

**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 27, 2014

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 2, 2015

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

60,849,013 Common Shares

THE SCOTTS MIRACLE-GRO COMPANY
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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 27, 2014	DECEMBER 28, 2013
Net sales	\$ 216.2	\$ 189.6
Cost of sales	186.9	155.7
Gross profit	29.3	33.9
Operating expenses:		
Selling, general and administrative	126.9	124.3
Impairment, restructuring and other	9.6	0.3
Other income, net	(1.2)	(1.0)
Loss from operations	(106.0)	(89.7)
Interest expense	9.7	13.9
Loss from continuing operations before income taxes	(115.7)	(103.6)
Income tax benefit from continuing operations	(41.7)	(37.9)
Loss from continuing operations	(74.0)	(65.7)
Income from discontinued operations, net of tax	—	0.1
Net loss	\$ (74.0)	\$ (65.6)
Net income attributable to noncontrolling interest	\$ (0.6)	\$ —
Net loss attributable to controlling interest	\$ (74.6)	\$ (65.6)
Basic loss per common share:		
Loss from continuing operations	\$ (1.23)	\$ (1.06)
Income from discontinued operations	—	—
Basic loss per common share	\$ (1.23)	\$ (1.06)
Weighted-average common shares outstanding during the period	60.8	62.1
Diluted loss per common share:		
Loss from continuing operations	\$ (1.23)	\$ (1.06)
Income from discontinued operations	—	—
Diluted loss per common share	\$ (1.23)	\$ (1.06)
Weighted-average common shares outstanding during the period plus dilutive potential common shares	60.8	62.1
Dividends declared per common share	\$ 0.450	\$ 0.438

See notes to condensed consolidated financial statements.

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

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	DECEMBER 28, 2013
Net loss	\$ (74.0)	\$ (65.6)
Other comprehensive income (loss), net of tax:		
Net foreign currency translation adjustment	(3.0)	(1.4)
Net unrealized gains (loss) on derivative instruments, net of tax of \$(0.7) and \$0.2, respectively	(1.1)	0.4
Reclassification of net unrealized loss on derivatives to net income, net of tax of \$0.6 and \$1.9, respectively	1.0	3.1
Net unrealized (loss) in pension and other post-retirement benefits, net of tax of \$0.0 and \$0.2, respectively	—	(0.3)
Reclassification of net pension and post-retirement benefit income (loss) to net income, net of tax of \$0.5 and \$0.5, respectively	0.8	0.8
Total other comprehensive (loss) income	(2.3)	2.6
Comprehensive loss	<u>\$ (76.3)</u>	<u>\$ (63.0)</u>

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 27, 2014	DECEMBER 28, 2013
OPERATING ACTIVITIES		
Net loss	\$ (74.0)	\$ (65.6)
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment, restructuring and other	3.6	—
Share-based compensation expense	2.1	1.8
Depreciation	12.5	13.0
Amortization	3.7	3.1
Loss on sale of assets	—	0.1
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	148.9	145.5
Inventories	(301.2)	(278.9)
Prepaid and other assets	(6.8)	(6.9)
Accounts payable	33.0	98.5
Other current liabilities	(93.8)	(88.1)
Restructuring reserves	2.1	(4.2)
Other non-current items	5.8	1.7
Other, net	(2.9)	(0.2)
Net cash used in operating activities	(267.0)	(180.2)
INVESTING ACTIVITIES		
Investments in property, plant and equipment	(14.5)	(43.4)
Investment in acquired business, net of cash acquired	(11.1)	(60.0)
Net cash used in investing activities	(25.6)	(103.4)
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit	539.6	508.3
Repayments under revolving and bank lines of credit	(167.1)	(197.1)
Financing and issuance fees	—	(6.1)
Dividends paid	(27.4)	(27.3)
Purchase of common shares	(14.8)	(8.5)
Excess tax benefits from share-based payment arrangements	0.5	2.8
Cash received from the exercise of stock options	6.2	5.1
Net cash provided by financing activities	337.0	277.2
Effect of exchange rate changes on cash	(3.6)	1.2
Net increase (decrease) in cash and cash equivalents	40.8	(5.2)
Cash and cash equivalents, beginning of period	89.3	129.8
Cash and cash equivalents, end of period	\$ 130.1	\$ 124.6
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ (11.2)	\$ (11.6)
Income taxes paid	\$ (8.6)	\$ (2.2)

See notes to condensed consolidated financial statements.

THE SCOTTS MIRACLE-GRO COMPANY

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

	DECEMBER 27, 2014	DECEMBER 28, 2013	SEPTEMBER 30, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 130.1	\$ 124.6	\$ 89.3
Accounts receivable, less allowances of \$6.8, \$8.8 and \$7.5, respectively	185.4	158.2	224.0
Accounts receivable pledged	—	9.3	113.7
Inventories	682.8	605.7	385.1
Prepaid and other current assets	127.6	117.9	122.9
Total current assets	1,125.9	1,015.7	935.0
Property, plant and equipment, net of accumulated depreciation of \$606.1, \$586.6 and \$597.2, respectively	434.4	447.5	437.0
Goodwill	364.3	335.0	350.9
Intangible assets, net	308.9	320.0	302.7
Other assets	31.7	41.2	32.7
Total assets	\$ 2,265.2	\$ 2,159.4	\$ 2,058.3
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of debt	\$ 36.6	\$ 229.7	\$ 91.9
Accounts payable	220.0	230.8	193.3
Other current liabilities	165.3	188.4	259.5
Total current liabilities	421.9	648.9	544.7
Long term debt	1,133.3	652.3	692.4
Other liabilities	249.1	236.9	254.0
Total liabilities	1,804.3	1,538.1	1,491.1
Contingencies (note 11)			
Shareholders' equity:			
Common shares and capital in excess of \$.01 stated value per share; 60.7, 62.2 and 60.7 shares issued and outstanding, respectively	399.0	394.2	395.3
Retained earnings	534.6	610.2	636.9
Treasury shares, at cost; 7.5, 6.0 and 7.4 shares, respectively	(398.2)	(307.9)	(392.3)
Accumulated other comprehensive loss	(88.6)	(75.2)	(86.2)
Total shareholders' equity - controlling interest	446.8	621.3	553.7
Noncontrolling interest	14.1	—	13.5
Total equity	\$ 460.9	\$ 621.3	\$ 567.2
Total liabilities and shareholders' equity	\$ 2,265.2	\$ 2,159.4	\$ 2,058.3

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Scotts Miracle-Gro Company (“Scotts Miracle-Gro” or “Parent”) and its subsidiaries (collectively, together with Scotts Miracle-Gro, the “Company”) are engaged in the manufacturing, marketing and sale of consumer branded products for lawn and garden care. The Company’s primary customers include home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers 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 27, 2014 and December 28, 2013 are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The condensed consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company’s consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. AeroGrow International, Inc. (“AeroGrow”), in which the Company owns controlling interest, is consolidated with the equity owned by other shareholders shown as noncontrolling interest in the consolidated balance sheets, and the other shareholders’ portion of net earnings and other comprehensive income is shown as net earnings or comprehensive income attributable to noncontrolling interest in the consolidated statement of operations and consolidated statements of comprehensive income (loss), respectively. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, this report should be read in conjunction with Scotts Miracle-Gro’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014 (the “2014 Annual Report”), which includes a complete set of footnote disclosures, including the Company’s significant accounting policies.

The Company’s Condensed Consolidated Balance Sheet at December 27, 2014 has been derived from the Company’s audited Consolidated Balance Sheet at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

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.

Long-lived Assets

The Company had noncash investing activities of \$3.0 million and \$2.0 million representing unpaid liabilities incurred during the three months ended December 27, 2014 and December 28, 2013, respectively, to acquire property, plant and equipment.

RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The provisions are effective for the Company’s financial statements for the fiscal year beginning October 1, 2017. The standard allows for either a full retrospective or a modified retrospective transition method. The Company is currently evaluating the impact of this standard on its consolidated results of operations, financial position and cash flows.

Discontinued Operations Reporting

In April 2014, the FASB issued an accounting standard update that amends the accounting guidance related to discontinued operations. This amendment defines discontinued operations as a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. This amendment also introduces new disclosures for disposals that do not meet the criteria of discontinued operations. The provisions are effective for fiscal years beginning after December 15, 2014 and apply to new disposals and new classifications of disposal groups as held for sale after the effective date. The adoption of the amended guidance impacts presentation and disclosure and will not have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

Going Concern

In August 2014, the FASB issued a new accounting standard that requires management to assess if there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim period. If conditions or events give rise to substantial doubt, disclosures are required. The new accounting standard will be effective as of December 31, 2016 and is not expected to have an impact on the Company's financial statement disclosures.

NOTE 2. DISCONTINUED OPERATIONS

In March 2014, the Company completed the sale of its U.S. and Canadian wild bird food business, including intangible assets, certain on-hand inventory and fixed assets, for \$4.1 million in cash and an estimated \$1.0 million in future earn-out payments. As a result, effective in the second quarter of fiscal 2014, the Company classified its results of operations for all periods presented to reflect the wild bird food business as a discontinued operation. In addition, in the third quarter of fiscal 2014, the Company received \$3.1 million for the sale of the remaining wild bird food manufacturing facilities resulting in a gain of \$1.2 million.

The following table summarizes the results of the wild bird food business within discontinued operations for the periods presented:

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	DECEMBER 28, 2013
	(In millions)	
Net sales	\$ —	\$ 6.8
Operating costs	—	6.6
Gain on sale of assets	—	—
Income from discontinued operations before income taxes	—	0.2
Income tax expense from discontinued operations	—	0.1
Income from discontinued operations, net of tax	\$ —	\$ 0.1

NOTE 3. ACQUISITIONS

Fiscal 2015

On October 16, 2014, Scotts LawnService® acquired the assets of Action Pest Control, Inc. ("Action Pest"), a residential and commercial pest control provider in the Midwest, for \$21.7 million. Action Pest provides residential and commercial pest control services to homeowners and businesses throughout Indiana, Kentucky, and Illinois. This transaction provides Scotts LawnService® an entry into the pest control market, which is part of the segment's long-term growth strategy. Included in the purchase price of \$21.7 million is non-cash investing activity of \$14.2 million representing the deferral of a portion of the purchase price into subsequent fiscal periods. The preliminary valuation of acquired assets included finite-lived identifiable intangible assets of \$6.0 million and tax deductible goodwill of \$13.6 million. Identifiable intangible assets included tradename, customer relationships and non-compete agreements with useful lives ranging between 5 to 12 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. The Company expects to complete the valuation before the end of fiscal 2015. Net sales for Action Pest included in the Scotts LawnService® segment for the three months ended December 27, 2014 were \$1.9 million.

In December 2014, the Company completed an acquisition within its growing media business within the Global Consumer segment to expand its natural product offerings for an estimated purchase price of \$7.1 million. Included in the purchase price of \$7.1 million is non-cash investing activity of \$3.5 million representing the deferral of a portion of the purchase price into subsequent fiscal periods.

On January 30, 2015, the Company completed an acquisition within its growing media business within the Global Consumer segment to expand its growing media distribution assets for an estimated purchase price of \$12.6 million.

Fiscal 2014

During the three months ended September 30, 2014, the Company obtained control of the operations of AeroGrow through its increased involvement, influence, and working capital loan of \$4.5 million provided in July 2014. AeroGrow is a developer, marketer, direct-seller, and wholesaler of advanced indoor garden systems designed for consumer use in gardening, cooking, healthy eating, and home and office décor markets. AeroGrow operates primarily in the United States and Canada, as well as select countries in Europe, Asia and Australia. The preliminary valuation of acquired assets included finite-lived identifiable intangible assets of \$13.7 million, and goodwill of \$11.6 million. Identifiable intangible assets included tradename and customer relationships with useful lives ranging between 9 to 20 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return. The Company expects to complete the valuation before the end of fiscal 2015. Net sales for AeroGrow included in the Global Consumer segment for the three months ended December 27, 2014 were \$11.2 million.

The Company completed an acquisition of the assets of the U.K. based Solus Garden and Leisure Limited (“Solus”) in the fourth quarter of fiscal 2014 within its Global Consumer segment for \$7.4 million, \$1.1 million of which was paid in cash and \$6.3 million of which was paid through the forgiveness of outstanding accounts receivable owed by Solus to the Company. Solus is a supplier of garden and leisure products and offers a diverse mix of brands.

On September 30, 2014, Scotts Miracle-Gro's wholly-owned subsidiary, Scotts Canada Ltd., acquired Fafard & Brothers Ltd. (“Fafard”) for \$59.8 million. Fafard is a Canadian based producer of peat moss and growing media products for the consumer and professional markets, including peat-based and bark-based mixes, composts and premium soils. The acquisition of Fafard increases the Company's presence within Canada as Fafard serves customers primarily across Ontario, Quebec and New Brunswick. The preliminary valuation of acquired assets included working capital of \$18.0 million, property, plant, and equipment of \$23.7 million, finite-lived identifiable intangible assets of \$13.6 million, and tax deductible goodwill of \$6.0 million. Working capital included accounts receivable of \$5.2 million, inventory of \$17.3 million, and accounts payable of \$4.5 million. Identifiable intangible assets included tradename, customer relationships, non-compete agreements, and peat harvesting rights with useful lives ranging between 5 to 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return. The Company expects to complete the valuation before the end of fiscal 2015. Included in the purchase price of Fafard is \$7.1 million of contingent consideration, the payment of which will depend on the performance of the business over the next two years. Net sales for Fafard included in the Global Consumer segment for the three months ended December 27, 2014 were \$7.8 million.

The condensed consolidated financial statements include the results of operations for 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” lines in the Condensed Consolidated Statements of Operations.

The following table details impairment, restructuring and other for the periods presented:

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	DECEMBER 28, 2013
	(In millions)	
Restructuring and other	\$ 9.6	\$ 0.3
Goodwill and intangible asset impairments	—	—
Total impairment, restructuring and other	\$ 9.6	\$ 0.3

The following table summarizes the activity related to liabilities associated with the restructuring and other charges during the three months ended December 27, 2014 (in millions):

Amounts reserved for restructuring and other charges at September 30, 2014	\$	16.0
Restructuring and other charges		9.6
Payments and other		(7.7)
Amounts reserved for restructuring and other charges at December 27, 2014	\$	17.9

Included in the restructuring reserves as of December 27, 2014 is \$3.7 million that is classified as long-term. Payments against the long-term reserves will be incurred as the employees covered by the restructuring plan retire. The remaining amounts reserved will continue to be paid out over the course of the next twelve months.

During the three months ended December 27, 2014, the Company recognized \$9.6 million in restructuring costs related to termination benefits provided to U.S. executives and international personnel as part of a continuation of the fiscal 2014 restructuring initiative to eliminate layers and streamline decision making. The restructuring charge includes \$3.6 million of costs related to the acceleration of equity compensation expense. Included within the restructuring charge incurred above was \$1.0 million for the Scotts LawnService® segment, \$2.0 million for the Global Consumer segment, and \$6.6 million for Corporate & Other. Costs incurred to date since the inception of the fiscal 2014 initiative are \$11.5 million for Global Consumer, \$1.4 million for Scotts LawnService®, and \$9.2 million for Corporate & Other. The Company expects to complete its fiscal 2014 restructuring initiative in the second quarter of fiscal 2015.

NOTE 5. INVENTORIES

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

	DECEMBER 27, 2014	DECEMBER 28, 2013	SEPTEMBER 30, 2014
	(In millions)		
Finished goods	\$ 476.4	\$ 412.4	\$ 217.5
Work-in-process	60.5	49.8	46.2
Raw materials	145.9	143.5	121.4
Total inventories	\$ 682.8	\$ 605.7	\$ 385.1

Adjustments to reflect inventories at net realizable values were \$19.1 million at December 27, 2014, \$19.4 million at December 28, 2013 and \$18.4 million at September 30, 2014.

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 has entered into with Monsanto (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 four years as of December 27, 2014.

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 27, 2014	DECEMBER 28, 2013
	(In millions)	
Gross commission	\$ —	\$ —
Contribution expenses	(5.0)	(5.0)
Amortization of marketing fee	(0.2)	(0.2)
Net commission income	(5.2)	(5.2)
Reimbursements associated with Marketing Agreement	17.3	15.1
Total net sales associated with Marketing Agreement	\$ 12.1	\$ 9.9

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 termination rights 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 termination rights 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, 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 27, 2014	DECEMBER 28, 2013	SEPTEMBER 30, 2014
	(In millions)		
Credit facility – Revolving loans	\$ 922.9	\$ 447.4	\$ 481.8
Senior Notes – 7.25%	—	200.0	—
Senior Notes – 6.625%	200.0	200.0	200.0
Master Accounts Receivable Purchase Agreement	—	7.4	84.0
Other	47.0	27.2	18.5
	1,169.9	882.0	784.3
Less current portions	36.6	229.7	91.9
Total long-term debt	\$ 1,133.3	\$ 652.3	\$ 692.4

On January 15, 2014, the Company redeemed all of its outstanding \$200.0 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 \$200.0 million for outstanding principal amount. The \$7.25 million call premium charge was recognized within the “Costs related to refinancing” line on the Condensed Consolidated Statement of Operations in the Company’s second quarter of fiscal 2014. Additionally, the Company had \$3.5 million in unamortized bond discount and issuance costs associated with the 7.25% Senior Notes that were written-off and recognized in the “Costs related to refinancing” line on the Condensed Consolidated Statement of Operations 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 (“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 credit facility 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, including approval from lenders.

The terms of the credit facility include customary representations and warranties, affirmative and negative covenants, financial covenants and events of default. The proceeds of borrowings on 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 previous credit agreement. The Company may use the credit facility 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.

Under the terms of the credit facility, loans made bear interest, at the Company’s election, at a rate per annum equal to either the ABR or LIBOR (both as defined in the credit facility) plus the applicable margin. The credit facility is guaranteed by substantially all of the Company’s domestic subsidiaries. The credit facility is secured by (i) 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 (ii) 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 27, 2014, there was \$753.1 million of availability under the credit facility, including availability for letters of credit. At December 27, 2014, the Company had letters of credit in the aggregate face amount of \$24.0 million outstanding under the credit facility.

The credit facility contains, among other obligations, an affirmative covenant regarding the Company’s leverage ratio, calculated as average total indebtedness, 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 27, 2014. The Company’s leverage ratio was 2.41 at December 27, 2014. The new 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 27, 2014. The Company’s interest coverage ratio was 10.09 for the twelve months ended December 27, 2014. The Company may make restricted payments (as defined in the third amended and restated credit agreement); provided that if after giving effect to any such restricted payment the leverage ratio is not greater than 3.00. 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 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 (“MARPA Agreement”) as short-term debt and continues to carry the receivables on its Consolidated Balance Sheet, primarily as a result of the Company’s right to repurchase receivables sold. Refer to “NOTE 10. DEBT” in the 2014 Annual Report for more information regarding the MARPA Agreement. There were no borrowings under the MARPA Agreement as of December 27, 2014 and \$7.4 million in borrowings as of December 28, 2013. There were no receivables pledged as collateral as of December 27, 2014 and the carrying value of the receivables pledged as collateral was \$9.3 million as of December 28, 2013. As of December 27, 2014, there was \$29.6 million of availability under the MARPA Agreement.

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.

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 27, 2014, December 28, 2013 and September 30, 2014, the fair value of the 6.625% Senior Notes was approximately \$210.5 million, \$216.2 million and \$212.5 million, respectively. The fair value measurement for the 6.625% Senior Notes was classified in Level 1 of the fair value hierarchy.

Accounts Receivable Pledged

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

Interest Rate Swap Agreements

The Company has outstanding interest rate swap agreements with major financial institutions that effectively converts 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 \$1,300.0 million at December 27, 2014, \$1,100.0 million at December 28, 2013, and \$1,300.0 million at September 30, 2014. 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%
	200	2/7/2014	11/7/2017	1.28%
	150 (b)	2/7/2017	5/7/2019	2.12%
	50 (c)	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.

Weighted Average Interest Rate

The weighted average interest rates on the Company's debt were 4.3% and 8.1% for the three months ended December 27, 2014 and December 28, 2013, respectively. The weighed average interest rate for the three months ended December 28, 2013 included hedge ineffectiveness of \$2.0 million related to interest rate swap agreements, which was recorded to interest expense, in conjunction with entering into the credit facility.

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 27, 2014			DECEMBER 28, 2013		
	U.S. Pension	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
	(In millions)					
Service cost	\$ —	\$ 0.3	\$ 0.1	\$ —	\$ 0.5	\$ 0.1
Interest cost	1.0	1.9	0.3	1.1	3.2	0.3
Expected return on plan assets	(1.3)	(2.3)	—	(1.3)	(3.6)	—
Net amortization	0.8	0.5	—	1.0	0.5	—
Net periodic benefit cost	<u>\$ 0.5</u>	<u>\$ 0.4</u>	<u>\$ 0.4</u>	<u>\$ 0.8</u>	<u>\$ 0.6</u>	<u>\$ 0.4</u>

NOTE 9. SHAREHOLDERS' EQUITY

During the three months ended December 27, 2014, Scotts Miracle-Gro repurchased 0.2 million of its common shares (the "Common Shares") for \$14.8 million. These repurchases were made pursuant to the \$500 million share repurchase program approved by the Scotts Miracle-Gro Board of Directors in August 2014. The program allows for repurchases of Common Shares over a five-year period starting November 1, 2014 through September 30, 2019.

Share-Based Awards

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

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	DECEMBER 28, 2013
Employees		
Restricted stock units	—	31,032
Board of Directors		
Deferred stock units	1,355	1,035
Total share-based awards	1,355	32,067
Aggregate fair value at grant dates (in millions)	\$ 0.1	\$ 1.9

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

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	DECEMBER 28, 2013
	(In millions)	
Share-based compensation	\$ 2.1	\$ 1.8
Tax benefit recognized	0.8	0.7

As of December 27, 2014 the equity attributable to noncontrolling interest was \$14.1 million compared to \$13.5 million as of September 30, 2014. The \$0.6 million change is due to the net earnings from the Company's investment in AeroGrow.

Subsequent to December 27, 2014, Scotts Miracle-Gro awarded performance share units, restricted stock units, deferred stock units, and stock options covering 0.5 million Common Shares to employees and members of the Board of Directors with an estimated fair value of \$12.2 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 27, 2014 was 36.0%, compared to 36.6% for the three months ended December 28, 2013. 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 2011. 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 was completed during the first quarter of fiscal 2015 in France covering fiscal years 2010 through 2012 with no impact to the consolidated financial statements. In regard to the multiple U.S., state and local audits, the tax periods under examination are limited to fiscal years 2009 through 2012. In addition to the aforementioned audits, certain other tax deficiency notices and refund claims for previous years remain unresolved.

The Company 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 27, 2014, \$5.8 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 cases vary but complaints in these cases generally seek unspecified monetary damages (actual, compensatory, consequential and punitive) from multiple defendants. 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 assert hundreds of millions of dollars in 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 disputes the plaintiffs' assertions and intends to vigorously defend the consolidated action. Given the early stages of the action, it is not currently possible to reasonably estimate a probable loss, if any, associated with the action and, accordingly, no reserves have been recorded in the Company's Consolidated Financial Statements with respect to the action. There can be no assurance that this action, whether as a result of an adverse outcome or as a result of significant defense costs, will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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

NOTE 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 forward contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. At December 27, 2014, the notional amount of outstanding foreign currency forward contracts was \$144.5 million, with a fair value of \$1.2 million. At December 28, 2013, the notional amount of outstanding foreign currency forward contracts was \$103.7 million, with a fair value of \$0.5 million. At September 30, 2014, the notional amount of outstanding foreign currency forward contracts was \$149.0 million, with a negative fair value of \$0.1 million. The fair value of foreign currency forward contracts is determined based on changes in spot rates. The outstanding contracts will mature during fiscal 2015.

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.

The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert 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 \$1,300.0 million at December 27, 2014 and September 30, 2014, and \$1,100.0 million at December 28, 2013. Included in the AOCI balance at December 27, 2014 was a loss of \$6.1 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 27, 2014 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 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 27, 2014 was a gain of \$0.5 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.

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. At December 27, 2014 there were no amounts included within AOCI.

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

<u>Commodity</u>	<u>DECEMBER 27, 2014</u>	<u>DECEMBER 28, 2013</u>	<u>SEPTEMBER 30, 2014</u>
Urea	58,500 tons	25,500 tons	58,500 tons
Diesel	6,930,000 gallons	4,830,000 gallons	5,250,000 gallons
Gasoline	462,000 gallons	672,000 gallons	462,000 gallons
Heating Oil	7,728,000 gallons	4,494,000 gallons	4,494,000 gallons

Fair Values of Derivative Instruments

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

DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS	BALANCE SHEET LOCATION	ASSETS / (LIABILITIES)		
		DECEMBER 27, 2014	DECEMBER 28, 2013	SEPTEMBER 30, 2014
		FAIR VALUE		
		(In millions)		
Interest rate swap agreements	Other assets	\$ 2.2	\$ 4.8	\$ 4.0
	Other current liabilities	(10.2)	(8.4)	(10.3)
	Other liabilities	(5.2)	(12.0)	(5.2)
Commodity hedging instruments	Prepaid and other current assets	0.4	1.1	—
	Other current liabilities	—	—	(0.6)
Total derivatives designated as hedging instruments		\$ (12.8)	\$ (14.5)	\$ (12.1)
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS	BALANCE SHEET LOCATION			
Foreign currency forward contracts	Prepaid and other current assets	\$ 1.2	\$ —	\$ —
	Other current liabilities	—	(0.5)	(0.1)
Commodity hedging instruments	Prepaid and other current assets	—	0.4	—
	Other current liabilities	(9.1)	—	(1.3)
Total derivatives not designated as hedging instruments		\$ (7.9)	\$ (0.1)	\$ (1.4)
Total derivatives		\$ (20.7)	\$ (14.6)	\$ (13.5)

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

DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS	AMOUNT OF GAIN / (LOSS) RECOGNIZED IN AOCI	
	THREE MONTHS ENDED	
	DECEMBER 27, 2014	DECEMBER 28, 2013
(In millions)		
Interest rate swap agreements	\$ (1.7)	\$ (0.8)
Commodity hedging instruments	0.6	1.2
Total	\$ (1.1)	\$ 0.4

DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS	RECLASSIFIED FROM AOCI INTO STATEMENT OF OPERATIONS	AMOUNT OF GAIN / (LOSS)	
		THREE MONTHS ENDED	
		DECEMBER 27, 2014	DECEMBER 28, 2013
		(In millions)	
Interest rate swap agreements	Interest expense	\$ (1.0)	\$ (3.1)
Commodity hedging instruments	Cost of sales	—	—
Total		\$ (1.0)	\$ (3.1)

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS	RECOGNIZED IN STATEMENT OF OPERATIONS	AMOUNT OF GAIN / (LOSS)	
		THREE MONTHS ENDED	
		DECEMBER 27, 2014	DECEMBER 28, 2013
		(In millions)	
Foreign currency forward contracts	Other income, net	\$ 3.1	\$ (1.3)
Commodity hedging instruments	Cost of sales	(8.3)	0.6
Total		\$ (5.2)	\$ (0.7)

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 forward 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 27, 2014:

	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	\$ 88.8	\$ —	\$ —	\$ 88.8
Derivatives				
Interest rate swap agreements	—	2.2	—	2.2
Foreign currency forward contracts	—	1.2	—	1.2
Commodity hedging instruments	—	0.4	—	0.4
Other	10.1	—	—	10.1
Total	\$ 98.9	\$ 3.8	\$ —	\$ 102.7
Liabilities				
Derivatives				
Interest rate swap agreements	\$ —	\$ (15.4)	\$ —	\$ (15.4)
Commodity hedging instruments	—	(9.1)	—	(9.1)
Total	\$ —	\$ (24.5)	\$ —	\$ (24.5)

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 forward 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 September 30, 2014:

	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	\$ 32.0	\$ —	\$ —	\$ 32.0
Derivatives				
Interest rate swap agreements	—	4.0	—	4.0
Other	8.9	—	—	8.9
Total	\$ 40.9	\$ 4.0	\$ —	\$ 44.9
Liabilities				
Derivatives				
Interest rate swap agreements	\$ —	\$ (15.5)	\$ —	\$ (15.5)
Foreign currency forward contracts	—	(0.1)	—	(0.1)
Commodity hedging instruments	—	(1.9)	—	(1.9)
Total	\$ —	\$ (17.5)	\$ —	\$ (17.5)

NOTE 14. SEGMENT INFORMATION

The Company divides its business into two 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 on several factors, including income from continuing operations before amortization and impairment, restructuring and other charges, which is not a GAAP measure. Senior management 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 27, 2014	DECEMBER 28, 2013
(In millions)		
Net sales:		
Global Consumer	\$ 163.6	\$ 138.4
Scotts LawnService®	46.7	46.3
Segment total	210.3	184.7
Corporate & Other	5.9	4.9
Consolidated	\$ 216.2	\$ 189.6
Income (loss) from continuing operations before income taxes:		
Global Consumer	\$ (74.2)	\$ (67.4)
Scotts LawnService®	1.5	2.6
Segment total	(72.7)	(64.8)
Corporate & Other	(20.2)	(21.7)
Intangible asset amortization	(3.5)	(2.9)
Impairment, restructuring and other	(9.6)	(0.3)
Interest expense	(9.7)	(13.9)
Consolidated	\$ (115.7)	\$ (103.6)

	DECEMBER 27, 2014	DECEMBER 28, 2013	SEPTEMBER 30, 2014
	(In millions)		
Total assets:			
Global Consumer	\$ 1,833.7	\$ 1,812.2	\$ 1,690.7
Scotts LawnService®	191.8	168.0	191.3
Corporate & Other	239.7	179.2	176.3
Consolidated	\$ 2,265.2	\$ 2,159.4	\$ 2,058.3

NOTE 15. FINANCIAL INFORMATION FOR SUBSIDIARY GUARANTORS AND NON-GUARANTORS

The 6.625% Senior Notes (the “6.625% Senior Notes”) issued by Scotts Miracle-Gro on December 16, 2010 are guaranteed at December 27, 2014 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*. On January 15, 2014, the Company redeemed all of its outstanding \$200 million aggregate principal amount of 7.25% Senior Notes which were previously guaranteed by certain of its domestic subsidiaries. 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 6.625% 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 6.625% Senior Notes pursuant to the applicable indenture. The following 100% directly or indirectly owned subsidiaries fully and unconditionally guarantee at December 27, 2014 the 6.625% 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; SLS Franchise Systems, LLC; and The Scotts Company LLC (collectively, the “Guarantors”). SLS Franchise Systems, LLC was added as a guarantor to The Scotts Miracle-Gro Company indenture governing its 6.625% Senior Notes on February 25, 2014. Accordingly, SLS Franchise Systems, LLC was added as a Guarantor effective in the three month period ending March 29, 2014 and all periods presented.

The following information presents Condensed Consolidating Statements of Operations for the three months ended December 27, 2014 and December 28, 2013, Condensed Consolidating Statements of Comprehensive Income (Loss) for the three months ended December 27, 2014 and December 28, 2013, Condensed Consolidating Statements of Cash Flows for the three months ended December 27, 2014 and December 28, 2013, and Condensed Consolidating Balance Sheets as of December 27, 2014, December 28, 2013 and September 30, 2014. 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 27, 2014 and December 28, 2013, respectively are \$48.9 million and \$35.8 million of dividends paid by the Guarantors to the Parent representing return on investments and as such are classified within cash flows from operating activities.

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended December 27, 2014

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/Consolidations	Consolidated
Net sales	\$ —	\$ 146.5	\$ 69.7	\$ —	\$ 216.2
Cost of sales	—	130.5	56.4	—	186.9
Gross profit	—	16.0	13.3	—	29.3
Operating expenses:					
Selling, general and administrative	—	94.5	31.9	0.5	126.9
Impairment, restructuring and other	—	8.9	0.7	—	9.6
Other income, net	—	(1.2)	—	—	(1.2)
Loss from operations	—	(86.2)	(19.3)	(0.5)	(106.0)
Equity income in subsidiaries	69.2	3.4	—	(72.6)	—
Other non-operating income	(4.5)	—	(5.5)	10.0	—
Interest expense	11.2	8.3	0.2	(10.0)	9.7
Loss from continuing operations before income taxes	(75.9)	(97.9)	(14.0)	72.1	(115.7)
Income tax benefit from continuing operations	(2.4)	(33.9)	(5.4)	—	(41.7)
Loss from continuing operations	(73.5)	(64.0)	(8.6)	72.1	(74.0)
Income from discontinued operations, net of tax	—	—	—	—	—
Net loss	\$ (73.5)	\$ (64.0)	\$ (8.6)	\$ 72.1	\$ (74.0)
Net income attributable to noncontrolling interest	\$ —	\$ —	\$ —	\$ (0.6)	\$ (0.6)
Net loss attributable to controlling interest	\$ (73.5)	\$ (64.0)	\$ (8.6)	\$ 71.5	\$ (74.6)

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statement of Comprehensive Income (Loss)
for the three months ended December 27, 2014

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/Consolidations	Consolidated
Net loss	\$ (73.5)	\$ (64.0)	\$ (8.6)	\$ 72.1	\$ (74.0)
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	(3.0)	—	(3.0)	3.0	(3.0)
Net change in derivatives	(0.1)	0.6	—	(0.6)	(0.1)
Net change in pension and other post retirement benefits	0.8	0.5	0.3	(0.8)	0.8
Total other comprehensive (loss) income	(2.3)	1.1	(2.7)	1.6	(2.3)
Comprehensive loss	<u>\$ (75.8)</u>	<u>\$ (62.9)</u>	<u>\$ (11.3)</u>	<u>\$ 73.7</u>	<u>\$ (76.3)</u>

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the three months ended December 27, 2014

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/Consolidations	Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES ^(a)	\$ 24.9	\$ (198.6)	\$ (40.2)	\$ (53.1)	\$ (267.0)
INVESTING ACTIVITIES					
Investments in property, plant and equipment	—	(12.4)	(2.1)	—	(14.5)
Investment in acquired business, net of cash acquired	—	(11.1)	—	—	(11.1)
Net cash used in investing activities	—	(23.5)	(2.1)	—	(25.6)
FINANCING ACTIVITIES					
Borrowings under revolving and bank lines of credit	—	480.7	58.9	—	539.6
Repayments under revolving and bank lines of credit	—	(156.5)	(10.6)	—	(167.1)
Dividends paid	(27.4)	(48.9)	(3.7)	52.6	(27.4)
Purchase of common shares	(14.8)	—	—	—	(14.8)
Excess tax benefits from share-based payment arrangements	—	0.5	—	—	0.5
Cash received from the exercise of stock options	6.2	—	—	—	6.2
Intercompany financing	11.1	(12.9)	1.3	0.5	—
Net cash (used in) provided by financing activities	(24.9)	262.9	45.9	53.1	337.0
Effect of exchange rate changes on cash	—	—	(3.6)	—	(3.6)
Net increase in cash and cash equivalents	—	40.8	—	—	40.8
Cash and cash equivalents, beginning of period	—	23.1	66.2	—	89.3
Cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ 63.9</u>	<u>\$ 66.2</u>	<u>\$ —</u>	<u>\$ 130.1</u>

(a) Cash received by the Parent from its subsidiaries in the form of dividends in the amount of \$48.9 million represent return on investments and are included in cash flows from operating activities.

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of December 27, 2014

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/Consolidations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ —	\$ 63.9	\$ 66.2	\$ —	\$ 130.1
Accounts receivable, net	—	97.7	87.7	—	185.4
Inventories	—	547.2	135.6	—	682.8
Prepaid and other current assets	—	84.8	42.8	—	127.6
Total current assets	—	793.6	332.3	—	1,125.9
Property, plant and equipment, net	—	370.4	64.0	—	434.4
Goodwill	—	346.3	6.4	11.6	364.3
Intangible assets, net	—	247.4	48.5	13.0	308.9
Other assets	21.1	16.0	27.5	(32.9)	31.7
Equity investment in subsidiaries	300.7	—	—	(300.7)	—
Intercompany assets	1,266.6	—	—	(1,266.6)	—
Total assets	<u>\$ 1,588.4</u>	<u>\$ 1,773.7</u>	<u>\$ 478.7</u>	<u>\$ (1,575.6)</u>	<u>\$ 2,265.2</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:					
Current portion of debt	\$ —	\$ 16.0	\$ 20.6	\$ —	\$ 36.6
Accounts payable	—	162.7	57.3	—	220.0
Other current liabilities	13.6	77.3	74.4	—	165.3
Total current liabilities	13.6	256.0	152.3	—	421.9
Long-term debt	1,122.9	888.4	44.8	(922.8)	1,133.3
Other liabilities	5.1	224.9	47.0	(27.9)	249.1
Equity investment in subsidiaries	—	99.0	—	(99.0)	—
Intercompany liabilities	—	257.5	87.1	(344.6)	—
Total liabilities	1,141.6	1,725.8	331.2	(1,394.3)	1,804.3
Total shareholders' equity - controlling interest	446.8	47.9	147.5	(195.4)	446.8
Noncontrolling interest	—	—	—	14.1	14.1
Total equity	<u>\$ 446.8</u>	<u>\$ 47.9</u>	<u>\$ 147.5</u>	<u>\$ (181.3)</u>	<u>\$ 460.9</u>
Total liabilities and shareholders' equity	<u>\$ 1,588.4</u>	<u>\$ 1,773.7</u>	<u>\$ 478.7</u>	<u>\$ (1,575.6)</u>	<u>\$ 2,265.2</u>

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/Consolidations	Consolidated
Net sales	\$ —	\$ 142.9	\$ 46.7	\$ —	\$ 189.6
Cost of sales	—	118.1	37.6	—	155.7
Gross profit	—	24.8	9.1	—	33.9
Operating expenses:					
Selling, general and administrative	—	97.5	26.8	—	124.3
Impairment, restructuring and other	—	—	0.3	—	0.3
Other income, net	—	(1.0)	—	—	(1.0)
Loss from operations	—	(71.7)	(18.0)	—	(89.7)
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)	(12.4)	58.9	(103.6)
Income tax benefit from continuing operations	(0.3)	(33.1)	(4.5)	—	(37.9)
Loss from continuing operations	(65.6)	(51.1)	(7.9)	58.9	(65.7)
Income (loss) from discontinued operations, net of tax	—	(0.1)	0.2	—	0.1
Net loss	\$ (65.6)	\$ (51.2)	\$ (7.7)	\$ 58.9	\$ (65.6)
Net income attributable to noncontrolling interest	\$ —	\$ —	\$ —	\$ —	\$ —
Net loss attributable to controlling interest	\$ (65.6)	\$ (51.2)	\$ (7.7)	\$ 58.9	\$ (65.6)

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

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/Consolidations	Consolidated
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/Consolidations	Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES ^(a)	\$ 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

(a) Cash received by the Parent from its subsidiaries in the form of dividends in the amount of \$35.8 million represent return on investments and are included in cash flows from operating activities.

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

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/Consolidations	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
Total shareholders' equity - controlling interest	621.3	135.0	93.7	(228.7)	621.3
Noncontrolling interest	—	—	—	—	—
Total 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 Balance Sheet
As of September 30, 2014
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/Consolidations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ —	\$ 23.1	\$ 66.2	\$ —	\$ 89.3
Accounts receivable, net	—	124.6	99.4	—	224.0
Accounts receivable pledged	—	113.7	—	—	113.7
Inventories	—	282.1	103.0	—	385.1
Prepaid and other current assets	—	85.0	37.9	—	122.9
Total current assets	—	628.5	306.5	—	935.0
Property, plant and equipment, net	—	369.5	67.5	—	437.0
Goodwill	—	344.3	6.6	—	350.9
Intangible assets, net	—	256.8	45.9	—	302.7
Other assets	23.8	14.7	28.5	(34.3)	32.7
Equity investment in subsidiaries	368.3	—	—	(368.3)	—
Intercompany assets	878.8	—	—	(878.8)	—
Total assets	\$ 1,270.9	\$ 1,613.8	\$ 455.0	\$ (1,281.4)	\$ 2,058.3

LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt	\$ —	\$ 85.8	\$ 6.1	\$ —	\$ 91.9
Accounts payable	—	134.3	59.0	—	193.3
Other current liabilities	16.7	161.8	81.0	—	259.5
Total current liabilities	16.7	381.9	146.1	—	544.7
Long-term debt	681.8	480.0	12.4	(481.8)	692.4
Other liabilities	5.1	235.7	47.4	(34.2)	254.0
Equity investment in subsidiaries	—	106.5	—	(106.5)	—
Intercompany liabilities	—	303.5	93.5	(397.0)	—
Total liabilities	703.6	1,507.6	299.4	(1,019.5)	1,491.1
Total shareholders' equity - controlling interest	553.8	92.7	155.6	(248.4)	553.7
Noncontrolling interest	13.5	13.5	—	(13.5)	13.5
Total equity	\$ 567.3	\$ 106.2	\$ 155.6	\$ (261.9)	\$ 567.2
Total liabilities and shareholders' equity	\$ 1,270.9	\$ 1,613.8	\$ 455.0	\$ (1,281.4)	\$ 2,058.3

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, 2014 (the “2014 Annual Report”).

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 two 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 to 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 seasonal 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		
	2014	2013	2012
First Quarter	6.7%	7.0%	6.7%
Second Quarter	38.0%	36.4%	41.7%
Third Quarter	39.3%	41.0%	37.5%
Fourth Quarter	16.0%	15.6%	14.1%

Common Shares Repurchases and Dividends

On August 11, 2014, we announced that the Scotts Miracle-Gro Board of Directors approved:

- a special one-time cash dividend of \$2.00 per Common Share that was paid on September 17, 2014;
- an increase in our quarterly cash dividend from \$0.4375 to \$0.45 per Common Share; and
- a new share repurchase authorization effective November 1, 2014, which will expire on September 30, 2019, to repurchase up to \$500 million of our Common Shares. This replaces the previous authorization which expired on September 30, 2014.

The decision to increase the amount of cash we intend to return to our shareholders reflects our continued confidence in the business.

As of December 27, 2014, the Company can make additional restricted payments (as defined in the credit facility), including increased or one-time dividend payments and Common Share repurchases, provided that if after giving effect to any such restricted payment, the leverage ratio is not greater than 3.00. Otherwise, the Company may only make restricted payments in an aggregate amount for each fiscal year not to exceed the amount set forth in the credit facility for such fiscal year (\$150.0 million for 2015 and \$175.0 million for 2016 and in each fiscal year thereafter).

RESULTS OF OPERATIONS

We classified our wild bird food business as discontinued operations, for all periods presented, beginning in our second quarter of fiscal 2014. As a result, and unless specifically stated otherwise, all discussions regarding results for the three months ended December 27, 2014 and December 28, 2013, 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 27, 2014	DECEMBER 28, 2013
Net sales	100.0 %	100.0 %
Cost of sales	86.4	82.2
Gross profit	13.6	17.8
Operating expenses:		
Selling, general and administrative	58.7	65.6
Impairment, restructuring and other	4.4	0.2
Other income, net	(0.6)	(0.5)
Loss from operations	(48.9)	(47.5)
Interest expense	4.6	7.3
Loss from continuing operations before income taxes	(53.5)	(54.8)
Income tax benefit from continuing operations	(19.3)	(20.0)
Loss from continuing operations	(34.2)	(34.8)
Income from discontinued operations, net of tax	—	0.1
Net Loss	(34.2)%	(34.7)%

Net Sales

Net sales for the three months ended December 27, 2014 were \$216.2 million, an increase of 14.0% from net sales of \$189.6 million for the three months ended December 28, 2013. The change in net sales was attributable to:

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	
Acquisitions		12.5 %
Volume		3.7
Pricing		0.3
Foreign exchange rates		(2.5)
Change in net sales		14.0 %

The increase in net sales for the three months ended December 27, 2014, was primarily driven by:

- sales from acquisitions within our Global Consumer segment from AeroGrow, Fafard, and Solus and within our Scotts LawnService® segment from Action Pest; and
- increased volume in our Global Consumer segment, driven by timing of shipments to retailers earlier in the lawn and garden season and an increase in net sales attributable to reimbursements under our marketing agreement with Monsanto; and
- a partial offset by the unfavorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to other currencies.

Cost of Sales

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

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	DECEMBER 28, 2013
	(In millions)	
Materials	\$ 91.9	\$ 80.9
Distribution and warehousing	48.7	35.6
Manufacturing labor and overhead	29.0	24.1
Roundup® reimbursements	17.3	15.1
	\$ 186.9	\$ 155.7

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

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	
	(In millions)	
Volume and product mix	\$	32.7
Roundup® reimbursements		2.2
Foreign exchange rates		(3.6)
Change in cost of sales	\$	31.2

The increase in cost of sales, for the three months ended December 27, 2014, was primarily driven by:

- costs related to sales from acquisitions within our Global Consumer segment from AeroGrow, Fafard, and Solus and within our Scotts LawnService® segment from Action Pest;
- higher distribution costs within our Global Consumer segment due to the recognition of negative mark-to-market adjustments of \$6.8 million associated with our fuel hedges. We expect to offset the negative mark-to-market adjustments with savings from future fuel purchases within the current fiscal year;
- increased sales volume in our Global Consumer segment, driven by timing of shipments to retailers earlier in the lawn and garden season; and
- an increase in net sales attributable to reimbursements under our marketing agreement with Monsanto;
- partially offset by the favorable impact of foreign exchange rates as a result of a strengthening of the U.S. dollar relative to other currencies.

Gross Profit

As a percentage of net sales, our gross profit rate was 13.6% and 17.8% for the three months ended December 27, 2014 and December 28, 2013, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	
Pricing		0.2 %
Material costs		—
Product mix and volume:		
Roundup® commissions and reimbursements		(0.1)
Acquisitions		0.5
Corporate & Other		0.2
Scotts LawnService®		0.1
Global Consumer mix and volume		(5.1)
Change in gross profit rate		(4.2)%

The decrease in the gross profit rate, for the three months ended December 27, 2014, was primarily driven by:

- increased distribution costs within Global Consumer segment mix and volume due to the recognition of negative mark-to-market adjustments of \$6.8 million associated with our fuel hedges. We expect to offset the negative mark-to-market adjustments with savings from future fuel purchases within the current fiscal year; and
- partially offset by the acquisitions of AeroGrow and Fafard within our Global Consumer segment and Action Pest within our Scotts LawnService® segment.

Selling, General and Administrative Expenses

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

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	DECEMBER 28, 2013
	(In millions)	
Advertising	\$ 9.5	\$ 7.5
Share-based compensation	2.1	1.8
Research and development	10.2	11.0
Amortization of intangibles	3.0	2.4
Other selling, general and administrative	102.1	101.6
	<u>\$ 126.9</u>	<u>\$ 124.3</u>

Selling, general and administrative (“SG&A”) expenses increased \$2.6 million, or 2.1%, to \$126.9 million for the three months ended December 27, 2014 compared to the three months ended December 28, 2013. Advertising increased \$2.0 million driven by timing and mix of Global Consumer media spending. The impact of the recent acquisitions for AeroGrow, Fafard, Solus and Action Pest were offset by reductions in compensation including management incentives as a result of our restructuring efforts over the past year.

Impairment, Restructuring and Other

During the three months ended December 27, 2014, we recognized \$9.6 million in restructuring costs related to termination benefits provided to U.S. and international personnel as part of the continuation of our previously announced fiscal 2014 restructuring plan to reduce management layers and streamline decision making.

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.

Other Income, net

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, equity income (loss) on unconsolidated affiliates and gains/losses from the sale of non-inventory assets. Other income was \$1.2 million for the three months ended December 27, 2014 compared to \$1.0 million for the three months ended December 28, 2013.

Interest Expense

Interest expense was \$9.7 million for the three months ended December 27, 2014 compared to \$13.9 million for the three months ended December 28, 2013. The decrease in interest expense of \$4.2 million was driven by a decline in our weighted average interest rate during the three months ended December 27, 2014, as compared to the three months ended December 28, 2013. The decrease in our weighted average interest rate of 385 basis points was due to the reduced rates under the credit facility and the redemption of the 7.25% Senior Notes. Included in the interest expense for the three months ended December 28, 2013 was an acceleration of interest expense of \$2.0 million for the ineffective portion of our interest rate hedges impacted by entering into the credit facility in December 2013.

Income Tax Expense

The effective tax rate related to continuing operations for the three months ended December 27, 2014 was 36.0% compared to 36.6% for the three months ended December 28, 2013. 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 attributable to controlling interest from continuing operations of \$74.6 million, or \$1.23 per diluted share, for the three months ended December 27, 2014 compared to \$65.7 million, or \$1.06 per diluted share, for the three months ended December 28, 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 periods. The increase in our loss from continuing operations for the three months ended December 27, 2014 was primarily driven by a lower gross profit rate, higher SG&A expenses and impairment, restructuring and other charges, partially offset by higher sales volume and lower interest and income tax expenses. Diluted average Common Shares used in the diluted net income per Common Share calculation were 60.8 million for the three months ended December 27, 2014 compared to 62.1 million for the three months ended December 28, 2013. The decrease in dilutive average Common Shares for the three months ended December 27, 2014 was a result of share repurchases, partially offset by the exercise and issuance of share-based compensation awards.

SEGMENT RESULTS

Our continuing operations are divided into two 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 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 27, 2014	DECEMBER 28, 2013
	(In millions)	
Global Consumer	\$ 163.6	\$ 138.4
Scotts LawnService®	46.7	46.3
Segment total	210.3	184.7
Corporate & Other	5.9	4.9
Consolidated	\$ 216.2	\$ 189.6

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

	THREE MONTHS ENDED	
	DECEMBER 27, 2014	DECEMBER 28, 2013
	(In millions)	
Global Consumer	\$ (74.2)	\$ (67.4)
Scotts LawnService®	1.5	2.6
Segment total	(72.7)	(64.8)
Corporate & Other	(20.2)	(21.7)
Intangible asset amortization	(3.5)	(2.9)
Impairment, restructuring and other	(9.6)	(0.3)
Interest expense	(9.7)	(13.9)
Consolidated	\$ (115.7)	\$ (103.6)

Global Consumer

Global Consumer segment net sales were \$163.6 million in the first quarter of fiscal 2015, an increase of 18.2%, from the first quarter of fiscal 2014 sales of \$138.4 million. For the three months ended December 27, 2014, favorable impacts of volume, pricing, and acquisitions of 5.1%, 0.5% and 15.8%, respectively, were partially offset by unfavorable changes in foreign exchange rates of 3.2%.

Net sales in the United States increased \$12.1 million, or 12.6%, for the first quarter of fiscal 2015 as compared to the same period in fiscal 2014. The increase in U.S. net sales for the first quarter was driven by the acquisition of AeroGrow.

Excluding the impact of changes in foreign exchange rates, net sales internationally increased by \$17.6 million, or 41.6%, for the first quarter of fiscal 2015. The increase in net sales internationally was primarily driven by the acquisitions of Fafard and Solus, and higher sales volume within Europe.

Global Consumer segment operating loss increased by \$6.8 million, or 10.1% in the first quarter of fiscal 2015 as compared to the same period of fiscal 2014. Excluding the impact of changes in foreign exchange rates, the increase was 11.5% for the first quarter of fiscal 2015. The increase for the first quarter of fiscal 2015 was primarily driven by lower gross profit rate and higher advertising spending. The recent acquisitions of AeroGrow, Fafard, and Solus did not have a significant impact on segment operating income for the first quarter of fiscal 2015.

Scotts LawnService®

Scotts LawnService® net sales increased by \$0.4 million, or 0.9%, in the first quarter of fiscal 2015 as compared to the same period of fiscal 2014. The segment operating income for Scotts LawnService® decreased by \$1.1 million, or 42.3%, to \$1.5 million in the first quarter of fiscal 2015, as compared to the same period of fiscal 2014. The decreased income was primarily driven by lower gross profit rate and higher SG&A expenses, primarily for planned increases in advertising costs.

Corporate & Other

The net operating loss for Corporate & Other was \$20.2 million for the three months ended December 27, 2014 compared to \$21.7 million for the three months ended December 28, 2013. The decrease for the three months ended December 27, 2014 was primarily related to lower employee related expenses, including compensation and benefits.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash used in operating activities totaled \$267.0 million and \$180.2 million for the three months ended December 27, 2014 and December 28, 2013, respectively. Cash used in operating activities increased \$86.8 million primarily due to an increase in cash used for working capital of \$83.7 million. The increase in cash used for working capital was primarily due to increased inventory production in the fourth quarter of fiscal 2014 and first quarter of fiscal 2015 compared to the same prior periods. The Company expects this inventory build to improve service levels and reduce distribution costs in the spring of 2015.

Investing Activities

Cash used in investing activities totaled \$25.6 million and \$103.4 million for the three months ended December 27, 2014 and December 28, 2013, respectively. Cash used for investments in property, plant and equipment during the first three months of fiscal 2015 and fiscal 2014 was \$14.5 million and \$43.4 million, respectively. The decrease was primarily related to \$35.0 million of down payments in fiscal 2014 on a purchase order to acquire a new corporate aircraft. During the three months ended December 27, 2014, within our Global Consumer segment, we completed the acquisition of a growing media business for \$7.1 million. Additionally within our Scotts LawnService® segment we completed the acquisition of Action Pest for \$21.7 million. These acquisitions included cash payments of \$11.1 million during the first quarter of fiscal 2015.

Financing Activities

Financing activities provided cash of \$337.0 million and \$277.2 million for the three months ended December 27, 2014 and December 28, 2013, respectively. The increase of \$59.8 million in cash provided by financing activities during the first three months of fiscal 2015 as compared to fiscal 2014 was the result of higher net borrowings under our credit facility of \$61.3 million, the fiscal 2014 payment of financing and issuance fees of \$6.1 million associated with our new credit facility, and an increase in cash received from the exercise of stock options of \$1.1 million, partially offset by an increase in share repurchases of our Common Shares of \$6.3 million and decreased excess tax benefits from share-based payment arrangements of \$2.3 million. The higher net borrowings for the three months ended December 27, 2014

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 \$130.1 million as of December 27, 2014, compared to \$124.6 million as of December 28, 2013. The cash and cash equivalents balance at December 27, 2014 included \$62.6 million held by controlled foreign corporations. Our current plans do not demonstrate a need to, nor do we have plans to, repatriate the retained earnings from these foreign corporations as the earnings are indefinitely reinvested. However, in the future, if we determine it is necessary to repatriate these funds, or 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 facility, 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 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.

Under our credit facility, we have the ability to obtain letters of credit up to \$75 million. At December 27, 2014, we had letters of credit in the aggregate face amount of \$24 million outstanding and \$753.1 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 August 29, 2014, the Company signed an amendment to the existing MARPA Agreement which extended the termination date to August 28, 2015, or such later date as may be mutually agreed by the Company and each bank party thereto. Under the amended terms of the MARPA 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 no short-term borrowings as of December 27, 2014 and \$7.4 million of short-term borrowings as of December 28, 2013 under the MARPA Agreement. As of December 27, 2014, there was \$29.6 million of availability under the MARPA Agreement.

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 27, 2014, 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 27,

2014. Our leverage ratio was 2.41 at December 27, 2014. 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 27, 2014. Our interest coverage ratio was 10.09 for the twelve months ended December 27, 2014. As of December 27, 2014, the Company can make additional restricted payments (as defined in the credit facility), including increased or one-time dividend payments and Common Share repurchases, before reaching a leverage ratio of 3.00.

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 2015. 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 facility 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 2014 and through December 27, 2014.

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, 2014, 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, 2014 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 the 2014 Annual Report.

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 27, 2014 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 the 2014 Annual Report.

ITEM 1A. RISK FACTORS

The Company's risk factors as of December 27, 2014 have not changed materially from those described in “ITEM IA. RISK FACTORS” in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

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 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, 2014. 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 credit facility restricts future dividend payments to an aggregate of \$150 million annually through fiscal 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 2.41 at December 27, 2014.

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 27, 2014:

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, 2014 through October 25, 2014	—	\$ —	—	\$ 500,000,000
October 26, 2014 through November 22, 2014	457	\$ 59.48	—	\$ 500,000,000
November 23 through December 27, 2014	241,120	\$ 62.02	238,863	\$ 485,186,044
Total	241,577	\$ 62.02	238,863	

- (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 2,715 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 2014, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to \$500 million of the Common Shares over a five-year period (starting November 1, 2014 through September 30, 2019). The dollar amounts in the "Approximate Dollar Value" column reflect the remaining amounts of shares that were available for repurchase under the \$500 million authorized repurchase program.

ITEM 6. EXHIBITS

See Index to Exhibits at page 46 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 5, 2015

/s/ THOMAS RANDAL COLEMAN

Printed Name: Thomas Randal Coleman

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 27, 2014

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION
10.1	Separation Agreement and Release of All Claims, entered into as of December 18, 2014, by and between The Scotts Company LLC and Barry W. Sanders	Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed December 19, 2014 (File No. 1-11593) [Exhibit 10.1]
10.2	The Scotts Company LLC Executive Retirement Plan, as Amended and Restated as of January 1, 2015 (executed December 31, 2014)	*
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	*

* Filed or furnished herewith

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 Scotts Company LLC Executive Retirement Plan, Amended and Restated as of January 1, 2015, attached hereto as Exhibit I, was implemented by me this day and made effective as of the date set forth therein.

This action is taken by me on behalf of The Scotts Company LLC, pursuant to delegations to me by the Compensation and Organization Committee of the Board of Directors of The Scotts Miracle-Gro Company on August 8, 2007, which delegation remains 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

Effective: December 31, 2014

**THE SCOTTS COMPANY LLC
EXECUTIVE RETIREMENT PLAN**

Amended and Restated as of January 1, 2015

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THE SCOTTS COMPANY LLC
EXECUTIVE RETIREMENT PLAN
Amended and Restated as of January 1, 2015

**SECTION 1
NAME AND PURPOSE**

The Scotts Company LLC Executive Retirement Plan provides Eligible Employees the opportunity to defer certain salary, bonuses and other compensation and to receive other benefits in accordance with the terms of the Plan. The Plan is unfunded. It is intended that the Plan be exempt from the funding, participation, vesting and fiduciary provisions of Title I of ERISA.

The Plan is subject to Code Section 409A. The provisions of the Plan apply to: (a) any Participant who is receiving or accruing benefits on the Effective Date; (b) any individual who becomes a Participant on or after the Effective Date; and (c) any Participant who retires, becomes Disabled, dies or terminates employment in accordance with the Plan on or after the Effective Date.

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

Effective with respect to Plan Years beginning on and after January 1, 2015, the Plan is amended and restated to incorporate prior amendments and to remove provisions that are no longer applicable or relevant to the operation of the Plan. Except as otherwise specifically provided, the benefits due an individual under the Plan or any prior version of the Plan shall be determined based on the provisions of the Plan (or the applicable predecessor) in effect on the date he or she separated from the service of the Employer and shall not be affected by any subsequent amendment to the Plan.

**SECTION 2
DEFINITIONS**

The following terms have the indicated meanings.

2.1. Account or Accounts

“Account” or “Accounts,” as applicable, means the separate Account or a subaccount established for each Participant pursuant to Section 4 of the Plan. A Participant’s Account shall consist of a Performance Award Account, a Base Salary Account, a Matching Account, a Retirement Account, a Transitional Contributions Account, a Retention Award Account and a Supplemental Retirement Award Account. Accounts are bookkeeping benchmark accounts maintained solely for accounting purposes.

2.2. Adjustments

“Adjustments” means the credits to or debits from Accounts as provided in Section 4.

2.3. Affiliate

“Affiliate” means any business organization or legal entity that, directly or indirectly, controls, is controlled by, or is under common control with, the Company. For purposes of this definition, control (including the terms controlling, controlled by, and under common control with) includes the possession, direct or indirect, of the power to vote 50% or more of the voting equity securities, membership interests or other voting interests, or to direct or cause the direction of the management and policies of, such business organization or other legal entity, whether through the ownership of equity securities, membership interests or other voting interests, by contract or otherwise.

2.4. Base Salary

For purposes of this Plan, “Base Salary” means the portion of a Participants’ Compensation that constitutes salary, amounts received in lieu of salary (including, but not limited to, paid time off, vacation pay, salary continuation, short-term disability benefits) and LTI Offset Payments.

2.5. Base Salary Account

“Base Salary Account” means the Participant’s subaccount to which Base Salary deferral contributions are allocated pursuant to Section 4.3.

2.6. Base Salary Deferral Election

“Base Salary Deferral Election” means an Eligible Employee’s election, in a manner prescribed by the Benefits Administrative Committee, to defer Base Salary (including LTI Offset Payments) pursuant to the Plan.

2.7. Beneficiary

“Beneficiary” means the person or persons designated in writing as such and filed with the recordkeeper at any time by a Participant. Any such designation may be withdrawn or changed in writing (without the consent of the Beneficiary), but only the last designation on file with the recordkeeper shall be effective. Notwithstanding any contrary provision, a change in the identity of the Beneficiary may not, and shall not, change the form and time of payment previously elected by the Participant for distribution of his or her Account or the applicable portion thereof.

2.8. Benefits Administrative Committee

“Benefits Administrative Committee” means: (a) the administrative committee appointed to administer the tax qualified retirement plans which are sponsored by the Employer; or (b) any person or entity to which the Benefits Administrative Committee delegates any of the administrative or ministerial duties assigned to it under the Plan.

2.9. Board

“Board” means the Board of Directors of the Corporation.

2.10. Cause

“Cause” means cause as defined in the LTIP.

2.11. Change in Control

“Change in Control” means change in control as defined in the LTIP.

2.12. Code

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

2.13. Committee

“Committee” means the Compensation and Organization Committee of the Board.

2.14. Company

“Company” means The Scotts Company LLC.

2.15. Company Stock Fund

“Company Stock Fund” means an investment fund reflecting common shares, without par value, of The Scotts Miracle-Gro Company that shall be used as a benchmark hereunder. The Investment Committee shall have no responsibility for or discretion over the use of such fund as a benchmark hereunder.

2.16. Compensation

“Compensation” means, for the applicable Plan Year, compensation used to determine benefits under (and as defined under) the Qualified Plan, without regard to the Pay Cap plus deferrals under this Plan or any other non-qualified plan. Notwithstanding the foregoing, “Compensation” excludes any payments of Performance Awards or any other bonuses that are made after the Participant’s Separation from Service.

2.17. Corporation

“Corporation” means The Scotts Miracle-Gro Company.

2.18. Disabled or Disability

“Disabled” or “Disability” means that the Participant is (a) 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, or (b) 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 the Employer.

2.19. ERISA

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.20. Effective Date

“Effective Date” means, in general, the effective date for the Plan’s Code Section 409A restatement, January 1, 2005, unless otherwise specifically provided herein or required by law.

2.21. Eligible Employee

“Eligible Employee” has the meaning specified in Section 3.

2.22. Employee

“Employee” means an individual employed as a common law employee of the Employer.

2.23. Employer or Employers

“Employer” or “Employers” means the Company and/or its Affiliates, as indicated by the context.

2.24. ERP Eligible Pay

“ERP Eligible Pay” means, for the applicable Plan Year, Compensation less eligible RSP Compensation for the Plan Year.

2.25. Investment Committee

“Investment Committee” means: (a) the Scotts Miracle-Gro Investment Committee appointed to monitor all investment and related activities associated with the Outside Benchmark Investment Funds; or (b) any person or entity to which the Investment Committee delegates any of the investment duties assigned to it under the Plan.

2.26. Investment Fund

“Investment Fund” means the Company Stock Fund or one of the Outside Benchmark Investment Funds used as an earnings benchmark with respect to Participants’ Accounts.

2.27. LTIP

“LTIP” means The Scotts Miracle-Gro Company Long-Term Incentive Plan, as amended from time to time.

2.28. LTI Offset Payment

“LTI Offset Payment” means an amount that is designated as an LTI Offset Payment in the Company’s payroll system.

2.29. Matching Account

“Matching Account” means the Participant’s subaccount to which Matching Contributions are allocated pursuant to Section 4.4(b).

2.30. Outside Benchmark Investment Fund

“Outside Benchmark Investment Fund” means an Investment Fund, other than the Company Stock Fund, which has been designated by the Investment Committee as available to use as an earnings benchmark with respect to Participants’ Accounts.

2.31. Pay Cap

“Pay Cap” means, for each Plan Year, the dollar threshold at which an Eligible Employee’s RSP Compensation reaches the maximum recognizable annual compensation limit under Code Section 401(a)(17).

2.32. Participant

“Participant” has the meaning specified in Section 3.

2.33. Performance Award

“Performance Award” means an annual bonus payable pursuant to a plan or program maintained by an Employer that constitutes performance-based compensation under Treasury Regulation Section 1.409A-1(e).

2.34. Performance Award Deferral Election

“Performance Award Deferral Election” means an Eligible Employee’s election to defer, in a manner prescribed by the Benefits Administrative Committee, a Performance Award pursuant to the Plan.

2.35. Plan

“Plan” means The Scotts Company LLC Executive Retirement Plan, as reflected in this document, as amended from time to time after the Effective Date.

2.36. Plan Year

“Plan Year” means the calendar year.

2.37. Qualified Plan

“Qualified Plan” means The Scotts Company LLC Retirement Savings Plan, and any amendments thereto.

2.38. Retention Award

“Retention Award” means an award, allocable to a Participant’s Retention Award Account in accordance with Section 4.2(c). The designation of the Participants who receive a Retention Award and the amount of each Retention Award shall be determined by the Committee in its discretion. Each Retention Award shall be evidenced by a written agreement between the Employer and the Participant. The written agreement shall set forth the terms and conditions governing the Retention Award and shall be consistent with the applicable provisions of the Plan.

2.39. Retention Award Account

“Retention Award Account” means the Participant’s subaccount to which Retention Awards are allocated pursuant to Section 4.4(d).

2.40. Retirement Account

“Retirement Account” means the Participant’s subaccount to which Retirement Contributions are allocated pursuant to Section 4.4(a).

2.41. Retirement Contribution

Retirement Contribution means, for Plan Years beginning before January 1, 2011, an Employer contribution allocated to each Eligible Employee’s Retirement Account.

2.42. RSP Compensation

“RSP Compensation” means compensation as defined under the Qualified Plan. RSP Compensation does not include deferrals to the Plan.

2.43. Separation from Service

“Separation from Service” means a Participant’s termination of employment with the Company and its Affiliates for any reason. A termination of employment will occur when the Participant and the Company and its Affiliates reasonably anticipate that (i) no further services will be performed by the Participant after a certain date or (ii) the level of bona fide services which the Participant is expected to perform for the Company and its Affiliates, as an employee or otherwise, as of a certain date is expected to permanently decrease to a level equal to 20% or less of the average level of services performed by the Participant during the immediately preceding 36-month period (or the Participant’s entire period of service if less than 36 months). Further, for purposes of the Plan, a termination of employment is deemed to occur on the first date following six months after a Participant is first on a military leave, sick leave or other bona fide leave of absence. Such six-month period may be extended if the Participant retains a right to reemployment with the

Company or its Affiliates under applicable statute or contract. Notwithstanding the foregoing, where a leave of absence is due to a 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 six months and where such impairment causes the Participant to be unable to perform the duties of his or her position of employment or any substantially similar position of employment with the Company, a 29-month period of absence may be substituted for such six-month period. Whether there has been a termination of employment will be determined by the Benefits Administrative Committee, taking into account all of the facts and circumstances at the time of the termination of employment in accordance with the guidelines described in Treasury Regulation Section 1.409-1(h). Notwithstanding the foregoing, Separation from Service does not include a Participant's termination of employment on account of death or Disability.

2.44. Statutory Limits

“Statutory Limits” means the following:

- (a) the maximum recognizable annual compensation under Code Section 401(a)(17);
- (b) the maximum annual additions under Code Section 415(c) - the “415 Limit”;
- (c) the deferral limit under Code Section 402(g) - the “Deferral Limit”; and
- (d) the limits on contributions for highly compensated employees under Code Sections 401(k)(3) - the “ADP Test” - and 401(m)(2) - the “ACP Test.”

2.45. Supplemental Retirement Award

“Supplemental Retirement Award” means an award, allocable to a Participant's Supplemental Retirement Award Account, in accordance with Section 4.4(e). 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.

2.46. Supplemental Retirement Award Account

“Supplemental Retirement Award Account” means the Participant's subaccount to which Supplemental Retirement Awards are allocated pursuant to Section 4.4(e).

2.47. Transitional Contribution

Transitional Contribution means a special Employer contribution made for certain Participants for Plan Years from 1998 - 2000.

2.48. Transitional Contributions Account

“Transitional Contributions Account” means the Participant's subaccount to which Transitional Contributions are allocated pursuant to Section 4.4(c).

2.49. Years of Service

“Years of Service” means the total of an Employee’s full years of employment with the Employer from the Employee’s adjusted service date, as assigned by the Employer, until the Employee’s Separation from Service.

SECTION 3 PARTICIPANTS

Each United States-based vice president or more senior executive is an Eligible Employee and may participate in the Plan. Each other management or highly compensated employee who is designated by the Chief Executive Officer or the Executive Vice President of Global Human Resources as eligible to participate in the Plan is an Eligible Employee and may participate in the Plan so long as such Employee’s eligibility or participation does not affect the Plan’s intended exemption from the funding, participation, vesting and fiduciary provisions of Title I of ERISA. Each Eligible Employee who elects to participate in the Plan or for whom Employer contributions are credited in accordance with Section 4 shall be a Participant in the Plan. A Participant shall continue to participate in the Plan until his or her status as a Participant is terminated by: (a) a complete distribution of his or her Accounts pursuant to the terms of the Plan; (b) the termination of the Plan; or (c) a written directive of the Company’s senior human resources officer. Furthermore, for purposes of administering this Plan, each such Participant shall be deemed to be a “Specified Employee,” as defined in Code Section 409A(a)(2)(B)(i) and Treasury Regulation Section 1.409A-1(i).

SECTION 4 ACCOUNTS

4.1. Establishment of Accounts

The recordkeeper will establish an Account for each Participant. A Participant’s Account shall consist of a Performance Award Account, a Base Salary Account, a Matching Account, a Retirement Account, a Transitional Contributions Account, a Retention Award Account and a Supplemental Retirement Award Account.

4.2. Election of Participant to Defer Performance Awards

(a) Performance Awards. An Eligible Employee may, at the discretion of the Committee, and on such terms and conditions as it may specify, elect to have a percentage of any Performance Award that may be awarded to him or her by the Employer for, as applicable, (i) a Plan Year or (ii) a fiscal year ending in the following Plan Year, allocated to his or her Performance Award Account and paid on a deferred basis pursuant to the terms of the Plan. To make an election with respect to a Performance Award, an Eligible Employee must advise the Employer of his or her election in writing or by filing an election electronically, using procedures prescribed by the Benefits Administrative Committee. Such elections must be made on or before the date prescribed by the Benefits Administrative Committee, which shall be no later than December 31 of the preceding calendar year, as applicable, (i) the Plan Year to which the Performance Award relates or (ii) the

Plan Year in which the fiscal year to which the Performance Award relates ends. In no event may a deferral election be made with respect to any portion of a Performance Award that is “readily ascertainable,” *i.e.*, both calculable and substantially certain to be paid at the time of the election. Further, for such election to be effective, an Eligible Employee must have provided services for the Employer continuously from the beginning of the applicable performance period. Finally, deferral elections made with respect to Performance Awards that become payable as a result of death or Disability or in the event of a Change in Control, without regard to the satisfaction of the applicable performance criteria, do not constitute performance-based compensation and shall not be effective unless made by December 31 of the calendar year preceding the beginning of the calendar or fiscal year to which such award relates.

(b) Performance Awards for Newly Eligible Employees. Notwithstanding the preceding paragraph, for the Plan Year in which an Employee first becomes an Eligible Employee, such Eligible Employee is not eligible to defer Performance Awards with respect to any performance period that begins in such Plan Year. Such Eligible Employee can make a Performance Award Deferral Election for performance periods beginning in the following Plan Year in accordance with Section 4.2(a).

(c) Calendar Year Performance Awards. Calendar year Performance Awards shall be taken into account in the Plan Year in which any non-deferred portion of such Performance Award would be paid.

(d) Performance Award Account. If a Performance Award Deferral Election is submitted to the recordkeeper in accordance with this Section 4.2., the Employer will credit to the Participant’s Performance Award Account the amount of any timely deferral determined in accordance with this Section 4.2. All such deferral elections must be submitted no later than December 31 of the calendar year in which such deferral elections are made. Such deferral elections become irrevocable on such date and cannot be changed even if the Participant ceases to be an Eligible Employee.

(e) Deferral Election Effective Only If Employed on the Payment Date. Notwithstanding any provision of this Plan to the contrary, no Performance Award may be deferred under this Section 4.2 unless the Participant is an Employee on the date that such amount actually is distributed.

4.3. Election of Participant to Defer Base Salary

(a) Annual Base Salary Deferral Elections. Each Eligible Employee may, on such terms and conditions as the Committee may specify, elect separate “ERP 1” and “ERP 2” deferral percentages as provided in (i) and (ii) below:

(i) ERP 1 Deferrals. Each Eligible Employee may elect to have a percentage of his or her Base Salary attributable to Compensation that would be paid before the Eligible Employee reaches the Pay Cap deferred and allocated to his or her Base Salary Account and paid pursuant to the terms of the Plan.

(ii) ERP 2 Deferrals. Each Eligible Employee may elect to have a percentage of his or her Base Salary attributable to Compensation that would be paid after the Eligible

Employee reaches the Pay Cap deferred and allocated to his or her Base Salary Account and paid pursuant to the terms of the Plan.

To exercise such elections for any Plan Year, on or before the date prescribed by the Benefits Administrative Committee (which shall be no later than December 31 of the calendar year preceding the Plan Year in which the services relating to such Base Salary are performed), the Eligible Employee must advise the Employer of his or her elections in writing or by filing such elections electronically using procedures prescribed by the Benefits Administrative Committee. Such Base Salary Deferral Elections shall apply only to Base Salary earned by and payable to the Participant after the date on which the Base Salary Deferral Election is received by the recordkeeper.

(b) Newly Eligible Employees. For the Plan Year in which an Employee first becomes an Eligible Employee, such Eligible Employee is not eligible to defer a portion of his or her Base Salary. Such Eligible Employee can make a Base Salary Deferral Election for the following Plan Year in accordance with Section 4.3(a).

(c) Base Salary Account. If Base Salary Deferral Elections are submitted to the recordkeeper, the Employer will allocate to the Participant's Base Salary Account the amount of Base Salary determined in accordance with Section 4.3(a). All Base Salary Deferral Elections made under Section 4.3(a) must be submitted no later than December 31 of the calendar year in which the valid election is made in order to be effective for the following calendar year. Such deferral elections become irrevocable on such date and cannot be changed even if the Participant ceases to be an Eligible Employee.

4.4. Employer Contributions

(a) Retirement Contributions. No Retirement Contributions will be allocated to Participants' Retirement Base Account for Plan Years beginning on or after January 1, 2011.

(b) Matching Contributions. The Employer shall make a matching contribution with respect to each Participant who, under the Plan, has made or caused to be made a Base Salary Deferral Election and/or a Performance Award Deferral Election for such Plan Year. Such Participant's matching contributions shall equal 150% of the first 4% of the Participant's ERP Eligible Pay deferred to the Plan plus 50% of the next 2% of the Participant's ERP Eligible Pay deferred to the Plan. 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.

To be eligible to receive an allocation of such matching contributions, a Participant must be an Employee on the last day of the Plan Year or: (i) other than for Cause, has incurred a Separation from Service after obtaining age 55 and completing 10 Years of Service; (ii) died; or (iii) become Disabled during the applicable Plan Year.

(c) Transitional Contributions. No Transitional Contributions shall be made to any Participant's Transitional Contributions Account for any Plan Year beginning on or after January 1, 2003.

(d) Retention Awards. The Employer shall allocate an amount equal to the Participant's Retention Award, if any, to the Participant's Retention Award Account.

(e) Supplemental Retirement Awards. 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.

4.5. Benchmark Investment Funds

The Investment Committee may change or discontinue the Investment Funds used as investment benchmarks under the Plan, other than the Company Stock Fund, for the measure of appreciation or depreciation of previously credited amounts.

4.6. Outside Benchmark Investment Funds

Each Participant shall direct the portion of future credits to, and the existing balance of, the Participant's Account that is to be treated as invested in one or more of the Outside Benchmark Investment Funds. A Participant may change his or her direction as of any business day subject to any applicable restrictions. If a Participant does not designate one or more of the Outside Benchmark Investment Funds, the investment of his or her Account default to the benchmarked Investment Fund designated by the Investment Committee from time to time.

4.7. Company Stock Fund

A Participant may direct that all or a portion of future credits to the Participant's Account be treated as invested in the Company Stock Fund. A Participant's direction to have amounts treated as invested in the Company Stock Fund shall be irrevocable as to amounts so treated pursuant to such direction (*i.e.*, amounts treated as invested in the Company Stock Fund cannot subsequently be treated as invested in an Outside Benchmark Investment Fund).

4.8. Adjustment of Account Balances and Other Rules

As of each business day, the recordkeeper shall credit or debit the balances in a Participant's Accounts with Adjustments that mirror the appreciation or depreciation experienced by the Investment Funds against which such Participant's Account is benchmarked. For this purpose, appreciation shall include interest, dividends and other distributions that would have been credited or paid on such Investment Funds. Any such amounts shall be deemed to have been reinvested in the applicable benchmarked Investment Fund pursuant to procedures approved by the Benefits Administrative Committee. The crediting or debiting of Adjustments shall occur so long as there is a balance in the Participant's Account, regardless of whether such Participant has terminated employment with the Employer or has died. The Benefits Administrative Committee may prescribe any reasonable method or procedure regarding accounting for Adjustments.

The Benefits Administrative Committee may, from time to time, establish policies or rules consistent with Code Section 409A and the regulations promulgated thereunder to govern the manner and form in which Performance Award Deferral Elections and Base Salary Deferral Elections may

be made as well as the manner in which the amount of any deferral, contribution, credit or Adjustment is determined, made or allocated under the Plan. Notwithstanding any contrary Plan provision, all contributions and deferrals credited to a Participant's Accounts shall be subject to the restrictions described in Section 12.8 of the Plan.

4.9. FICA

Deferrals, Employer contributions and Adjustments shall, to the extent required by law, be treated as "wages" for purposes of Federal Insurance Contributions Act ("FICA") taxes, *i.e.*, Social Security taxes.

SECTION 5 METHOD OF DISTRIBUTION OF DEFERRED COMPENSATION

5.1. Time and Form of Distribution

(a) Election of Time and Form of Distribution. At the time a Participant makes a deferral election pursuant to Sections 4.2 and 4.3, the Participant shall also elect a time and form of distribution with respect to any deferral elections and applicable matching contributions to made in the same calendar year.

(i) The Participant shall deliver such election to the recordkeeper at the time the deferral elections for the applicable calendar year are made, or in the case of distributions from the Retention Award Account, in accordance with the written agreement evidencing the Participant's Retention Award.

(ii) Such elections shall also apply to any other credits to a Participant's Accounts as specified in Sections 5.1(b) and 5.1(c) for such Plan Year.

(b) Election of Time of Distribution. Amounts credited to a Participant's Accounts (other than a Retention Award Account or a Supplemental Retirement Award Account) shall be distributed to the Participant upon: (a) the Participant's Separation from Service; (b) the Participant's death; (c) the Participant's Disability; or, where applicable, (d) a date certain elected by the Participant.

(i) A Participant shall elect either a time or an event for distribution with respect to (A) Base Salary Deferral Elections, (B) Performance Award Deferral Election and (C) applicable matching contributions made in the same calendar year.

(ii) If no time or event of distribution election is made with respect to any such deferral or credit, the portion of the Participant's Accounts (other than a Retention Award Account or a Supplemental Retirement Award Account) relating thereto shall be distributed on the Participant's Separation from Service for any reason.

(iii) Amounts credited to a Participant's Retention Award Account shall be distributed in accordance with the written agreement evidencing the Participant's Retention Award.

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

(c) Time of Distribution.

(i) In General. All distributions, other than distributions upon a Participant's Separation from Service, shall be made or shall commence, as applicable, within 90 days of the distribution event.

(ii) Distributions on Participant's Separation from Service. Notwithstanding any contrary provision, if the distribution event giving rise to the distribution or commencement of distributions is a Participant's Separation from Service, then the distribution shall not be made or commence, as applicable, for six months following the date of the Participant's Separation from Service.

For any distribution subject to the six-month delay, (i) if such distribution is to be made in a lump sum, then the distribution following the six-month delay shall be equal to the Participant's Account balance at the time of such distribution; and (ii) if such distribution is to be made in annual installments, then the amount of the first distribution shall be the aggregate amount of any installment that would have been paid following the Participant's Separation from Service if such six-month delay were not applicable (or the Participant's Account balance at the time of payment, if less). Any amount distributable under (i) or (ii) above shall be paid as of the first business day of the seventh month following the Separation from Service.

(iii) Distributions of Matching Contributions. Notwithstanding the foregoing, with respect to any matching contribution allocated to a Participant's Matching Account under Section 4.4(b) after a distribution event described in this Section 5.1, such matching contribution shall be paid on the later of (i) the applicable payment date under the Plan or (ii) April 1 of the Plan Year in which the matching contribution is allocated to the Participant's Matching Account.

(d) Election of Form of Distribution. Amounts credited to a Participant's Account (other than a Retention Award Account) shall be distributed to the Participant in accordance with the Participant's distribution election either in a single lump-sum payment or in substantially equal annual installments over a period of five, 10 or 15 years.

(i) A Participant shall elect a form of distribution with respect to the (A) Base Salary Deferral Elections, (B) Performance Award Deferral Election, (C) Supplemental Retirement Award or (D) applicable matching contributions made in the same calendar year.

(ii) Amounts credited to a Participant's Retention Award Account shall be distributed in accordance with the written agreement between the Employer and the Participant evidencing the Participant's Retention Award.

(iii) To the extent that an Account is distributed in installment payments, the undisbursed portions of such Account shall continue to be credited with Adjustments in accordance with the applicable provisions of Section 4.8.

(iv) Distributions of amounts benchmarked to Investment Funds other than the Company Stock Fund shall be made in cash. Distributions of amounts benchmarked to the Company Stock Fund shall be distributed in the greatest whole number of common shares of the Corporation that can be distributed based on the amount benchmarked to the Company Stock Fund (after any applicable income tax withholding), plus cash for any fractional share.

(v) If no form of distribution is elected by the Participant, the Participant's Accounts (other than the Retention Award Account) shall be distributed in the form of a single lump-sum payment and the Retention Award Account shall be distributed in accordance with the written agreement evidencing the Participant's Retention Award.

5.2. Death Benefit

If a Participant dies (either before or after payment of benefits have commenced under this Section 5), his or her Account shall be paid to the Beneficiary designated by the Participant. If there is no designated Beneficiary or no designated Beneficiary surviving at a Participant's death, payment of the Participant's Account shall be made to the Participant's estate in a single lump-sum payment within 90 days after the Participant's death. In the event of a Participant's death after distribution of his or her Account has begun, to the extent that there is a surviving Beneficiary, payment of such Account shall continue in the form of distribution in effect prior to the Participant's death. If a Participant dies prior to the commencement of distribution of his or her Account, his or her Beneficiary, if any, shall receive distribution of such Account in the form of distribution previously elected by the Participant. If a Beneficiary begins to receive any payment pursuant to this Section 5.2, but dies prior to the time that all amounts have been distributed, any remaining amount shall be paid in a single lump-sum payment to the estate of the Beneficiary.

5.3. Taxes

In the event any taxes are required by law to be withheld or paid from any payments made pursuant to the Plan, the recordkeeper shall deduct such amounts from such payments and shall transmit or cause to be transmitted the withheld amounts to the appropriate taxing authority.

5.4. Unforeseeable Emergency Distributions

The Committee, in its sole discretion, may elect to distribute all or a portion of the Participant's Account in the event such Participant requests a distribution due to an Unforeseeable Emergency, as described under Treasury Regulation Section 1.409A-3(i)(3). The Committee has delegated authority to the Benefits Administrative Committee to elect, in its sole discretion, to distribute all or a portion of the Account of a Participant who is below the senior vice president level in the event such Participant requests a distribution due to an Unforeseeable Emergency. Any distribution under this Section 5.4 shall comply with the Unforeseeable Emergency requirements of Code Section 409A and the regulations promulgated thereunder, which are incorporated herein

by reference. Any distribution on account of an Unforeseeable Emergency shall not exceed the amount required to satisfy the Unforeseeable Emergency, plus amounts necessary to pay taxes reasonably anticipated as a result of such distribution, after taking into account the extent to which the Unforeseeable Emergency may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's assets (to the extent that such liquidation would not itself cause a severe financial hardship) or by stopping deferrals under the Plan. The Participant's request shall state the nature of the severe financial hardship, the total amount requested to be distributed from his or her Plan Accounts and the total amount of the actual expense incurred or expected to be incurred on account of the Unforeseeable Emergency. A Participant's Retention Award Account, if any, is not eligible for distribution under this Section 5.4.

5.5. Small Benefit Distribution

If the value of the Participant's Accounts (and all other nonqualified deferred compensation plan benefits required to be combined with the Plan under Treasury Regulation Section 1.409A-(1)(c)(2)) is not greater than the applicable dollar amount under Code Section 402(g)(1)(B) at the time of distribution, then such benefit shall be paid in the form of a single lump sum notwithstanding any contrary Plan provision. Any such distribution is subject, if applicable, to the delay in payment rule relating to Separation from Service events, as set forth in Section 5.1(c)(ii) of the Plan.

5.6. Distributions in the Event of a Change in Control

Notwithstanding any other provision of the Plan, an affected Participant shall receive all amounts due the Participant hereunder in a lump sum as soon as practicable after a Change in Control, and in all events within 30 days thereof. For purposes of this Section 5.6, an "affected Participant" is any Participant who is or was providing services: (i) to a corporation at the time of a Change in Control relating to such corporation; (ii) to a corporation that is liable for payments to the extent of the services provided to such corporation by the Participant or for which there is a bona fide business purpose for such corporation to be liable for such payments (other than avoidance of Federal income tax); or (iii) to a corporation that is a majority shareholder of a corporation identified in Section 5.6(i) or (ii) or any corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in Section 5.6(i) or (ii). This Section 5.6 shall not apply to a Participant's Retention Award Account.

5.7. Subsequent Deferral and Form of Payment Elections

Notwithstanding the foregoing, a Participant may elect, at least twelve months before a scheduled distribution date (or, in the case of a distribution date based on the Participant's Separation from Service, at least twelve months before the Separation from Service), to delay the payment date for a minimum period of sixty months from the originally scheduled date of payment, provided the election does not take effect for at least twelve months from the date on which the election is made. The distribution election change must be made in accordance with procedures and rules established by the Committee. The Participant may, at the same time the date of payment is deferred, change the form of payment provided such change in the form of payment may not effect an acceleration of payment in violation of Code Section 409A or the provisions of Treasury Regulation Section

1.409A-2(b). For purposes of this Section 5.7, a series of substantially equal annual installments is always treated as a single payment and not as a series of separate payments.

SECTION 6 ACCRUALS UNDER OTHER BENEFIT PLANS

Amounts deferred or credited under the Plan shall not be taken into account in calculating benefits or contributions under any pension benefit plan maintained by the Employer, including, but not limited to, any pension plan or retirement plan (qualified under Section 401(a) of the Code), except to the extent specifically provided in any such plan. Amounts deferred by a Participant under the Plan shall be taken into account in determining credits or accruals under Sections 4.2, 4.3 and 4.4.

SECTION 7 PARTICIPANT'S RIGHTS

Establishment of the Plan shall not be construed as giving any Participant the right to be retained in the Employer's service or employ or the right to receive any benefits not specifically provided by the Plan. A Participant shall not have any interest in amounts deferred, Employer allocations or Adjustments credited to his or her Account until such Account is distributed in accordance with the Plan. All deferrals and all amounts held for the Account of a Participant under the Plan shall remain the sole property of the Employer, subject to the claims of its general creditors and available for its use for whatever purposes desired. With respect to amounts deferred or otherwise held for the Account of a Participant, the Participant is merely a general creditor of the Employer. The obligation of the Employer hereunder is purely contractual and shall not be deemed to be or considered funded or secured in any way.

SECTION 8 NON-ALIENABILITY AND NON-TRANSFERABILITY

Except to the extent required by law or as provided in Section 12.8, the rights of a Participant to distributions as provided in the Plan shall not be assigned, transferred, pledged or encumbered or be subject in any manner to alienation or anticipation unless required under applicable law. No Participant may borrow against his or her Account. No Account shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, whether voluntary or involuntary, including, but not limited to, any liability that is for alimony or other payments for the support of a spouse or former spouse, or for any other relative of any Participant, unless specifically required by applicable law.

SECTION 9 ADMINISTRATION AND STANDARD OF REVIEW

The Plan shall be administered by the Benefits Administrative Committee. The Benefits Administrative Committee shall have authority to adopt rules and regulations for carrying out the Plan and, in its sole and absolute discretion, to interpret, construe and implement the provisions hereof. Subject to the provisions of Section 10 below, any decision or interpretation of any provision

of the Plan adopted by the Benefits Administrative Committee shall be final and conclusive. The acts and decisions of the Benefits Administrative Committee shall not be overturned and shall be binding on all individuals and parties unless such acts and decisions are ruled by a court of competent jurisdiction to be arbitrary and capricious. A Participant who is also a member of the Benefits Administrative Committee shall not participate in any decision involving any request made by him or her or relating in any way solely to his or her rights, duties and obligations as a Participant under the Plan.

SECTION 10 CLAIMS PROCEDURE

10.1. Filing Claims

Any Participant or Beneficiary entitled to benefits under the Plan may file a claim for benefits with the Benefits Administrative Committee (or its designee).

10.2. Notification to Claimant

If a claim is wholly or partially denied, the Benefits Administrative Committee (or its designee) will furnish written or electronic (in accordance with Department of Labor Regulations Section 2520.104b-1(c)) notification of the decision to the claimant within 90 days of receipt of the claim in a manner calculated to be understood by the claimant. Such notification shall contain the following information:

- (a) the specific reason or reasons for the denial;
- (b) specific reference to pertinent Plan provisions upon which the denial is based;
- (c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (d) a description of the Plan's claims review procedures describing the steps to be taken and the applicable time limits to submit claims for review, including a statement of the claimant's right to bring a civil action under ERISA section 502(a) following an adverse benefit determination on review.

If special circumstances require an extension of time for the Benefits Administrative Committee (or its designee) to process the claim, the 90-day period may be extended for an additional 90 days. Prior to the termination of the initial 90-day period, the claimant shall be furnished with a written or electronic notice setting forth the reason for the extension. The notice shall indicate the special circumstances requiring an extension of time and the date by which the Benefits Administrative Committee (or its designee) expects to render the benefit determination.

10.3. Review Procedure

A claimant or his or her authorized representative may, with respect to any denied claim:

- (a) request a full and fair review upon a written application filed within 60 days after receipt by the claimant of written or electronic notification of the denial of his or her claim;
- (b) submit written comments, documents, records and other information relating to the claim for benefits; and
- (c) upon request, and free of charge, be provided reasonable access to and copies of documents and records and other information relevant to the claim for benefits.

Upon receipt of a timely, written application for review, the Benefits Administrative Committee (or its designee) shall undertake a review, taking into account all comments, documents, records and information submitted by the claimant relating to the claim without regard to whether the information was submitted or considered in the initial benefit determination. If the claimant (or his or her duly authorized representative) fails to appeal the initial benefit determination to the Benefits Administrative Committee (or its designee) in writing within the prescribed period of time, then the Benefits Administrative Committee's (or its designee's) adverse determination shall be final, binding and conclusive.

Any request or submission must be in writing and directed to the Benefits Administrative Committee (or its designee). The Benefits Administrative Committee (or its designee) will have the sole responsibility for the review of any denied claim and will take all steps appropriate in the light of its findings.

10.4. Decision on Review

The Benefits Administrative Committee (or its designee) will render a decision upon review no later than 60 days after receipt of the request for review. If special circumstances (such as the need to hold a hearing on any matter pertaining to the denied claim) warrant additional time, the decision will be rendered as soon as possible, but not later than 120 days after receipt of the request for review. Written notice specifying the circumstances requiring an extension will be furnished to the claimant prior to the commencement of the extension. The decision on review will be in writing and will include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent provisions of the Plan on which the decision is based. If the decision on review is not furnished to the claimant within the time limits prescribed above, the claim will be deemed denied on review.

SECTION 11 AMENDMENT AND TERMINATION

The Plan may, at any time and from time to time, be amended or modified by the Committee or its delegate without the consent of any Participant or Beneficiary, provided that no such amendment or modification may either accelerate the payment of the Participant's Account or delay such payment, resulting in a subsequent deferral of compensation. The Committee or its delegate may also terminate and liquidate the Plan without the consent of the Participant or Beneficiary. Any such liquidation and termination of the Plan shall be made in accordance with the termination and liquidation requirements of and under the circumstances described under Treasury Regulation

Section 1.409A-3(j)(4)(ix). Any amendment or termination of the Plan will become effective as to a Participant on the date established by the Committee or its delegate. However, no amendment, modification or termination of the Plan shall, without the consent of the Participant, adversely affect such Participant's rights with respect to amounts then credited to his or her Account. Actions may be taken by the Committee or its delegate at any time and in any manner not prohibited by law.

SECTION 12 GENERAL PROVISIONS

12.1. Controlling Law

Except to the extent superseded by federal law, the laws of the State of Ohio shall be controlling in all matters relating to the Plan, including construction and performance hereof.

12.2. Captions

The captions of Sections and paragraphs of the Plan are for convenience of reference only and shall not control or affect the meaning or construction of any of its provisions.

12.3. Facility of Payment

Any amounts payable hereunder to any person who is under legal disability or who, in the judgment of the Benefits Administrative Committee, is unable to properly manage his or her financial affairs, may be paid to the legal representative of such person or may be applied for the benefit of such person in any manner which the Benefits Administrative Committee may select. Any such payment shall be deemed to be payment for such person's Account and shall be a complete discharge of all liability of the Employer with respect to the amount so paid.

12.4. Administrative Expenses

All expenses of administering the Plan shall be borne by the Employer and no part thereof shall be charged against any Participant's Account or any amounts distributable hereunder.

12.5. Severability

Any provision of the Plan prohibited by the law of any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, without invalidating the remaining provisions hereof.

12.6. 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.

12.7. Amendment to Qualified Plan or Changes to Employer Contributions and Participant Deferrals under Qualified Plan

Notwithstanding any contrary provision in this Plan, with respect to any change or addition to, any deletion from or any modification of (collectively, an “Amendment”) the underlying Qualified Plan or change in the Company or Participant contributions and/or deferrals under the Qualified Plan during any Plan Year (collectively, a “Contribution Change”), where such Amendment or Contribution Change causes the Plan to be non-compliant with Code Section 409A and the regulations promulgated thereunder (including, but not limited to, Treasury Regulation Section 1.409A-2(a)(9)) or accelerates the payment of the Participant’s Account or delays such payment, resulting in a subsequent deferral of compensation, such Amendment and/or Contribution Change shall be disregarded with respect to Employer contributions, Participant deferrals, Participants’ Accounts, Compensation, Performance Award Deferral Elections under or credited pursuant to the Plan or to any form or time of payment applicable to Plan benefits to the extent that the same either may cause the Plan to be or is itself non-compliant with Code Section 409A or the regulations promulgated thereunder.

12.8. Right to Offset

If the Benefits Administrative Committee determines that a Participant is, for any reason, indebted to the Company or its Affiliates, the Benefits Administrative Committee and the Company may offset such indebtedness, including any interest accruing thereon, against distributions otherwise due under the Plan provided that:

- (a) such debt is incurred in the ordinary course of the service relationship between the Participant and the Company;
- (b) in any taxable year of the Company, the entire amount of reduction does not exceed \$5,000; and
- (c) the reduction is made at the same time and in the same amount as the debt otherwise would have been due and collected from the Participant.

An election by the Company not to offset such indebtedness against distributions otherwise due under the Plan will not constitute a waiver of the Company’s claim for such indebtedness or obligation.

**SECTION 13
UNFUNDED STATUS OF THE PLAN**

Any and all payments made to any Participant pursuant to the Plan shall be made only from the general assets of the Employers. All Accounts under the Plan shall be for bookkeeping purposes only and shall not represent a claim against specific assets of the Employers. Nothing contained in the Plan shall be deemed to create a trust of any kind or create any fiduciary relationship. Notwithstanding the foregoing, the Employers may, in their discretion and to the extent such funding would not trigger a tax on affected Participants under Code Section 409A(b)(3), establish a trust to

assist them in discharging all or a portion of the benefits payable under the Plan. The assets of such trust shall remain, at all times, the assets of the Employers subject to the claims of their creditors. Amounts distributed from any such trust shall discharge the Company's obligation with respect to the benefits in question.

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 27, 2014;
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 5, 2015

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, Thomas Randal Coleman, 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 27, 2014;
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 5, 2015

By: /s/ THOMAS RANDAL COLEMAN

Printed Name: Thomas Randal Coleman

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 27, 2014 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 Thomas Randal Coleman, 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 5, 2015

/s/ THOMAS RANDAL COLEMAN

Printed Name: Thomas Randal Coleman

Title: Executive Vice President and Chief Financial Officer

February 5, 2015

* 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.