in accordance with this Section 5) that have not been settled as of the dividend payment date, multiplied by

(ii) The number of Shares paid as a dividend per Share.

(c) Any additional DSUs credited pursuant to this Section 5 shall be subject to the same terms and conditions as the DSUs granted pursuant to Section 1 above.

(d) Any fractional number of DSUs resulting from the calculations under this Section 5 shall be rounded to the nearest whole Share.

6. FORFEITURE. Except as otherwise provided in Section 3, if you Terminate prior to the Vesting Date your DSUs will be forfeited immediately.

7. AMENDMENT AND TERMINATION. Subject to the terms of the Plan, the Company may amend or terminate this Award Agreement or the Plan at any time.

8. BENEFICIARY DESIGNATION. You may name a beneficiary or beneficiaries to receive any DSUs and related dividend equivalents that vest before you die but are settled after you die. This may be done only on a Beneficiary Designation Form and by following the rules described in that Form. The Beneficiary Designation Form does not need to be completed now and is not required as a condition of receiving your Award. However, if you die without completing a Beneficiary Designation Form or if you do not complete that Form correctly, your beneficiary will be your surviving spouse or, if you do not have a surviving spouse, your estate.

9. TRANSFERRING YOUR DSUs AND RELATED DIVIDEND EQUIVALENTS. Except as described in Section 8, your DSUs and related dividend equivalents may not be transferred to another person. Also, the Committee may allow you to place your DSUs and related dividend equivalents into a trust established for your benefit or the benefit of your family. Contact the Third Party Administrator for further details.

10. GOVERNING LAW. This Award Agreement shall be governed by the laws of the State of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction.

11. OTHER AGREEMENTS AND POLICIES. Your DSUs and the related dividend equivalents will be subject to the terms of any other written agreements between you and the Company or any Affiliate or Subsidiary to the extent that those other agreements do not directly conflict with the terms of the Plan or this Award Agreement. Your DSUs and related dividend equivalents granted under the Plan shall be subject to any applicable Company clawback or

recoupment policies, share trading policies and other policies that may be implemented by the Company from time to time.

12. ADJUSTMENTS TO YOUR DSUs. Subject to the terms of the Plan, your DSUs and the related dividend equivalents will be adjusted, if appropriate, to reflect any change to the Company's capital structure (*e.g.*, the number of Shares underlying your DSUs will be adjusted to reflect a stock split).

13. YOUR ACKNOWLEDGMENT OF AND AGREEMENT TO AWARD CONDITIONS.

By signing below, you acknowledge and agree that:

- (a) A copy of the Plan has been made available to you;
- (b) You understand and accept the terms and conditions of your Award;
- (c) You will consent (on your own behalf and on behalf of your beneficiaries and transferees and without any further consideration) to any necessary change to your Award or this Award Agreement to comply with any law and to avoid paying penalties under Section 409A of the Code, even if those changes affect the terms of your Award and reduce its value or potential value; and
- (d) You must return a signed copy of this Award Agreement to the address given above before **[Date 30 Days After Grant Date]**.

[Director's Name]

THE SCOTTS MIRACLE-GRO COMPANY

By: _____

By: _____

Date signed: _____

[Name of Company Representative]

[Title of Company Representative]

Date signed: _____

Deferral of 2014 Cash Retainer

THE SCOTTS MIRACLE-GRO COMPANY
LONG-TERM INCENTIVE PLAN
(As Amended And Restated January 17, 2013)

DEFERRED STOCK UNIT AWARD AGREEMENT
FOR NONEMPLOYEE DIRECTORS
(WITH RELATED DIVIDEND EQUIVALENTS)

DEFERRED STOCK UNITS CREDITED TO
[Director's Name]

The Scotts Miracle-Gro Company ("Company") believes that its business interests are best served by ensuring that you have an opportunity to share in the Company's business success. To this end, the Company adopted The Scotts Miracle-Gro Company Long-Term Incentive Plan as Amended and Restated January 17, 2013 ("the Plan") through which members of its Board of Directors, like you, may acquire (or share in the appreciation of) common shares, without par value, of the Company ("Shares"). Capitalized terms that are not defined in this Deferred Stock Unit Award Agreement ("Award Agreement") have the same meanings as in the Plan.

This Award Agreement describes the deferred stock units ("DSUs") which you will be credited with upon conversion of quarterly installments of the annual cash retainer payable to you by the Company and the terms and conditions of your DSUs. To ensure you fully understand these terms and conditions, you should:

- Read the Plan and this Award Agreement carefully; and
- Contact [Title], at [Telephone Number] if you have any questions about your Award. Or, you may send a written inquiry to the address shown below:

The Scotts Miracle-Gro Company
Attention: [Title]
14111 Scottslawn Road
Marysville, Ohio 43041

Also, no later than [Insert Date], you must return a signed copy of this Award Agreement to:

[Third Party Administrator]
Attention: [TPA Contact's Name]
[TPA Contact's Name]

[TPA Telephone Number]

The Company intends that the DSUs credited under this Award Agreement satisfy the requirements of Section 409A of the Code and that this Award Agreement be so administered and construed. You agree that the Company may modify this Award Agreement, without any further consideration, to

fulfill this intent, even if those modifications change the terms of your DSUs and reduce their value or potential value.

1. DESCRIPTION OF YOUR DEFERRED STOCK UNITS

You have elected to convert [**\$dollar amount**] of each quarterly installment of the annual cash retainer paid to you by the Company (“Amount Deferred”) into DSUs, subject to the terms and conditions of the Plan and this Award Agreement. As of each date on which the Amount Deferred would otherwise be paid (each a “Conversion Date”), you will be credited with a number of DSUs and an equal number of related dividend equivalents, determined by dividing the Amount Deferred by the Fair Market Value of a Share. The number of DSUs credited to you each quarter will be reflected on Schedule A, as updated by the Company after each Conversion Date during 2014.

Each whole DSU represents the right to receive one full Share at the time and in the manner described in this Award Agreement. Each dividend equivalent represents the right to receive additional DSUs (determined in accordance with Section 3(c)) in respect of the dividends that are declared and paid during the period beginning on the relevant Conversion Date and ending on the Settlement Date (as described in Section 2(b)) with respect to the Shares represented by the related DSU.

2. VESTING AND SETTLEMENT

(a) **Vesting.** Your DSUs (and any related dividend equivalents received pursuant to Section 3(c) following the Conversion Date) will be 100% vested on the date they are credited to you.

(b) **Settlement.** Subject to the terms of the Plan, your vested DSUs shall be settled in a lump sum as soon as administratively practicable, but no later than 90 days, following the earliest to occur of: (i) your Termination (as defined below); (ii) your death; (iii) the date you become Disabled (as defined below); or (iv) **January 31, 2017** (the “Settlement Date”). Your whole DSUs shall be settled in full Shares, and any fractional DSU shall be settled in cash, determined based upon the Fair Market Value of a Share on the Settlement Date.

(c) **Definitions.** For purposes of this Award Agreement:

(i) “Disabled” means that you have been determined to be totally disabled by the Social Security Administration.

(ii) “Termination” (or any form thereof) means your “separation from service” from the Company, as defined in Section 409A of the Code.

3. GENERAL TERMS AND CONDITIONS

(a) **AMENDMENT AND TERMINATION.** Subject to the terms of the Plan, the Company may amend or terminate this Award Agreement or the Plan at any time.

(b) **RIGHTS BEFORE YOUR DSUs ARE SETTLED.** Except as provided in Section 3(c) below, you will have none of the rights of a shareholder with respect to Shares underlying the

DSUs credited to you under this Award Agreement unless and until you become the record holder of such Shares.

(c) **DIVIDEND EQUIVALENTS.** With respect to each dividend equivalent:

(i) If a cash dividend is declared and paid on the Shares underlying the DSUs credited to you under this Award Agreement, you will receive an additional number of DSUs equal to the quotient of:

(A) the product of (I) such number of DSUs (including additional DSUs previously received in accordance with this Section 3(c)) that have not been settled as of the dividend payment date, multiplied by (II) the amount of the cash dividend paid per Share; divided by

(B) the Fair Market Value (which shall be equal to the closing price) of a Share on the date such cash dividend is paid.

Any additional DSUs credited pursuant to this Section 3(c)(i) shall be subject to the same terms and conditions as the DSUs credited to you pursuant to Section 1 above.

(ii) If a Share dividend is declared and paid on the Shares underlying the DSUs credited under this Award Agreement, you will receive an additional number of DSUs equal to the product of (A) such number of DSUs (including additional DSUs previously received in accordance with this Section 3(c)) that have not been settled as of the dividend payment date, multiplied by (B) the dividend paid per Share. Any additional DSUs credited pursuant to this Section 3(c)(ii) shall be subject to the same terms and conditions as the DSUs credited pursuant to Section 1 above.

(iii) Any fractional number of DSUs resulting from the calculations under this Section 3(c) shall be rounded to the nearest whole Share.

(d) **BENEFICIARY DESIGNATION.** You may name a beneficiary or beneficiaries to receive any DSUs and related dividend equivalents that are settled after you die. This may be done only on a Beneficiary Designation Form and by following the rules described in that Form. The Beneficiary Designation Form does not need to be completed now and is not required as a condition of receiving DSUs upon conversion of the Amount Deferred. However, if you die without completing a Beneficiary Designation Form or if you do not complete that Form correctly, your beneficiary will be your surviving spouse or, if you do not have a surviving spouse, your estate.

(e) **TRANSFERRING YOUR DSUs AND RELATED DIVIDEND EQUIVALENTS.** Normally your DSUs and related dividend equivalents may not be transferred to another person. However, as described in Section 3(d), you may complete a Beneficiary Designation Form to name the person to receive any DSUs and related dividend equivalents that are settled after you die. Also, the Committee may allow you to place your DSUs and dividend equivalents into a trust established for your benefit or the benefit of your family. Contact [**Third Party Administrator**] at [**TPA Telephone Number**] or at the address given above if you are interested in doing this.

(f) **GOVERNING LAW.** This Award Agreement shall be governed by the laws of the State of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction.

(g) **OTHER AGREEMENTS.** Your DSUs and the related dividend equivalents will be subject to the terms of any other written agreements between you and the Company or any Affiliate or Subsidiary to the extent that those other agreements do not directly conflict with the terms of the Plan or this Award Agreement.

(h) **ADJUSTMENTS TO YOUR DSUs.** Subject to the terms of the Plan, your DSUs and the related dividend equivalents will be adjusted, if appropriate, to reflect any change to the Company's capital structure (e.g., the number of Shares underlying your DSUs will be adjusted to reflect a stock split).

(i) **OTHER RULES.** Your DSUs and dividend equivalents are subject to more rules described in the Plan. You should read the Plan carefully to ensure you fully understand all the terms and conditions of the crediting of DSUs and the related dividend equivalents under this Award Agreement.

4. YOUR ACKNOWLEDGMENT OF AWARD CONDITIONS

By signing below, you acknowledge and agree that:

(a) A copy of the Plan has been made available to you;

(b) You understand and accept the terms and conditions of your DSUs;

(c) You will consent (on your own behalf and on behalf of your beneficiaries and transferees and without any further consideration) to any necessary change to your DSUs or this Award Agreement to comply with any law and to avoid paying penalties under Section 409A of the Code, even if those changes affect the terms of your DSUs and reduce their value or potential value; and

(d) You must return a signed copy of this Award Agreement to the address given above before **[Insert Date]**. By signing below you acknowledge that the DSUs credited to you on each Conversion Date (as reflected on Schedule A for each Conversion Date) will be subject to the terms of the Plan and this Award Agreement.

[Director's Name]

THE SCOTTS MIRACLE-GRO COMPANY

By: _____

By: _____

[Name of Company Representative]

[Title of Company Representative]

Date signed: _____

Date signed: _____

THE SCOTTS MIRACLE-GRO COMPANY
LONG-TERM INCENTIVE PLAN
(As Amended And Restated January 17, 2013)

DEFERRED STOCK UNIT AWARD AGREEMENT
FOR NONEMPLOYEE DIRECTORS
(WITH RELATED DIVIDEND EQUIVALENTS)

DEFERRED STOCK UNITS CREDITED TO
[Director's Name]

SCHEDULE A

<u>Conversion Date</u>	<u>Amount Deferred</u>	<u>Applicable Share Price</u>	<u>Number of Deferred Stock Units</u>
January [] 2014	[\$ amount]	[\$ price]	[# TBD]
April [], 2014	[\$ amount]	[\$ price]	[# TBD]
July [], 2014	[\$ amount]	[\$ price]	[# TBD]
October [], 2014	[\$ amount]	[\$ price]	[# TBD]

Note: the Company will update Schedule A each quarter to reflect the number of additional DSUs to be credited to you on the applicable Conversion Date.

**THE SCOTTS MIRACLE-GRO COMPANY
LONG-TERM INCENTIVE PLAN
(As Amended And Restated January 17, 2013)**

**RESTRICTED STOCK UNIT AWARD AGREEMENT FOR EMPLOYEES
(with related dividend equivalents)**

**RESTRICTED STOCK UNITS GRANTED TO
JAMES HAGEDORN ON DECEMBER 11, 2013**

This Award Agreement describes the type of Award that you have been granted and the terms and conditions of your Award.

1. DESCRIPTION OF YOUR RESTRICTED STOCK UNITS. You have been granted **30,131** Restricted Stock Units (“RSUs”) and an equal number of related dividend equivalents. The “Grant Date” of your Award is **December 11, 2013**. Each whole RSU represents the right to receive one full Share at the time and in the manner described in this Award Agreement. Subject to Section 5 of this Award Agreement, each dividend equivalent represents the right to receive an amount equal to the dividends that are declared and paid during the period beginning on the Grant Date and ending on the Settlement Date (as described in Section 4(a) of this Award Agreement) with respect to the Share represented by the related RSU. To accept this Award Agreement, you must return a signed copy of this Award Agreement no later than **February 14, 2014**, to **Merrill Lynch** (the “Third Party Administrator”) as follows:

Merrill Lynch
Attention: Stephen Smith
8245 Pulsar Place, Suite 200
Columbus, OH 43240
(800) 285-0648

2. INCORPORATION OF PLAN AND DEFINITIONS.

- (a) This Award Agreement and your RSUs are granted pursuant to and in accordance with The Scotts Miracle-Gro Company Long-Term Incentive Plan as amended and restated January 17, 2013 (the “Plan”). All provisions of the Plan are incorporated herein by reference, and your RSUs and related dividend equivalents are subject to the terms of the Plan and this Award Agreement. To the extent there is a conflict between this Award Agreement and the Plan, the Plan will govern.
- (b) Capitalized terms that are not defined in this Award Agreement have the same meanings as in the Plan.

3. VESTING. Except as provided in Section 6 of this Award Agreement, the RSUs described in this Award Agreement will vest as follows:

- (a) **General Vesting.** If your employment continues from the Grant Date until the third anniversary of the Grant Date, in this case **December 11, 2016** (the “Vesting Date”), your RSUs described in this Award Agreement will become 100% vested on the Vesting Date; or
- (b) **Accelerated Vesting.** Under the following circumstances, your RSUs described in this Award Agreement will become 100% vested earlier than the Vesting Date:
 - (i) If you Terminate because of your death or because you become Disabled (as defined below), your RSUs described in this Award Agreement will become 100% vested as of the date of such event and will be settled in accordance with Section 4 of this Award Agreement. For purposes of this Award Agreement, “Disabled” means (A) you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, (B) you are, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering Employees of your employer, or (C) you are determined to be totally disabled by the Social Security Administration or Railroad Retirement Board; or
 - (ii) If you Terminate because of an involuntary termination without Cause or a voluntary termination with Good Reason (as “Cause” and “Good Reason” are defined in your Executive Severance Agreement, dated December 11, 2013, between you and the Scotts Company LLC, as it may be amended from time to time (the “Executive Severance Agreement”), your RSUs described in this Award Agreement will become 100% vested as of the date of such event and will be settled in accordance with Section 4 of this Award Agreement.
 - (iii) Subject to Section 17 of the Plan, in the event of a Change in Control, your RSUs described in this Award Agreement will become 100% vested as of the date of such event and will be settled in accordance with Section 4(d) of this Award Agreement.

4. SETTLEMENT.

- (a) Subject to the terms of the Plan and this Award Agreement, your vested RSUs, minus any shares that are withheld for taxes as provided under Section 4(c), shall be settled in a lump sum as soon as administratively practicable, but no later than 90 days following the earliest date to occur of: (i) the date of your Termination due to your death or Disability; (ii) the date of your Termination due to an involuntary termination

without Cause or a voluntary termination with Good Reason (as “Cause” and “Good Reason” are defined in the Executive Severance Agreement); or (iii) the Vesting Date (the “Settlement Date”).

- (b) Except as provided in Section 5 of this Award Agreement, you will have none of the rights of a shareholder with respect to Shares underlying the RSUs unless and until you become the record holder of such Shares.
- (c) You may use one of the following methods to pay the required withholding taxes related to the vesting of your RSUs. You will decide on the method at the time prescribed by the Company. If you do not elect one of these methods, the Company will apply the Net Settlement method described below:
 - (i) **CASH PAYMENT:** If you elect this alternative, you will be responsible for paying the Company through the Third Party Administrator cash equal to the minimum statutory withholding requirements applicable on your RSUs.
 - (ii) **NET SETTLEMENT:** If you elect this alternative, the Company will retain the number of shares with a Fair Market Value equal to the minimum statutory withholding requirements applicable on your RSUs.
- (d) Notwithstanding the foregoing in this Section 4, if there is a Change in Control, your RSUs will become 100% vested on the date of the Change in Control and will be settled as described in the Plan. See the Plan for further details.

5. DIVIDEND EQUIVALENTS. You will be entitled to receive a dividend equivalent equal to any dividends declared and paid on each Share represented by a related RSU, subject to the same terms and conditions as the related RSU. Any dividend equivalents described in this Section 5 will be distributed to you in accordance with Section 4 of this Award Agreement or forfeited, depending on whether or not you have met the conditions described in this Award Agreement and the Plan. Any such distributions will be made in (i) cash, for any dividend equivalents relating to cash dividends and/or (ii) Shares, for any dividend equivalents relating to Share dividends.

6. FORFEITURE.

- (a) Except as otherwise provided in Section 3(b) of this Award Agreement, you will forfeit your unvested RSUs if you Terminate prior to the Vesting Date.
- (b) If you engage in “Conduct That Is Harmful To The Company” (as described below), you will forfeit your RSUs and related dividend equivalents and must return to the Company all Shares and other amounts you have received through this Award Agreement if, without the Company’s written consent, you do any of the following within 180 days before and 730 days after you Terminate:

- (i) You breach any confidentiality, nondisclosure, and/or noncompetition obligations under any agreement or plan with the Company or any Affiliate or Subsidiary;
- (ii) You fail or refuse to consult with, supply information to or otherwise cooperate with the Company or any Affiliate or Subsidiary after having been requested to do so;
- (iii) You deliberately engage in any action that the Company concludes has caused substantial harm to the interests of the Company or any Affiliate or Subsidiary;
- (iv) You fail to return all property (other than personal property), including vehicles, computer or other equipment or electronic devices, keys, notes, memoranda, writings, lists, files, reports, customer lists, correspondence, tapes, disks, cards, surveys, maps, logs, machines, technical data, formulae or any other tangible property or document and any and all copies, duplicates or reproductions that you have produced or received or have otherwise been provided to you in the course of your employment with the Company or any Affiliate or Subsidiary; or
- (v) You engaged in conduct that the Committee reasonably concludes would have given rise to a Termination for Cause (as defined in the Executive Severance Agreement) had it been discovered before you Terminated.

7. AMENDMENT AND TERMINATION. Subject to the terms of the Plan, the Company may amend or terminate this Award Agreement or the Plan at any time.

8. BENEFICIARY DESIGNATION. You may name a beneficiary or beneficiaries to receive any RSUs and related dividend equivalents that vest before you die but are settled after you die. This may be done only on the attached Beneficiary Designation Form and by following the rules described in that Form. The Beneficiary Designation Form does not need to be completed now and is not required as a condition of receiving your Award. However, if you die without completing a Beneficiary Designation Form or if you do not complete that Form correctly, your beneficiary will be your surviving spouse or, if you do not have a surviving spouse, your estate.

9. TRANSFERRING YOUR RSUs AND RELATED DIVIDEND EQUIVALENTS. Except as described in Section 8, your RSUs and related dividend equivalents may not be transferred to another person. Also, the Committee may allow you to place your RSUs and related dividend equivalents into a trust established for your benefit or the benefit of your family. Contact the Third Party Administrator for further details.

10. GOVERNING LAW. This Award Agreement shall be governed by the laws of the State of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction.

11. OTHER AGREEMENTS AND POLICIES. Your RSUs and related dividend equivalents will be subject to the terms of any other written agreements between you and the Company or any Affiliate or Subsidiary to the extent that those other agreements do not directly conflict with the terms of the Plan or this Award Agreement. Your RSUs and related dividend equivalents granted under the Plan shall be subject to any applicable Company clawback or recoupment policies, share trading policies and other policies that may be implemented by the Company from time to time.

12. ADJUSTMENTS TO YOUR RSUs. Subject to the terms of the Plan, your RSUs and related dividend equivalents will be adjusted, if appropriate, to reflect any change to the Company's capital structure (e.g., the number of Shares underlying your RSUs will be adjusted to reflect a stock split).

13. YOUR ACKNOWLEDGMENT OF AND AGREEMENT TO AWARD CONDITIONS.

By signing below, you acknowledge and agree that:

- (a) A copy of the Plan has been made available to you;
- (b) You understand and accept the terms and conditions of your Award;
- (c) You will consent (on your own behalf and on behalf of your beneficiaries and transferees and without any further consideration) to any necessary change to your Award or this Award Agreement to comply with any law and to avoid paying penalties under Section 409A of the Code, even if those changes affect the terms of your Award and reduce its value or potential value; and
- (d) You must return a signed copy of this Award Agreement to the address given above before **February 14, 2014**.

James Hagedorn

THE SCOTTS MIRACLE-GRO COMPANY

By: _____

By: _____

Date signed: _____

Denise Stump
Executive Vice President, Global Human Resources

Date signed: _____

**THE SCOTTS MIRACLE-GRO COMPANY
LONG-TERM INCENTIVE PLAN
(As Amended And Restated January 17, 2013)**

**RESTRICTED STOCK UNIT AWARD AGREEMENT FOR EMPLOYEES
(with related dividend equivalents)**

**RESTRICTED STOCK UNITS GRANTED TO
[Grantee's Name] ON [Grant Date]**

This Award Agreement describes the type of Award that you have been granted and the terms and conditions of your Award.

1. DESCRIPTION OF YOUR RESTRICTED STOCK UNITS. You have been granted [**Number**] Restricted Stock Units (“RSUs”) and an equal number of related dividend equivalents. The “Grant Date” of your Award is [**Grant Date**]. Each whole RSU represents the right to receive one full Share at the time and in the manner described in this Award Agreement. Subject to Section 5 of this Award Agreement, each dividend equivalent represents the right to receive an amount equal to the dividends that are declared and paid during the period beginning on the Grant Date and ending on the Settlement Date (as described in Section 4(a) of this Award Agreement) with respect to the Share represented by the related RSU. To accept this Award Agreement, you must return a signed copy of this Award Agreement no later than [**Date 30 Days After Grant Date**], to [**Third Party Administrator**] (the “Third Party Administrator”) as follows:

[**Third Party Administrator**]
Attention: [**TPA Contact's Name**]
[**TPA Contact's Address**]
[**TPA Telephone Number**]

2. INCORPORATION OF PLAN AND DEFINITIONS.

- (a) This Award Agreement and your RSUs are granted pursuant to and in accordance with The Scotts Miracle-Gro Company Long-Term Incentive Plan as amended and restated January 17, 2013 (the “Plan”). All provisions of the Plan are incorporated herein by reference, and your RSUs and related dividend equivalents are subject to the terms of the Plan and this Award Agreement. To the extent there is a conflict between this Award Agreement and the Plan, the Plan will govern.
- (b) Capitalized terms that are not defined in this Award Agreement have the same meanings as in the Plan.

3. VESTING. Except as provided in Section 6 of this Award Agreement, the RSUs described in this Award Agreement will vest as follows:

- (a) **General Vesting.** If your employment continues from the Grant Date until the third anniversary of the Grant Date, in this case [**Vesting Date**] (the “Vesting Date”), your

RSUs described in this Award Agreement will become 100% vested on the Vesting Date; or

- (b) **Accelerated Vesting.** Under the following circumstances, your RSUs described in this Award Agreement will become 100% vested earlier than the Vesting Date:
- (i) If you Terminate because of your death or because you become Disabled (as defined below), your RSUs described in this Award Agreement will become 100% vested as of the date of such event and will be settled in accordance with Section 4 of this Award Agreement. For purposes of this Award Agreement, “Disabled” means (A) you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, (B) you are, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering Employees of your employer, or (C) you are determined to be totally disabled by the Social Security Administration or Railroad Retirement Board; or
 - (ii) If you Terminate for a reason other than Cause after reaching age 55 and completing at least 10 years of employment with the Company, its Affiliates and/or its Subsidiaries, your RSUs described in this Award Agreement will become 100% vested as of the date of such event and will be settled in accordance with Section 4 of this Award Agreement.
 - (iii) If you are involuntarily Terminated by the Company for a reason other than Cause, your RSUs described in this Award Agreement will become 100% vested as of the date of such Termination and will be settled in accordance with Section 4 of this Award Agreement.

4. SETTLEMENT.

- (a) Subject to the terms of the Plan and this Award Agreement, your vested RSUs, minus any shares that are withheld for taxes as provided under Section 4(c), shall be settled in a lump sum as soon as administratively practicable, but no later than 90 days following the earliest date to occur of: (i) your Termination due to your death or Disability; or (ii) the third anniversary of the Grant Date (the “Settlement Date”). Your whole RSUs shall be settled in full Shares, and any fractional RSU shall be settled in cash, determined based upon the Fair Market Value of a Share on the Settlement Date.

- (b) Except as provided in Section 5 of this Award Agreement, you will have none of the rights of a shareholder with respect to Shares underlying the RSUs unless and until you become the record holder of such Shares.
- (c) You may use one of the following methods to pay the required withholding taxes related to the vesting of your RSUs. You will decide on the method at the time prescribed by the Company. If you do not elect one of these methods, the Company will apply the Net Settlement method described below:
 - (i) **CASH PAYMENT:** If you elect this alternative, you will be responsible for paying the Company through the Third Party Administrator cash equal to the minimum statutory withholding requirements applicable on your RSUs.
 - (ii) **NET SETTLEMENT:** If you elect this alternative, the Company will retain the number of shares with a Fair Market Value equal to the minimum statutory withholding requirements applicable on your RSUs.
- (d) Normally, your RSUs will vest and be settled only under the circumstances described above. However, if there is a Change in Control, your RSUs will become 100% vested on the date of the Change in Control and will be settled as described in the Plan. See the Plan for further details.

5. DIVIDEND EQUIVALENTS. You will be entitled to receive a dividend equivalent equal to any dividends declared and paid on each Share represented by a related RSU, subject to the same terms and conditions as the related RSU. Any dividend equivalents described in this Section 5 will be distributed to you in accordance with Section 4 of this Award Agreement or forfeited, depending on whether or not you have met the conditions described in this Award Agreement and the Plan. Any such distributions will be made in (i) cash, for any dividend equivalents relating to cash dividends and/or (ii) Shares, for any dividend equivalents relating to Share dividends.

6. FORFEITURE.

- (a) Except as otherwise provided in Section 3 or Section 4(d) of this Award Agreement, you will forfeit your unvested RSUs if you Terminate prior to the Vesting Date.
- (b) If you engage in “Conduct That Is Harmful To The Company” (as described below), you will forfeit your RSUs and related dividend equivalents and must return to the Company all Shares and other amounts you have received through the Plan or this Award Agreement if, without the Company’s written consent, you do any of the following within 180 days before and 730 days after you Terminate:
 - (i) You breach any confidentiality, nondisclosure, and/or noncompetition obligations under any agreement or plan with the Company or any Affiliate or Subsidiary;

- (ii) You fail or refuse to consult with, supply information to or otherwise cooperate with the Company or any Affiliate or Subsidiary after having been requested to do so;
- (iii) You deliberately engage in any action that the Company concludes has caused substantial harm to the interests of the Company or any Affiliate or Subsidiary;
- (iv) You fail to return all property (other than personal property), including vehicles, computer or other equipment or electronic devices, keys, notes, memoranda, writings, lists, files, reports, customer lists, correspondence, tapes, disks, cards, surveys, maps, logs, machines, technical data, formulae or any other tangible property or document and any and all copies, duplicates or reproductions that you have produced or received or have otherwise been provided to you in the course of your employment with the Company or any Affiliate or Subsidiary; or
- (v) You engaged in conduct that the Committee reasonably concludes would have given rise to a Termination for Cause had it been discovered before you Terminated.

7. AMENDMENT AND TERMINATION. Subject to the terms of the Plan, the Company may amend or terminate this Award Agreement or the Plan at any time.

8. BENEFICIARY DESIGNATION. You may name a beneficiary or beneficiaries to receive any RSUs and related dividend equivalents that vest before you die but are settled after you die. This may be done only on the attached Beneficiary Designation Form and by following the rules described in that Form. The Beneficiary Designation Form does not need to be completed now and is not required as a condition of receiving your Award. However, if you die without completing a Beneficiary Designation Form or if you do not complete that Form correctly, your beneficiary will be your surviving spouse or, if you do not have a surviving spouse, your estate.

9. TRANSFERRING YOUR RSUs AND RELATED DIVIDEND EQUIVALENTS. Except as described in Section 8, your RSUs and related dividend equivalents may not be transferred to another person. Also, the Committee may allow you to place your RSUs and related dividend equivalents into a trust established for your benefit or the benefit of your family. Contact the Third Party Administrator for further details.

10. GOVERNING LAW. This Award Agreement shall be governed by the laws of the State of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction.

11. OTHER AGREEMENTS AND POLICIES. Your RSUs and related dividend equivalents will be subject to the terms of any other written agreements between you and the Company or any Affiliate or Subsidiary to the extent that those other agreements do not directly conflict with the terms of the Plan or this Award Agreement. Your RSUs and related dividend equivalents granted

under the Plan shall be subject to any applicable Company clawback or recoupment policies, share trading policies and other policies that may be implemented by the Company from time to time.

12. ADJUSTMENTS TO YOUR RSUs. Subject to the terms of the Plan, your RSUs and related dividend equivalents will be adjusted, if appropriate, to reflect any change to the Company's capital structure (e.g., the number of Shares underlying your RSUs will be adjusted to reflect a stock split).

13. YOUR ACKNOWLEDGMENT OF AND AGREEMENT TO AWARD CONDITIONS.

By signing below, you acknowledge and agree that:

- (a) A copy of the Plan has been made available to you;
- (b) You understand and accept the terms and conditions of your Award;
- (c) You will consent (on your own behalf and on behalf of your beneficiaries and transferees and without any further consideration) to any necessary change to your Award or this Award Agreement to comply with any law and to avoid paying penalties under Section 409A of the Code, even if those changes affect the terms of your Award and reduce its value or potential value; and
- (d) You must return a signed copy of this Award Agreement to the address given above before **[Date 30 Days After Grant Date]**.

[Grantee's Name]

THE SCOTTS MIRACLE-GRO COMPANY

By: _____

By: _____

Date signed: _____

[Name of Company Representative]

[Title of Company Representative]

Date signed: _____

Rule 13a-14(a)/15d-14(a) Certifications
(Principal Executive Officer)
CERTIFICATIONS

I, James Hagedorn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company for the quarterly period ended December 28, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2014

By: /s/ JAMES HAGEDORN

Printed Name: James Hagedorn

Title: Chief Executive Officer and Chairman of the Board

Rule 13a-14(a)/15d-14(a) Certifications
(Principal Financial Officer)
CERTIFICATIONS

I, Lawrence A. Hilsheimer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company for the quarterly period ended December 28, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2014

By: /s/ LAWRENCE A. HILSHEIMER

Printed Name: Lawrence A. Hilsheimer

Title: Executive Vice President and Chief Financial Officer

SECTION 1350 CERTIFICATIONS*

In connection with the Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company (the "Company") for the quarterly period ended December 28, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned James Hagedorn, Chief Executive Officer and Chairman of the Board of the Company, and Lawrence A. Hilsheimer, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company and its subsidiaries.

/s/ JAMES HAGEDORN

Printed Name: James Hagedorn

Title: Chief Executive Officer and Chairman of the Board

February 6, 2014

/s/ LAWRENCE A. HILSHEIMER

Printed Name: Lawrence A. Hilsheimer

Title: Executive Vice President and Chief Financial Officer

February 6, 2014

* THESE CERTIFICATIONS ARE BEING FURNISHED AS REQUIRED BY RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934 (THE "EXCHANGE ACT") AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE, AND SHALL NOT BE DEEMED "FILED" FOR PURPOSES OF SECTION 18 OF THE EXCHANGE ACT OR OTHERWISE SUBJECT TO THE LIABILITY OF THAT SECTION. THESE CERTIFICATIONS SHALL NOT BE DEEMED TO BE INCORPORATED BY REFERENCE INTO ANY FILING UNDER THE SECURITIES ACT OF 1933 OR THE EXCHANGE ACT, EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES THESE CERTIFICATIONS BY REFERENCE.