SCOTTS MIRACLE-GRO CO
Form 10-Q
August 12, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D. C. 20549**
**FORM 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED JULY 3, 2010**

**OR**

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

**FOR THE TRANSITION PERIOD FROM _________ TO _________**

**COMMISSION FILE NUMBER: 1-11593**

**THE SCOTTS MIRACLE-GRO COMPANY**

(Exact name of registrant as specified in its charter)

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

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

NO CHANGE
(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 þ No o

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

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

| Class | Outstanding at August 6, 2010 |
|---|---|
| Common Shares, $0.01 stated value, no par value | 66,957,829 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 SHARE DATA)
(UNAUDITED)

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|---|---|---|---|---|
| | JULY 3, 2010 | JUNE 27, 2009 | JULY 3, 2010 | JUNE 27, 2009 |
| Net sales | $ 1,238.9 | $ 1,231.4 | $ 2,664.2 | $ 2,458.2 |
| Cost of sales | 734.1 | 752.4 | 1,656.8 | 1,541.8 |
| Cost of sales product registration and recall matters | | 3.3 | 1.5 | 7.1 |
| Gross profit | 504.8 | 475.7 | 1,005.9 | 909.3 |
| Operating expenses: | | | | |
| Selling, general and administrative | 214.4 | 223.0 | 580.4 | 565.7 |
| Product registration and recall matters | 1.5 | 3.1 | 4.3 | 14.8 |
| Other income, net | (1.6) | (0.4) | (8.0) | (1.7) |
| Income from operations | 290.5 | 250.0 | 429.2 | 330.5 |
| Interest expense | 11.9 | 13.7 | 37.7 | 45.9 |
| Income from continuing operations before income taxes | 278.6 | 236.3 | 391.5 | 284.6 |
| Income tax expense from continuing operations | 102.7 | 85.6 | 145.5 | 102.7 |
| Income from continuing operations | 175.9 | 150.7 | 246.0 | 181.9 |
| Loss from discontinued operations, net of tax | | (2.9) | (9.3) | (13.7) |
| Net income | $ 175.9 | $ 147.8 | $ 236.7 | $ 168.2 |
| BASIC NET INCOME (LOSS) PER COMMON SHARE: | | | | |
| Weighted-average common shares outstanding during the period | 66.5 | 65.0 | 66.2 | 64.9 |
| Basic income per common share from continuing operations | $ 2.65 | $ 2.32 | $ 3.72 | $ 2.80 |
| Basic loss per common share from discontinued operations | | (0.05) | (0.14) | (0.21) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Basic net income per common share | $ | 2.65 | $ | 2.27 | $ | 3.58 | $ | 2.59 |
| DILUTED NET INCOME (LOSS) PER COMMON SHARE: | | | | | | | | |
| Weighted-average common shares outstanding during the period plus dilutive potential common shares | | 67.9 | | 66.1 | | 67.4 | | 65.8 |
| Diluted income per common share from continuing operations | $ | 2.59 | $ | 2.28 | $ | 3.65 | $ | 2.76 |
| Diluted loss per common share from discontinued operations | | | | (0.04) | | (0.14) | | (0.21) |
| Diluted net income per common share | $ | 2.59 | $ | 2.24 | $ | 3.51 | $ | 2.55 |
| Dividends declared per common share | $ | 0.125 | $ | 0.125 | $ | 0.375 | $ | 0.375 |

See notes to condensed, consolidated financial statements

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THE SCOTTS MIRACLE-GRO COMPANY
CONDENSED, CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)
(UNAUDITED)

| | NINE MONTHS ENDED | |
|---|---|---|
| | **JULY 3, 2010** | **JUNE 27, 2009** |
| OPERATING ACTIVITIES | | |
| Net income | $ 236.7 | $ 168.2 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Impairment and other | | 2.7 |
| Share-based compensation expense | 12.5 | 12.1 |
| Depreciation | 36.3 | 35.0 |
| Amortization | 8.3 | 9.5 |
| Gain on sale of long-lived assets | (21.5) | (0.7) |
| Changes in assets and liabilities, net of acquired businesses: | | |
| Accounts receivable | (311.3) | (367.0) |
| Inventories | (13.9) | (135.4) |
| Prepaid and other assets | (8.4) | (3.4) |
| Accounts payable | 44.9 | 59.6 |
| Other current liabilities | 163.5 | 218.4 |
| Restructuring reserves | | (0.3) |
| Other non-current items | 18.4 | 3.8 |
| Other, net | (9.3) | 1.0 |
| Net cash provided by operating activities | 156.2 | 3.5 |
| INVESTING ACTIVITIES | | |
| Proceeds from sale of long-lived assets | 23.6 | 0.8 |
| Investments in property, plant and equipment | (46.9) | (26.7) |
| Investments in intellectual property | | (1.0) |
| Investments in acquired businesses, net of cash acquired | | (9.3) |
| Net cash used in investing activities | (23.3) | (36.2) |
| FINANCING ACTIVITIES | | |
| Borrowings under revolving and bank lines of credit and term loans | 927.8 | 1,317.3 |
| Repayments under revolving and bank lines of credit and term loans | (1,234.8) | (1,197.9) |
| Proceeds from issuance of 7.25% Senior Notes, net of discount | 198.5 | |
| Dividends paid | (25.9) | (25.2) |
| Payments on seller notes | (0.2) | (1.0) |
| Financing and issuance fees | (5.5) | (0.1) |
| Excess tax benefits from share-based payment arrangements | 3.9 | 1.1 |
| Cash received from the exercise of stock options | 14.8 | 4.8 |
| Net cash (used in) provided by financing activities | (121.4) | 99.0 |

| | | | | |
|---|---|---|---|---|
| Effect of exchange rate changes on cash | | (4.4) | | (1.8) |
| Net increase in cash and cash equivalents | | 7.1 | | 64.5 |
| Cash and cash equivalents at beginning of period | | 71.6 | | 84.7 |
| Cash and cash equivalents at end of period | $ | 78.7 | $ | 149.2 |
| Supplemental cash flow information | | | | |
| Interest paid, net of interest capitalized | $ | (29.2) | $ | (36.0) |
| Income taxes (paid) refunded | | (39.0) | | 0.2 |

See notes to condensed, consolidated financial statements

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THE SCOTTS MIRACLE-GRO COMPANY

CONDENSED, CONSOLIDATED BALANCE SHEETS
(IN MILLIONS)

| | JULY 3, 2010 | JUNE 27, 2009 | SEPTEMBER 30, 2009 |
|---|---|---|---|
| | UNAUDITED | | (SEE NOTE 1) |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 78.7 | $ 149.2 | $ 71.6 |
| Accounts receivable, less allowances of $10.4, $12.0 and $11.1, respectively | 673.8 | 755.5 | 384.3 |
| Accounts receivable pledged | 23.3 | 23.5 | 17.0 |
| Inventories, net | 461.6 | 547.4 | 458.9 |
| Prepaid and other assets | 163.6 | 137.8 | 159.1 |
| Total current assets | 1,401.0 | 1,613.4 | 1,090.9 |
| Property, plant and equipment, net of accumulated depreciation of $480.6, $486.8 and $492.3, respectively | 372.5 | 335.9 | 369.7 |
| Goodwill | 368.9 | 374.9 | 375.2 |
| Intangible assets, net | 347.1 | 364.7 | 364.2 |
| Other assets | 33.7 | 20.3 | 20.1 |
| Total assets | $ 2,523.2 | $ 2,709.2 | $ 2,220.1 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Current portion of debt | $ 200.0 | $ 152.9 | $ 160.4 |
| Accounts payable | 229.5 | 269.4 | 190.0 |
| Other current liabilities | 554.0 | 536.0 | 406.4 |
| Total current liabilities | 983.5 | 958.3 | 756.8 |
| Long-term debt | 490.2 | 967.7 | 649.7 |
| Other liabilities | 214.7 | 181.2 | 229.1 |
| Total liabilities | 1,688.4 | 2,107.2 | 1,635.6 |
| Commitments and contingencies (notes 3 and 11) | | | |
| Shareholders equity: | | | |
| Common shares and capital in excess of $.01 stated value per share, 66.9, 65.7 and 66.2 shares issued and outstanding, respectively | 439.3 | 463.8 | 451.5 |
| Retained earnings | 548.8 | 359.7 | 337.5 |

| | | | |
|---|---|---|---|
| Treasury shares, at cost: 1.6, 3.0, and 2.4 shares, respectively | (86.5) | (161.7) | (131.7) |
| Accumulated other comprehensive loss | (66.8) | (59.8) | (72.8) |
| Total shareholders equity | 834.8 | 602.0 | 584.5 |
| Total liabilities and shareholders equity | $ 2,523.2 | $ 2,709.2 | $ 2,220.1 |

See notes to condensed, consolidated financial statements

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NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

NATURE OF OPERATIONS

The Scotts Miracle-Gro Company ( Scotts Miracle-Gro ) and its subsidiaries (collectively, together with Scotts Miracle-Gro, the Company ) are engaged in the manufacturing, marketing and sale of consumer branded non-durable products for lawn and garden care and professional horticulture products. The Company s primary customers include home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, food and drug stores, commercial nurseries and greenhouses and specialty crop growers. 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 lawn care, lawn aeration, tree and shrub care and limited pest control services in the United States.

After its acquisition in fiscal 2005, the Company operated Smith & Hawken®[(1)], an outdoor living and garden lifestyle category brand. As discussed in NOTE 2. DISCONTINUED OPERATIONS, on July 8, 2009, Scotts Miracle-Gro announced its intention to close the Smith & Hawken business by the end of calendar 2009. During the Company s first quarter of fiscal 2010, all Smith & Hawken stores were closed and substantially all operational activities of Smith & Hawken were discontinued.

Due to the nature of the lawn and garden business, the majority of sales to customers occur in the Company s second and third fiscal quarters. On a combined basis, net sales for the second and third fiscal quarters generally represent 70% to 75% of annual net sales. As a result of the seasonal nature of the Company s business, results for the first nine months cannot be annualized to predict the results of the full fiscal year.

ORGANIZATION AND BASIS OF PRESENTATION

The Company s condensed, consolidated financial statements are unaudited; however, in the opinion of management, these financial statements 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. Interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year. The interim financial statements and notes are presented as specified by Regulation S-X of the Securities and Exchange Commission, and should be read in conjunction with the consolidated financial statements and accompanying notes in Scotts Miracle-Gro s Annual Report on Form 10-K for the fiscal year ended September 30, 2009, as updated by its Current Report on Form 8-K filed February 16, 2010.

The Company s Condensed, Consolidated Balance Sheet at September 30, 2009 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 financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although these estimates are based on management s best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from the estimates.

REVENUE RECOGNITION

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

1 Smith & Hawken®
is a registered

trademark of Target Brands, Inc. As discussed in NOTE 2. DISCONTINUED OPERATIONS, the Company sold the Smith & Hawken brand and certain intellectual property rights related thereto on December 30, 2009, and subsequently changed the name of the subsidiary entity formerly known as Smith & Hawken, Ltd. to Teak 2, Ltd. References in this Quarterly Report on Form 10-Q to Smith & Hawken refer to Scotts Miracle-Gro s subsidiary entity, not the brand itself.

Under the terms of the Amended and Restated Exclusive Agency and Marketing Agreement (the Marketing Agreement ) between the Company and Monsanto Company ( Monsanto ), the Company, in its role as exclusive agent, performs certain functions, primarily manufacturing conversion, distribution and logistics, and selling and marketing support on behalf of Monsanto in the conduct of the consumer Roundup®[(2)] business. The actual costs incurred by the Company on behalf of the consumer Roundup® business are recovered from Monsanto through the terms of the Marketing Agreement. The reimbursement of costs for which the Company is considered the primary obligor is included in net sales.

PROMOTIONAL ALLOWANCES

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

ADVERTISING

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

Scotts LawnService® promotes its service offerings primarily through direct mail campaigns. External costs associated with these campaigns that qualify as direct response advertising costs are deferred and recognized as advertising expense in proportion to revenues over a period not beyond the end of the subsequent calendar year. Costs that do not qualify as direct response advertising costs are expensed within the fiscal year in which such costs are incurred on a monthly basis in proportion to net sales. The costs deferred at July 3, 2010, June 27, 2009 and September 30, 2009 were $2.3 million, $4.0 million and $2.1 million, respectively.

INCOME TAXES

The effective tax rate for continuing operations for the three and nine months ended July 3, 2010 was 36.9% and 37.2%, respectively, compared to 36.2% and 36.1% for the three and nine months ended June 27, 2009, respectively. The increase in the effective tax rate for the nine months ended July 3, 2010 was partially due to the discrete item related to the Medicare Part D subsidy received by the Company as discussed in NOTE 10. INCOME TAXES. The effective tax rate used for interim reporting purposes was based on management s 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, as well as other items. The estimated effective tax rate is subject to revision at fiscal year end as facts and circumstances change during the course of the fiscal year. 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.

NET INCOME PER COMMON SHARE

The following table (in millions, except per share data) presents information necessary to calculate basic and diluted net income per common share. Basic net income per common share is computed based on the weighted-average number of common shares outstanding each period. Diluted net income per common share is computed based on the weighted-average number of common shares and dilutive potential common shares (dilutive stock options, stock appreciation rights, restricted stock and restricted stock unit awards) outstanding each period. Stock options with exercise prices greater than the average market price of the underlying common shares are excluded from the computation of diluted net income per common share because the effect of their inclusion would be anti-dilutive. The number of stock options excluded approximated zero and 2.5 million for the three-month periods, and 0.2 million and 2.6 million for the nine-month periods ended July 3, 2010 and June 27, 2009, respectively.

[2] Roundup® is a registered trademark of Monsanto Technology LLC, a company affiliated with Monsanto.

| | THREE MONTHS ENDED | | | | NINE MONTHS ENDED | | | |
|---|---|---|---|---|---|---|---|---|
| | JULY 3, 2010 | | JUNE 27, 2009 | | JULY 3, 2010 | | JUNE 27, 2009 | |
| Determination of diluted weighted-average common shares outstanding: | | | | | | | | |
| Weighted-average common shares outstanding | | 66.5 | | 65.0 | | 66.2 | | 64.9 |
| Assumed conversion of dilutive potential common shares | | 1.4 | | 1.1 | | 1.2 | | 0.9 |
| Diluted weighted-average common shares outstanding | | 67.9 | | 66.1 | | 67.4 | | 65.8 |
| Basic income per common share from continuing operations | $ | 2.65 | $ | 2.32 | $ | 3.72 | $ | 2.80 |
| Basic loss per common share from discontinued operations | | | | (0.05) | | (0.14) | | (0.21) |
| Basic net income per common share | $ | 2.65 | $ | 2.27 | $ | 3.58 | $ | 2.59 |
| Diluted income per common share from continuing operations | $ | 2.59 | $ | 2.28 | $ | 3.65 | $ | 2.76 |
| Diluted loss per common share from discontinued operations | | | | (0.04) | | (0.14) | | (0.21) |
| Diluted net income per common share | $ | 2.59 | $ | 2.24 | $ | 3.51 | $ | 2.55 |

SUBSEQUENT EVENTS

On August 10, 2010, Scotts Miracle-Gro announced that its Board of Directors has authorized the repurchase of up to $500 million of Scotts Miracle-Gro s common shares over the next four years. The authorization provides the Company with flexibility to purchase the common shares from time to time in open market purchases or through privately negotiated transactions. All or part of the repurchases may be made under Rule 10b5-1 plans, which the Company may enter from time to time and which enable the repurchases to occur on a more regular basis, or pursuant to accelerated share repurchases. The share repurchase authorization, which expires September 30, 2014, may be suspended or discontinued at any time, and there can be no guarantee as to the timing or amount of any repurchases.

Scotts Miracle-Gro also announced that its Board of Directors approved the payment of a cash dividend of $0.25 per common share, payable on September 10, 2010 to all common shareholders of record on August 27, 2010. The approval represents a doubling of the previous quarterly dividend.

Finally, on August 10, 2010, the Company indicated that it is actively exploring strategic alternatives for its Global Professional business segment. These strategic alternatives include the potential divestiture of that business segment, consistent with the Company s previously stated intent to focus on its core Global Consumer business segment.

RECENT ACCOUNTING PRONOUNCEMENTS

***Business Combinations***

In December 2007, the Financial Accounting Standards Board (the FASB ) issued new accounting guidance on business combinations and noncontrolling interests in consolidated financial statements. The objective is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The guidance applies to all transactions or other events in which an entity (the acquirer ) obtains control of one or more businesses (the acquiree ), including those sometimes referred to as true mergers or mergers of equals and combinations achieved without the transfer of consideration. In April 2009, the FASB issued additional guidance which addresses application issues arising from contingencies in a business combination. The Company adopted the new guidance beginning October 1, 2009. The Company had no acquisition activity for the nine months ended July 3, 2010, and the adoption of the new guidance did not impact the Company s financial statements and related disclosures.

***Noncontrolling Interests in Consolidated Financial Statements***

In December 2007, the FASB issued new accounting and reporting guidance for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The new guidance also changes the way the consolidated financial statements are presented, establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation, requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and expands disclosures in the consolidated financial statements that clearly identify and distinguish between the parent s ownership interest and the interest of the noncontrolling owners of a subsidiary. The provisions are to be applied prospectively as of the beginning of the fiscal year in which the guidance is adopted, except for the presentation and disclosure requirements, which are to be applied retrospectively for all periods presented. The Company adopted the new guidance beginning October 1, 2009, and the adoption of the new guidance did not impact the Company s financial statements and related disclosures.

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***Determination of the Useful Life of Intangible Assets***

In April 2008, the FASB issued new accounting guidance which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. The new guidance applies to (a) intangible assets that are acquired individually or with a group of other assets and (b) intangible assets acquired in both business combinations and asset acquisitions. Entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. The new guidance requires certain additional disclosures beginning October 1, 2009 and prospective application to useful life estimates for intangible assets acquired after September 30, 2009. The adoption of the new guidance did not have a material effect on the Company s financial statements and related disclosures.

***Employers Disclosures About Postretirement Benefit Plan Assets***

In December 2008, the FASB issued new accounting guidance on employers disclosures about assets of a defined benefit pension or other postretirement plan. It requires employers to disclose information about fair value measurements of plan assets. The objectives of the disclosures are to provide an understanding of: (a) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies; (b) the major categories of plan assets; (c) the inputs and valuation techniques used to measure the fair value of plan assets; (d) the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and (e) significant concentrations of risk within plan assets. The Company will adopt this new guidance at September 30, 2010, the next fair value measurement date of its defined benefit pension and retiree medical plans.

***Accounting for Transfers of Financial Assets***

In June 2009, the FASB issued new accounting guidance to improve the information provided in financial statements concerning transfers of financial assets, including the effects of transfers on financial position, financial performance and cash flows, and any continuing involvement of the transferor with the transferred financial assets. The provisions are effective for the Company s financial statements for the fiscal year beginning October 1, 2010. The Company is in the process of evaluating the impact that the guidance may have on its financial statements and related disclosures.

***Variable Interest Entities***

In June 2009, the FASB issued new accounting guidance requiring an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. The new guidance also requires enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in a variable interest entity. The provisions are effective for the Company s financial statements for the fiscal year beginning October 1, 2010. The Company is in the process of evaluating the impact that the guidance may have on its financial statements and related disclosures.

***Revenue Recognition Multiple-Element Arrangements***

In October 2009, the FASB issued new accounting guidance addressing the accounting for multiple-deliverable arrangements to enable entities to account for products or services (deliverables) separately rather than as a combined unit. The provisions establish the accounting and reporting guidance for arrangements under which the entity will perform multiple revenue-generating activities. Specifically, this guidance addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The provisions are effective for the Company s financial statements for the fiscal year beginning October 1, 2010. The Company is in the process of evaluating the impact that the guidance may have on its financial statements and related disclosures.

**NOTE 2. DISCONTINUED OPERATIONS**

On July 8, 2009, Scotts Miracle-Gro announced that its wholly-owned subsidiary, Smith & Hawken, Ltd., had adopted a plan to close the Smith & Hawken business. During the Company s first quarter of fiscal 2010, all Smith & Hawken stores were closed and substantially all operational activities of Smith & Hawken were discontinued. As a result, effective in its first quarter of fiscal 2010, the Company classified Smith & Hawken as discontinued operations. Accordingly, the Company has reclassified its results of operations for the three and nine months ended June 27, 2009 to reflect Smith & Hawken as discontinued operations separate from the Company s results of continuing operations.

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

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The following table summarizes results of Smith & Hawken classified as discontinued operations in the Company s Condensed, Consolidated Statements of Operations for the three and nine months ended July 3, 2010 and June 27, 2009 (in millions).

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|---|---|---|---|---|
| | JULY 3, 2010 | JUNE 27, 2009 | JULY 3, 2010 | JUNE 27, 2009 |
| Net sales | $ | $ 48.6 | $ 14.7 | $ 99.9 |
| Operating costs | (0.3) | 50.8 | 22.5 | 119.6 |
| Impairment, restructuring and other charges | 0.3 | 2.7 | 19.2 | 2.7 |
| Other income, net | | (0.6) | (17.9) | (1.7) |
| Loss from discontinued operations before taxes | | (4.3) | (9.1) | (20.7) |
| Income tax expense (benefit) from discontinued operations | | (1.4) | 0.2 | (7.0) |
| Loss from discontinued operations | $ | $ (2.9) | $ (9.3) | $ (13.7) |

The major classes of assets and liabilities of Smith & Hawken were as follows (in millions):

| | JULY 3, 2010 | JUNE 27, 2009 | SEPTEMBER 30, 2009 |
|---|---|---|---|
| Inventory | $ | $ 31.3 | $ 11.5 |
| Other current assets | 5.2 | 6.5 | 3.3 |
| Property, plant and equipment, net | | 2.4 | 1.9 |
| Assets of discontinued operations | $ 5.2 | $ 40.2 | $ 16.7 |
| Accounts payable | $ 0.2 | $ 13.0 | $ 6.2 |
| Other current liabilities | 4.3 | 7.2 | 13.2 |
| Other liabilities | | 6.0 | 2.2 |
| Liabilities of discontinued operations | $ 4.5 | $ 26.2 | $ 21.6 |

**NOTE 3. PRODUCT REGISTRATION AND RECALL MATTERS**

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

In late April of 2008, in connection with the U.S. EPA s investigation, the Company conducted a consumer-level recall of certain consumer lawn and garden products and a Scotts LawnService® product. Subsequently, the Company and the U.S. EPA agreed upon a Compliance Review Plan for conducting a comprehensive, independent review of the

Company s product registration records. Pursuant to the Compliance Review Plan, an independent third-party firm, Quality Associates Incorporated ( QAI ), reviewed substantially all of the Company s U.S. pesticide product registrations and associated advertisements, some of which were historical in nature and no longer related to sales of the Company s products. The U.S. EPA investigation and the QAI review process resulted in the temporary suspension of sales and shipments of certain products. In addition, as the QAI review process or the Company s internal review identified potential FIFRA registration issues (some of which appear unrelated to the actions of the former associate), the Company endeavored to stop selling or distributing the affected products until the issues could be resolved. QAI s review of the Company s U.S. pesticide product registrations and associated advertisements is now substantially complete. The results of the QAI review process did not materially affect the Company s fiscal 2009 or year-to-date fiscal 2010 sales and are not expected to materially affect the Company s sales during the remainder of fiscal 2010.

In late 2008, Scotts Miracle-Gro and its indirect subsidiary, EG Systems, Inc., doing business as Scotts LawnService®, were named as defendants in a purported class action filed in the U.S. District Court for the Eastern District of Michigan relating to the application of certain pesticide products by Scotts LawnService®. In the suit, Mark Baumkel, on behalf of himself and the purported classes, sought an unspecified amount of damages, plus costs and attorneys fees, for alleged claims involving breach of contract, unjust enrichment and violation of the State of Michigan s consumer protection act. On September 28, 2009, the court granted the motion filed by Scotts Miracle-Gro and EG Systems, Inc. and dismissed the suit with prejudice. Since that time, Scotts Miracle-Gro, EG Systems, Inc. and Mr. Baumkel have agreed to a confidential settlement that, among other things, precludes an appeal of the decision. The impact of the confidential settlement did not, and will not, materially affect the Company s financial condition, results of operations or cash flows.

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

As a result of these registration and recall matters, the Company has reversed sales associated with estimated returns of affected products, recorded charges for affected inventory and recorded other registration and recall-related costs. The impacts of these adjustments were pre-tax charges of $1.5 million and $6.4 million for the three-month periods, and $5.8 million and $22.0 million for the nine-month periods ended July 3, 2010 and June 27, 2009, respectively. The Company expects to incur $8.0 to $10.0 million in fiscal 2010 on recall and registration matters, excluding possible fines, penalties, judgments and/or litigation costs. These fiscal 2010 charges primarily consist of costs associated with the reworking of certain finished goods inventories, the disposal of certain products and ongoing third-party professional services related to the U.S. EPA and U.S. DOJ investigations.

The U.S. EPA and U.S. DOJ investigations continue and may result in future state, federal or private actions including fines and/or penalties with respect to known or potential additional product registration issues. Until the U.S. EPA and U.S. DOJ investigations are complete, the Company cannot reasonably determine the scope or magnitude of possible liabilities that could result from known or potential product registration issues, and no reserves for these potential liabilities have been established as of July 3, 2010. However, it is possible that such liabilities, including fines, penalties, judgments and/or litigation costs, could be material and have an adverse effect on the Company s financial condition, results of operations or cash flows.

The following tables summarize the impact of the product registration and recall matters on the Company s results of operations during the three and nine months ended July 3, 2010 and June 27, 2009, and on accrued liabilities and inventory reserves as of July 3, 2010 (in millions):

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|---|---|---|---|---|
| | JULY 3, 2010 | JUNE 27, 2009 | JULY 3, 2010 | JUNE 27, 2009 |
| Net sales product recalls | $ | $ | $ | $ (0.3) |
| Cost of sales product recalls | | | | (0.2) |
| Cost of sales other charges | | 3.3 | 1.5 | 7.1 |
| Gross profit | | (3.3) | (1.5) | (7.2) |
| Selling, general and administrative | 1.5 | 3.1 | 4.3 | 14.8 |
| Loss from operations | (1.5) | (6.4) | (5.8) | (22.0) |
| Income tax benefit | 0.5 | 2.1 | 2.0 | 7.8 |
| Net loss | $ (1.0) | $ (4.3) | $ (3.8) | $ (14.2) |

| | RESERVES AT SEPTEMBER 30, 2009 | ADDITIONAL COSTS AND CHANGES IN ESTIMATE | RESERVES USED | RESERVES AT JULY 3, 2010 |
|---|---|---|---|---|
| Inventory reserves | $ 4.1 | $ 0.6 | $ (1.9) | $ 2.8 |

| | | | | |
|---|---|---|---|---|
| Other incremental costs of sales | 4.2 | 0.9 | (1.7) | 3.4 |
| Other general and administrative costs | 1.4 | 4.3 | (4.8) | 0.9 |
| Accrued liabilities and inventory reserves | $ 9.7 | $ 5.8 | $ (8.4) | $ 7.1 |

**NOTE 4. DETAIL OF INVENTORIES, NET**

Inventories, net of lower of cost-or-market reserves of $31.9 million, $33.0 million and $35.3 million as of July 3, 2010, June 27, 2009 and September 30, 2009, respectively, consisted of (in millions):

| | JULY 3, 2010 | JUNE 27, 2009 | SEPTEMBER 30, 2009 |
|---|---|---|---|
| Finished goods | $ 271.7 | $ 319.7 | $ 239.1 |
| Work-in-process | 24.0 | 40.6 | 41.5 |
| Raw materials | 165.9 | 187.1 | 178.3 |
| | $ 461.6 | $ 547.4 | $ 458.9 |

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**NOTE 5. MARKETING AGREEMENT**

The Company is Monsanto s exclusive agent for the domestic and international marketing and distribution of consumer Roundup® herbicide products. Under the terms of the Marketing Agreement with Monsanto, the Company is entitled to receive an annual commission from Monsanto in consideration for the performance of the Company s duties as agent. The annual gross commission under the Marketing Agreement is calculated as a percentage of the actual earnings before interest and income taxes ( EBIT ) of the consumer Roundup® business 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. Based on management s current assessment of the likely term of the Marketing Agreement, the useful life over which the marketing fee is being amortized is 20 years.

Under the terms of the Marketing Agreement, the Company performs certain functions, primarily manufacturing conversion, distribution and logistics, and selling and marketing support, on behalf of Monsanto in the conduct of the consumer Roundup® business. The actual costs incurred for these activities are charged to and reimbursed by Monsanto. The Company records costs incurred under the Marketing Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in Cost of sales and the reimbursement of these costs in Net sales, with no effect on gross profit or net income. The related net sales and cost of sales were $18.9 million and $21.8 million for the three-month periods, and $54.0 million and $52.6 million for the nine-month periods, ended July 3, 2010 and June 27, 2009, respectively.

The elements of the net commission earned under the Marketing Agreement and included in Net sales are as follows (in millions):

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|---|---|---|---|---|
| | JULY 3, 2010 | JUNE 27, 2009 | JULY 3, 2010 | JUNE 27, 2009 |
| Gross commission | $ 46.7 | $ 36.9 | $ 76.6 | $ 54.9 |
| Contribution expenses | (5.0) | (5.0) | (15.0) | (15.0) |
| Amortization of marketing fee | (0.2) | (0.2) | (0.6) | (0.6) |
| Net commission income | 41.5 | 31.7 | 61.0 | 39.3 |
| Reimbursements associated with Marketing Agreement | 18.9 | 21.8 | 54.0 | 52.6 |
| Total net sales associated with Marketing Agreement | $ 60.4 | $ 53.5 | $ 115.0 | $ 91.9 |

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, 2011, with up to two additional automatic renewal periods of two years each, subject to non-renewal only upon the occurrence of certain performance defaults. Thereafter, the Marketing Agreement provides that the parties may agree to renew the EU term for an additional three years.

The Marketing Agreement provides Monsanto with the right to terminate the Marketing Agreement upon an event of default (as defined in the Marketing Agreement) by the Company, a change in control of Monsanto or the sale of the consumer Roundup® business. The Marketing Agreement provides the Company with the right to terminate the Marketing Agreement in certain circumstances, including an event of default by Monsanto or the sale of the consumer Roundup® business. Unless Monsanto terminates the Marketing Agreement due to an event of default by the

Company, Monsanto is required to pay a termination fee to the Company that varies by program year. The termination fee is calculated as a percentage of the value of the consumer 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 due to an event of default by the Company, however, the Company would not be entitled to any termination fee, and the Company would lose all, or a substantial portion, of the significant source of earnings and overhead expense absorption the Marketing Agreement provides. 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.

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**NOTE 6. DEBT**

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

| | JULY 3, 2010 | JUNE 27, 2009 | SEPTEMBER 30, 2009 |
|---|---|---|---|
| Credit Facilities: | | | |
| Revolving loans | $ 108.8 | $ 564.7 | $ 330.4 |
| Term loans | 344.4 | 526.4 | 456.4 |
| Senior Notes 7.25% | 200.0 | | |
| Master Accounts Receivable Purchase Agreement | 15.0 | 10.0 | 4.2 |
| Notes due to sellers | 11.7 | 11.4 | 11.0 |
| Foreign bank borrowings and term loans | 2.5 | 1.5 | 0.5 |
| Other | 7.8 | 6.6 | 7.6 |
| | 690.2 | 1,120.6 | 810.1 |
| Less current portions | 200.0 | 152.9 | 160.4 |
| | $ 490.2 | $ 967.7 | $ 649.7 |

In February 2007, Scotts Miracle-Gro and certain of its subsidiaries entered into the following senior secured credit facilities totaling up to $2.15 billion in the aggregate: (a) a senior secured five-year term loan facility in the principal amount of $560 million and (b) a senior secured five-year revolving loan facility in the aggregate principal amount of up to $1.59 billion. Under the terms of these credit facilities, the Company may request an additional $200 million in revolving credit and/or term credit commitments, subject to approval from the lenders. Borrowings may be made in various currencies including U.S. dollars, Euros, British pounds, Australian dollars and Canadian dollars. Amortization payments on the term loan portion of the credit facilities began on September 30, 2007 and are due quarterly through 2012. As of July 3, 2010, the cumulative total amortization payments on the term loan were $215.6 million, reducing the balance of the Company s term loans and effectively reducing the amount outstanding under the credit facilities.

As of July 3, 2010, there was $1.45 billion of availability under the senior secured credit facilities, including letters of credit. Under the revolving loan facility, the Company has the ability to issue letter of credit commitments up to $65 million. At July 3, 2010, the Company had letters of credit in the aggregate face amount of $31.2 million outstanding.

On January 14, 2010, Scotts Miracle-Gro issued $200 million aggregate principal amount of 7.25% Senior Notes due 2018 (the Senior Notes ). The proceeds of the offering were used to reduce outstanding borrowings under the Company s senior secured revolving credit facility. The Senior Notes represent general unsecured senior obligations of Scotts Miracle-Gro, and were sold to the public at 99.254% of the principal amount thereof, to yield 7.375% to maturity. The Senior Notes have interest payment dates of January 15 and July 15, which began on July 15, 2010, and may be redeemed prior to maturity at applicable redemption premiums. The Senior Notes contain usual and customary incurrence-based covenants, which include, but are not limited to, restrictions on the incurrence of additional indebtedness, the incurrence of liens and the issuance of certain preferred shares, and the making of certain distributions, investments and other restricted payments, as well as other usual and customary covenants, which include, but are not limited to, restrictions on sale and leaseback transactions, restrictions on purchases for or redemptions of Scotts Miracle-Gro stock and prepayments of subordinated debt, limitations on asset sales and restrictions on transactions with affiliates. The Senior Notes mature on January 15, 2018. Certain of Scotts Miracle-Gro s domestic subsidiaries serve as guarantors of the Senior Notes. Refer to NOTE 16. FINANCIAL INFORMATION FOR SUBSIDIARY GUARANTORS AND NON-GUARANTORS for more information regarding the guarantor entities.

At July 3, 2010, the Company had outstanding interest rate swaps with major financial institutions that effectively converted a portion of variable-rate debt denominated in U.S. dollars to a fixed rate. The swap agreements had a total U.S. dollar notional amount of $450 million at July 3, 2010. Interest payments made between the effective date and expiration date are hedged by the swap agreement, except as noted below. The effective dates, expiration dates and rates of these swap agreements are shown in the table below:

| NOTIONAL AMOUNT (IN MILLIONS) | EFFECTIVE DATE (a) | EXPIRATION DATE | FIXED RATE |
|---|---|---|---|
| $200 | 2/14/2007 | 2/14/2012 | 5.20% |
| 50 | 2/14/2012 | 2/14/2016 | 3.78% |
| 150 (b) | 11/16/2009 | 5/16/2016 | 3.26% |
| 50 (c) | 2/16/2010 | 5/16/2016 | 3.05% |

(a) The effective date refers to the date on which interest payments were first hedged by the applicable swap contract.

(b) Interest payments made during the six-month period beginning November 14 of each year between the effective date and expiration date are hedged by the swap contract.

(c) Interest payments made during the three-month period beginning February 14 of each year between the effective date and expiration date are hedged by the swap contract.

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Master Accounts Receivable Purchase Agreement

On April 9, 2008, the Company entered into a Master Accounts Receivable Purchase Agreement (the 2008 MARP Agreement ). The 2008 MARP Agreement provided for the discounted sale, on a revolving basis, of accounts receivable generated by specified account debtors, with seasonally adjusted monthly aggregate limits ranging from $10 million to $300 million. The 2008 MARP Agreement also provided for specified account debtor sublimit amounts, which provided limits on the amount of receivables owed by individual account debtors that could be sold to the banks. The 2008 MARP Agreement provided an interest rate that approximated the 7-day LIBOR rate plus 85 basis points. The 2008 MARP Agreement expired by its terms on April 8, 2009.

On May 1, 2009, the Company entered into a Master Accounts Receivable Purchase Agreement (the 2009 MARP Agreement ), with an initial stated termination date of May 1, 2010, or such later date as may be mutually agreed by the Company and its lender. The 2009 MARP Agreement provided for the discounted sale, on an uncommitted, revolving basis, of accounts receivable generated by a specified account debtor, with aggregate limits not to exceed $80 million. The 2009 MARP Agreement provided an interest rate that approximated the 7-day LIBOR rate plus 225 basis points.

On May 13, 2010, the Company and its lender entered into a First Amendment to the 2009 MARP Agreement (the First Amendment ). The First Amendment, which was effective May 1, 2010, extended the stated termination date of the 2009 MARP Agreement through May 12, 2011, or such later date as may be mutually agreed by the Company and its lender. The 2009 MARP Agreement, as amended by the First Amendment, provides an interest rate that approximates the 7-day LIBOR rate plus 125 basis points; the First Amendment did not otherwise modify any substantive provisions of the 2009 MARP Agreement.

The Company accounts for the sale of receivables under the 2009 MARP Agreement, as amended, as short-term debt and continues to carry the receivables on its Condensed, Consolidated Balance Sheet, primarily as a result of the Company s right to repurchase receivables sold. The caption Accounts receivable pledged on the accompanying Condensed, Consolidated Balance Sheets in the amounts of $23.3 million, $23.5 million and $17.0 million as of July 3, 2010, June 27, 2009 and September 30, 2009, respectively, represents the pool of receivables that have been designated as sold under the 2009 and 2008 MARP Agreements, as applicable, and serve as collateral for short-term debt thereunder in the amounts of $15.0 million, $10.0 million and $4.2 million as of those dates, respectively.

The Company was in compliance with the terms of all borrowing agreements at July 3, 2010.

Notes Due to Sellers

Notes due to sellers include contingent consideration related to our May 2006 acquisition of certain brands and assets of Turf-Seed, Inc., a leading producer of quality commercial turfgrasses. Payment to the seller is due in the second half of fiscal 2012 and is largely based on the performance of the Company s consumer and professional seed business for the twelve-month period ending in May 2012.

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

***Long-Term Debt***

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.

***Senior Notes 7.25%***

The fair value of the Senior Notes can be determined based on the trading of the Senior Notes in the open market. The difference between the carrying value and the fair value of the Senior Notes represents the premium or discount on that date. Based on the trading value on or around July 3, 2010, the carrying value is a reasonable estimate of the fair value of the Senior Notes.

***Accounts Receivable Pledged***

The interest rate on the short-term debt associated with accounts receivable pledged under the 2009 MARP Agreement fluctuates with the one-week LIBOR rate, and thus the carrying value is a reasonable estimate of fair value.

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**NOTE 7. COMPREHENSIVE INCOME**

The components of other comprehensive income (expense) and total comprehensive income were as follows (in millions):

| | THREE MONTHS ENDED JULY 3, 2010 | THREE MONTHS ENDED JUNE 27, 2009 | NINE MONTHS ENDED JULY 3, 2010 | NINE MONTHS ENDED JUNE 27, 2009 |
|---|---|---|---|---|
| Net income | $ 175.9 | $ 147.8 | $ 236.7 | $ 168.2 |
| Other comprehensive income (expense): | | | | |
| Change in valuation of derivative instruments | (3.8) | 12.1 | 5.1 | (2.1) |
| Pension and other postretirement related items | (3.9) | (2.3) | 1.4 | 5.8 |
| Foreign currency translation adjustments | (5.3) | (6.4) | (0.4) | 3.6 |
| Comprehensive income | $ 162.9 | $ 151.2 | $ 242.8 | $ 175.5 |

**NOTE 8. RETIREMENT AND RETIREE MEDICAL PLANS COST INFORMATION**

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

| | THREE MONTHS ENDED JULY 3, 2010 | THREE MONTHS ENDED JUNE 27, 2009 | NINE MONTHS ENDED JULY 3, 2010 | NINE MONTHS ENDED JUNE 27, 2009 |
|---|---|---|---|---|
| Frozen defined benefit plans | $ 1.1 | $ 0.9 | $ 3.4 | $ 2.7 |
| International benefit plans | 1.7 | 2.4 | 5.2 | 6.1 |
| Retiree medical plan | 0.5 | 0.5 | 1.7 | 1.5 |
| | $ 3.3 | $ 3.8 | $ 10.3 | $ 10.3 |

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

**NOTE 9. SHARE-BASED COMPENSATION AWARDS**

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

| | NINE MONTHS ENDED JULY 3, 2010 | NINE MONTHS ENDED JUNE 27, 2009 |
|---|---|---|
| Options | 367,600 | 696,100 |
| Performance shares | 4,200 | |
| Restricted stock | | 240,400 |
| Restricted stock units (including deferred stock units) | 287,508 | 232,350 |
| Total share-based awards | 659,308 | 1,168,850 |
| Aggregate fair value at grant dates (in millions) | $ 16.9 | $ 16.5 |

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

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|---|---|---|---|---|
| | JULY 3, 2010 | JUNE 27, 2009 | JULY 3, 2010 | JUNE 27, 2009 |
| Share-based compensation | $ 4.3 | $ 4.0 | $ 12.5 | $ 12.1 |

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**NOTE 10. INCOME TAXES**

The balance of unrecognized tax benefits related to uncertain tax positions and the amount of related interest and penalties were as follows (in millions):

| | JULY 3, 2010 | SEPTEMBER 30, 2009 |
|---|---|---|
| Unrecognized tax benefits | $ 6.7 | $ 6.2 |
| Portion that, if recognized, would impact the effective tax rate | 6.7 | 6.4 |
| Accrued penalties on unrecognized tax benefits | 0.7 | 0.6 |
| Accrued interest on unrecognized tax benefits | 1.2 | 1.2 |

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, the Company is no longer subject to examinations by these tax authorities for fiscal years prior to 2007. The Company is currently under examination by the Internal Revenue Service and certain U.S. state and local tax authorities. In regard to the U.S. state and local audits, the tax periods under investigation are limited to fiscal years 2005 through 2008. A federal audit of the Company s fiscal 2008 tax year also commenced during the quarter ended July 3, 2010. In addition to these audits, certain other tax deficiency notices and refund claims for previous years remain unresolved.

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

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

**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 fiduciary 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 for existing claims. Legal costs incurred in connection with the resolution of claims, lawsuits and other contingencies generally are expensed as incurred. In the opinion of management, its assessment of contingencies is reasonable and related reserves, in the aggregate, are adequate; however, there can be no assurance that final resolution of these matters will not have a material adverse effect on the Company s financial condition, results of operations or cash flows. The following are the more significant of the Company s identified contingencies:

***FIFRA Compliance and the Corresponding Governmental Investigations***

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

***Other Regulatory Matters***

In 1997, the Ohio Environmental Protection Agency initiated an enforcement action against the Company with respect to alleged surface water violations and inadequate wastewater treatment capabilities at its Marysville, Ohio facility, seeking corrective action under the federal Resource Conservation and Recovery Act of 1976, as amended ( RCRA ). The action related to discharges from on-site waste water treatment and several discontinued on-site disposal areas. Pursuant to a Consent Order entered by the Union County Common Pleas Court in 2002, as of June 2010 the Company has completed the required actions to restore the site and eliminate exposure to waste materials from the discontinued on-site disposal areas. The Company is obligated to perform long-term monitoring of the site for up to 25 to 30 years.

On or about March 19, 2010, the U.S. EPA Region VII issued notice to the Company indicating that the U.S. EPA intended to file an administrative complaint with respect to alleged RCRA violations arising out of an October 28-29, 2008 inspection of the Company s Fort Madison, Iowa facility. The notice proposed a penalty of $466,977 and offered the Company the opportunity to negotiate a resolution of the proposed penalty before any complaint was filed. The Company made a timely response to the U.S. EPA and agreed to enter into pre-filing negotiations. Settlement discussions are underway.

At July 3, 2010, $2.5 million was accrued for other regulatory matters in the Other liabilities line in the Condensed, Consolidated Balance Sheet. The amounts accrued are believed to be adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. However, if facts and circumstances change significantly, they could result in a material adverse effect on the Company s financial condition, results of operations or cash flows.

***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. The complaints in these cases are not specific about the plaintiffs contacts with the Company or its products. The Company in each case is one of numerous defendants and none of the claims seek damages from the Company alone. The Company believes that the claims against it are without merit and is vigorously defending against them. It is not currently possible to reasonably estimate a probable loss, if any, associated with these cases and, accordingly, no accrual or reserves have been recorded in the Company s condensed, consolidated financial statements. The Company is reviewing agreements and policies that may provide insurance coverage or indemnity as to these claims and is pursuing coverage under some of these agreements and policies, although there can be no assurance of the results of these efforts. There can be no assurance that these cases, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material adverse effect on the Company s financial condition, results of operations or cash flows.

On April 27, 2007, the Company received a proposed Order On Consent from the New York State Department of Environmental Conservation (the Proposed Order ) alleging that, during calendar year 2003, the Company and James Hagedorn, individually and as Chairman of the Board and Chief Executive Officer of the Company, unlawfully donated to a Port Washington, New York youth sports organization forty bags of Scotts® LawnPro Annual Program Step 3 Insect Control Plus Fertilizer which, while federally registered, was allegedly not registered in the state of New York. The Proposed Order requests penalties totaling $695,000. The Company has responded in writing to the New York State Department of Environmental Conservation with respect to the Proposed Order and is awaiting a response.

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 adverse effect on the Company s financial condition, results of operations or cash flows.

## NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

***Derivatives and Hedging***

The Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. To manage 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.

The Company formally designates and documents qualifying instruments as hedges of underlying exposures at inception. The Company formally assesses, both at inception and at least quarterly, whether the financial instruments used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Fluctuations in the value of these instruments generally are offset by changes in the fair value or cash flows of the underlying exposures being hedged. This offset is driven by the high degree of effectiveness between the exposure being hedged and the hedging instrument. GAAP requires all derivative instruments to be recognized as either assets or liabilities at fair value in the Condensed, Consolidated Balance Sheets. The Company designates commodity hedges as cash flow hedges of forecasted purchases of commodities and interest rate swap agreements as cash flow hedges of interest payments on variable rate borrowings. Any ineffective portion of a change in the fair value of a qualifying instrument is immediately recognized in earnings. The amounts recorded in earnings related to ineffectiveness of derivative hedges for the three- and nine-month periods ended July 3, 2010 and June 27, 2009 were not significant.

***Foreign Currency Swap Contracts***

The Company periodically uses foreign currency swap contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. At July 3, 2010, the notional amount of outstanding foreign currency swap contracts was $211.4 million, with a fair value of $(5.6) million. The fair value of foreign currency swap contracts is determined based on changes in spot rates. The unrealized loss on the foreign currency swap contracts approximates the unrealized gain on the intercompany loans recognized by the Company s lending subsidiaries.

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***Interest Rate Swap Agreements***

The Company enters into interest rate swap agreements as a means to hedge its variable interest rate exposure 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 loss ( AOCI ) within the Condensed, Consolidated Balance Sheets. The fair value of the swap agreements is determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date.

At July 3, 2010 and June 27, 2009, the Company had outstanding interest rate swap agreements with major financial institutions that effectively converted a portion of the Company s variable-rate debt to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of $450 million and $650 million at July 3, 2010 and June 27, 2009, respectively. Refer to NOTE 6. DEBT for the terms of the swap agreements outstanding at July 3, 2010. Included in the AOCI balance at July 3, 2010 was a pre-tax loss of $11.5 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 Hedges***

The Company had outstanding hedging arrangements at July 3, 2010 designed to fix the price of a portion of its urea needs. The contracts are designated as hedges of the Company s exposure to future cash flow fluctuations associated with the cost of urea. The objective of the hedges is to mitigate the earnings and cash flow volatility attributable to the risk of changing prices. Unrealized gains or losses in the fair value of these contracts are recorded to the AOCI component of shareholders equity. Realized gains or losses remain as a component of AOCI until the related inventory is sold. Upon sale of the underlying inventory, the gain or loss is reclassified to cost of sales. Included in the AOCI balance at July 3, 2010 was a pre-tax gain of $0.8 million related to urea derivatives that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

Periodically, the Company also uses fuel derivatives to partially mitigate the effect of fluctuating diesel and gasoline costs on operating results. Fuel derivatives used by the Company that do not qualify for hedge accounting treatment in accordance with GAAP are marked-to-market, with unrealized gains and losses on open contracts and realized gains or losses on settled contracts recorded as an element of cost of sales.

Beginning in fiscal 2009, the Company entered into fuel derivatives for its Scotts LawnService® business that qualify for hedge accounting treatment. Unrealized gains or losses in the fair value of these contracts are recorded to the AOCI component of shareholders equity 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 by the Scotts LawnService® service vehicles. Upon consumption of the fuel, the gain or loss is reclassified to cost of sales. The pre-tax gain included in the AOCI balance at July 3, 2010 related to the fuel derivatives that is expected to be reclassified from AOCI to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions, is not significant.

As of July 3, 2010, the Company had the following outstanding commodity contracts that were entered into to hedge forecasted purchases:

| COMMODITY | VOLUME |
|---|---|
| Urea | 62,000 tons |
| Diesel | 2,058,000 gallons |
| Gasoline | 126,000 gallons |

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**Fair Values of Derivative Instruments**

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

| | | ASSETS / (LIABILITIES) | | |
|---|---|---|---|---|
| **DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS** | **BALANCE SHEET LOCATION** | **JULY 3, 2010** | **JUNE 27, 2009** | **SEPTEMBER 30, 2009** |
| | | | **FAIR VALUE** | |
| Interest rate swap agreements | Other liabilities | $ (20.8) | $ (23.5) | $ (23.7) |
| Commodity hedging instruments | Prepaid and other assets | | 0.3 | 0.1 |
| | Other current liabilities | (0.2) | 0.1 | |
| Total derivatives designated as hedging instruments | | $ (21.0) | $ (23.1) | $ (23.6) |
| **DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS (1)** | | | | |
| Foreign currency swap contracts | Other current liabilities | $ (5.6) | $ | $ (3.9) |
| Commodity hedging instruments | Prepaid and other assets | | 0.1 | 0.1 |
| | Other current liabilities | (0.5) | 0.3 | (0.1) |
| Total derivatives not designated as hedging instruments (1) | | $ (6.1) | $ 0.4 | $ (3.9) |
| Total derivatives | | $ (27.1) | $ (22.7) | $ (27.5) |

(1) See discussion above for additional information regarding the Company s purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategy.

Refer to NOTE 13. FAIR VALUE MEASUREMENTS for the Company s fair value measurements of derivative instruments as they relate to the valuation hierarchy.

The effect of derivative instruments on AOCI and the Condensed, Consolidated Statements of Operations for the three- and nine-month periods ended July 3, 2010 and June 27, 2009 was as follows (in millions):

| DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS | AMOUNT OF GAIN / (LOSS) RECOGNIZED IN AOCI THREE MONTHS ENDED JULY 3, 2010 | JUNE 27, 2009 | NINE MONTHS ENDED JULY 3, 2010 | JUNE 27, 2009 |
|---|---|---|---|---|
| Interest rate swap agreements | $ (6.2) | $ 2.0 | $ (12.8) | $ (15.6) |
| Commodity hedging instruments | (0.6) | 0.1 | 1.5 | (6.9) |
| Total | $ (6.8) | $ 2.1 | $ (11.3) | $ (22.5) |

| DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS | LOCATION OF GAIN / (LOSS) RECLASSIFIED FROM AOCI INTO EARNINGS | AMOUNT OF GAIN / (LOSS) RECLASSIFIED FROM AOCI INTO EARNINGS THREE MONTHS ENDED JULY 3, 2010 | JUNE 27, 2009 | NINE MONTHS ENDED JULY 3, 2010 | JUNE 27, 2009 |
|---|---|---|---|---|---|
| Interest rate swap agreements | Interest expense | $ (3.2) | $ (4.0) | $ (14.7) | $ (11.5) |
| Commodity hedging instruments | Cost of sales | 0.3 | (5.1) | (2.5) | (8.1) |
| Total | | $ (2.9) | $ (9.1) | $ (17.2) | $ (19.6) |

| DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS | LOCATION OF GAIN / (LOSS) RECOGNIZED IN EARNINGS | AMOUNT OF GAIN / (LOSS) RECOGNIZED IN EARNINGS THREE MONTHS ENDED JULY 3, 2010 | JUNE 27, 2009 | NINE MONTHS ENDED JULY 3, 2010 | JUNE 27, 2009 |
|---|---|---|---|---|---|
| Foreign currency swap contracts | Interest expense | $ (5.6) | $ | $ (4.9) | $ (6.4) |
| Commodity hedging instruments | Cost of sales | (0.8) | 0.2 | (0.9) | (0.5) |
| Total | | $ (6.4) | $ 0.2 | $ (5.8) | $ (6.9) |

## NOTE 13. FAIR VALUE MEASUREMENTS

The Company adopted the new accounting guidance for all financial assets and liabilities accounted for at fair value on a recurring basis effective October 1, 2008. The Company adopted the new accounting guidance for all non-financial assets and liabilities accounted for at fair value on a non-recurring basis effective October 1, 2009. The guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It defines fair value 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. GAAP establishes a three-level fair value hierarchy that 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. The Company uses foreign currency swap contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in U.S. dollars. These contracts are valued using observable forward rates in commonly quoted intervals for the full term of the contracts.

Interest rate derivatives consist of interest rate swap agreements. The Company enters into interest rate swap agreements as a means to hedge its variable interest rate exposure on debt instruments. 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.

The Company has hedging arrangements designed to fix the price of a portion of its urea and fuel needs. The objective of the hedges is to mitigate the earnings and cash flow volatility attributable to the risk of changing prices. These contracts are measured using observable commodity exchange prices in active markets.

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

For further information on the Company s derivative instruments, refer to NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES.

***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. These investment securities are classified within Level 1 of the valuation hierarchy and are included within Other assets in the Company s Condensed, Consolidated Balance Sheets.

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The following table presents the Company s financial assets and liabilities measured at fair value on a recurring basis at July 3, 2010 (in millions):

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Other | $ 5.9 | $ | $ | $ 5.9 |
| Total | $ 5.9 | $ | $ | $ 5.9 |
| **Liabilities** | | | | |
| Derivatives | | | | |
| Interest rate swap agreements | $ | $ (20.8) | $ | $ (20.8) |
| Foreign currency swap contracts | | (5.6) | | (5.6) |
| Commodity hedging instruments | | (0.7) | | (0.7) |
| Total | $ | $ (27.1) | $ | $ (27.1) |

**NOTE 14. ACQUISITIONS**

There was no acquisition activity in the first nine months of fiscal 2010. Effective October 1, 2008, the Company acquired Humax Horticulture Limited, a privately-owned growing media company in the United Kingdom, for a total cost of $9.3 million.

In May 2006, the Company acquired certain brands and assets of Turf-Seed, Inc., a leading producer of quality commercial turfgrasses, for cash of $10.0 million, assumed liabilities of $4.5 million and contingent consideration due in the second half of fiscal 2012. The contingent consideration is largely based on the performance of the Company s consumer and professional seed business for the twelve-month period ending in May 2012.

**NOTE 15. SEGMENT INFORMATION**

The Company divides its business into the following segments Global Consumer, Global Professional, Scotts LawnService® and Corporate & Other. This division of reportable segments is consistent with how the segments report to and are managed by senior management of the Company. Certain reclassifications were made to the Global Consumer and Global Professional prior period amounts to reflect changes in the structure of the Company s organization effective in fiscal 2010. Prior to being reported as discontinued operations, Smith & Hawken was included as part of the Company s Corporate & Other reportable segment.

The Global Consumer segment consists of the North American Consumer and International Consumer business groups. The business groups comprising this segment manufacture, market and sell dry, granular slow-release lawn fertilizers, combination lawn fertilizer and control products, grass seed, spreaders, water-soluble, liquid and continuous release garden and indoor plant foods, plant care products, potting, garden and lawn soils, mulches and other growing media products, wild bird food, pesticide and rodenticide products. Products are marketed to mass merchandisers, home centers, large hardware chains, warehouse clubs, distributors, garden centers and grocers in the United States, Canada, Europe, Latin America and Australia.

The Global Professional segment is focused on a full line of horticultural products including controlled-release and water-soluble fertilizers and plant protection products, wetting agents, grass seed products, spreaders and customer application services. Products are sold to commercial nurseries and greenhouses and specialty crop growers, primarily in North America and Europe.

The Scotts LawnService® segment provides lawn fertilization, disease and insect control and other related services such as core aeration, tree and shrub fertilization and limited pest control services primarily to residential consumers through Company-owned branches and franchises in the United States.

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The Corporate & Other segment primarily consists of corporate general and administrative expenses.

Segment performance is evaluated based on several factors, including income from continuing operations before amortization, product registration and recall costs, and impairment, restructuring and other charges, which are not GAAP measures. Senior management of the Company uses this measure of operating profit to gauge segment performance because the Company believes this measure is the most indicative of performance trends and the overall earnings potential of each segment. The following tables present segment financial information (in millions).

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|---|---|---|---|---|
| | JULY 3, 2010 | JUNE 27, 2009 | JULY 3, 2010 | JUNE 27, 2009 |
| Net sales: | | | | |
| Global Consumer | $ 1,085.9 | $ 1,083.2 | $ 2,314.6 | $ 2,112.1 |
| Global Professional | 71.9 | 69.5 | 205.3 | 196.5 |
| Scotts LawnService® | 81.3 | 78.9 | 144.9 | 150.5 |
| Segment total | 1,239.1 | 1,231.6 | 2,664.8 | 2,459.1 |
| Roundup® amortization | (0.2) | (0.2) | (0.6) | (0.6) |
| Product registration and recall matters-returns | | | | (0.3) |
| Consolidated | $ 1,238.9 | $ 1,231.4 | $ 2,664.2 | $ 2,458.2 |
| Operating income (loss): | | | | |
| Global Consumer | $ 292.7 | $ 265.2 | $ 510.2 | $ 429.2 |
| Global Professional | 6.9 | 5.2 | 15.3 | 26.8 |
| Scotts LawnService® | 22.8 | 21.6 | 1.5 | (2.3) |
| Corporate & Other | (27.7) | (32.7) | (83.7) | (91.7) |
| Segment total | 294.7 | 259.3 | 443.3 | 362.0 |
| Roundup® amortization | (0.2) | (0.2) | (0.6) | (0.6) |
| Other amortization | (2.5) | (2.7) | (7.7) | (8.9) |
| Product registration and recall matters | (1.5) | (6.4) | (5.8) | (22.0) |
| Consolidated | $ 290.5 | $ 250.0 | $ 429.2 | $ 330.5 |

| | JULY 3, 2010 | JUNE 27, 2009 | SEPTEMBER 30, 2009 |
|---|---|---|---|
| Total assets: | | | |
| Global Consumer | $ 1,796.2 | $ 1,878.3 | $ 1,504.5 |
| Global Professional | 310.8 | 365.8 | 334.1 |
| Scotts LawnService® | 177.5 | 180.4 | 176.1 |
| Corporate & Other | 238.7 | 284.7 | 205.4 |
| Consolidated | $ 2,523.2 | $ 2,709.2 | $ 2,220.1 |

Total assets reported for the Company s operating segments include the intangible assets associated with the acquired businesses within those segments. Corporate & Other assets primarily include deferred financing and debt issuance costs, corporate intangible assets and deferred tax assets, and Smith & Hawken assets.

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

The Senior Notes issued by Scotts Miracle-Gro on January 14, 2010 are guaranteed by certain of its domestic subsidiaries and, therefore, the Company has disclosed condensed, consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.* The following 100% directly or indirectly owned subsidiaries fully and unconditionally guarantee the Senior Notes on a joint and several basis: EG Systems, Inc., dba Scotts LawnService®; Gutwein & Co., Inc.; Hyponex Corporation; Miracle-Gro Lawn Products, Inc.; OMS Investments, Inc.; Rod McLellan Company; Sanford Scientific, Inc.; Scotts Temecula Operations, LLC; Scotts Manufacturing Company; Scotts Products Co.; Scotts Professional Products Co.; Scotts-Sierra Crop Protection Company; Scotts-Sierra Horticultural Products Company; Scotts-Sierra Investments, Inc.; SMG Growing Media, Inc.; Swiss Farms Products, Inc.; and The Scotts Company LLC (collectively, the Guarantors ). Teak 2, Ltd., f/k/a Smith & Hawken, Ltd., was released from its guarantee under the Senior Notes on March 18, 2010. Accordingly, Teak 2, Ltd. has been classified as a Non-Guarantor for all periods presented in the condensed, consolidating financial information accompanying this Note 16.

The following information presents condensed, consolidating Statements of Operations for the three-month and nine-month periods ended July 3, 2010 and June 27, 2009, condensed, consolidating Statements of Cash Flows for the nine-month periods ended July 3, 2010 and June 27, 2009, and condensed, consolidating Balance Sheets as of July 3, 2010, June 27, 2009 and September 30, 2009. 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 investments in subsidiaries which do not guarantee the debt (collectively, the Non-Guarantors ) under the equity method; Non-Guarantors on a combined basis; and eliminating entries. The eliminating entries primarily reflect intercompany transactions, such as interest expense, accounts receivable and payable, short and long-term debt, and the elimination of equity investments and income in subsidiaries. Because the Parent is obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors or Non-Guarantors under the senior secured five-year revolving loan facility, the borrowings and related interest expense for the revolving loans outstanding of the Guarantors and Non-Guarantors are also presented in the accompanying Parent-only financial information, and are then eliminated.

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**The Scotts Miracle-Gro Company**
**Condensed, Consolidating Statement of Operations**
**for the three months ended July 3, 2010**
(in millions)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ | $ 1,020.6 | $ 218.3 | $ | $ 1,238.9 |
| Cost of sales | | 592.1 | 142.0 | | 734.1 |
| Cost of sales product registration and recall matters | | | | | |
| Gross profit | | 428.5 | 76.3 | | 504.8 |
| Operating expenses: | | | | | |
| Selling, general and administrative | | 185.5 | 53.9 | (25.0) | 214.4 |
| Product registration and recall matters | | 1.5 | | | 1.5 |
| Other income, net | | (1.5) | (0.1) | | (1.6) |
| Income from operations | | 243.0 | 22.5 | 25.0 | 290.5 |
| Equity income in subsidiaries | (180.1) | (37.6) | | 217.7 | |
| Other non-operating income | (5.3) | | | 5.3 | |
| Interest expense | 9.7 | 6.1 | 1.4 | (5.3) | 11.9 |
| Income from continuing operations before income taxes | 175.7 | 274.5 | 21.1 | (192.7) | 278.6 |
| Income tax (benefit) expense from continuing operations | (0.2) | 95.2 | 7.7 | | 102.7 |
| Income from continuing operations | 175.9 | 179.3 | 13.4 | (192.7) | 175.9 |
| Loss from discontinued operations, net of tax | | | 25.0 | (25.0) | |
| Net income | $ 175.9 | $ 179.3 | $ 38.4 | $ (217.7) | $ 175.9 |

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**The Scotts Miracle-Gro Company**
**Condensed, Consolidating Statement of Operations**
**for the nine months ended July 3, 2010**
(in millions)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ | $ 2,123.7 | $ 540.5 | $ | $ 2,664.2 |
| Cost of sales | | 1,292.9 | 363.9 | | 1,656.8 |
| Cost of sales product registration and recall matters | | 1.5 | | | 1.5 |
| Gross profit | | 829.3 | 176.6 | | 1,005.9 |
| Operating expenses: | | | | | |
| Selling, general and administrative | | 466.4 | 139.0 | (25.0) | 580.4 |
| Product registration and recall matters | | 4.3 | | | 4.3 |
| Other income, net | | (5.4) | (2.6) | | (8.0) |
| Income from operations | | 364.0 | 40.2 | 25.0 | 429.2 |
| Equity income in subsidiaries | (245.2) | (37.5) | | 282.7 | |
| Other non-operating income | (21.3) | | | 21.3 | |
| Interest expense | 30.5 | 24.1 | 4.4 | (21.3) | 37.7 |
| Income from continuing operations before income taxes | 236.0 | 377.4 | 35.8 | (257.7) | 391.5 |
| Income tax (benefit) expense from continuing operations | (0.7) | 132.9 | 13.3 | | 145.5 |
| Income from continuing operations | 236.7 | 244.5 | 22.5 | (257.7) | 246.0 |
| Loss from discontinued operations, net of tax | | | 15.7 | (25.0) | (9.3) |
| Net income | $ 236.7 | $ 244.5 | $ 38.2 | $ (282.7) | $ 236.7 |

**The Scotts Miracle-Gro Company**
**Condensed, Consolidating Statement of Cash Flows**
**for the nine months ended July 3, 2010**
(in millions)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | $ (38.1) | $ 186.4 | $ 7.9 | $ | $ 156.2 |
| INVESTING ACTIVITIES | | | | | |
| Proceeds from sale of long-lived assets | | 23.6 | | | 23.6 |
| Investments in property, plant and equipment | | (44.4) | (2.5) | | (46.9) |
| Investments in intellectual property | | | | | |
| Investments in acquired businesses, net of cash acquired | | | | | |
| Net cash used in investing activities | | (20.8) | (2.5) | | (23.3) |
| FINANCING ACTIVITIES | | | | | |
| Borrowings under revolving and bank lines of credit and term loans | | 593.1 | 334.7 | | 927.8 |
| Repayments under revolving and bank lines of credit and term loans | | (798.4) | (436.4) | | (1,234.8) |
| Proceeds from issuance of 7.25% Senior Notes, net of discount | 198.5 | | | | 198.5 |
| Dividends paid | (25.9) | | | | (25.9) |
| Payments on seller notes | | (0.2) | | | (0.2) |
| Financing and issuance fees | (5.5) | | | | (5.5) |
| Excess tax benefits from share-based payment arrangements | | 3.9 | | | 3.9 |
| Cash received from the exercise of stock options | 14.8 | | | | 14.8 |
| Intercompany financing | (143.8) | 34.4 | 109.4 | | |
| Net cash (used in) provided by financing activities | 38.1 | (167.2) | 7.7 | | (121.4) |
| Effect of exchange rate changes on cash | | | (4.4) | | (4.4) |
| Net increase (decrease) in cash and cash equivalents | | (1.6) | 8.7 | | 7.1 |
| Cash and cash equivalents, beginning of period | | 7.0 | 64.6 | | 71.6 |
| Cash and cash equivalents, end of period | $ | $ 5.4 | $ 73.3 | $ | $ 78.7 |

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**The Scotts Miracle-Gro Company**
**Condensed, Consolidating Balance Sheet**
**As of July 3, 2010**
(in millions)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ | $ 5.4 | $ 73.3 | $ | $ 78.7 |
| Accounts receivable, net | | 462.8 | 211.0 | | 673.8 |
| Accounts receivable pledged | | 23.3 | | | 23.3 |
| Inventories, net | | 362.5 | 99.1 | | 461.6 |
| Prepaid and other assets | | 114.6 | 49.0 | | 163.6 |
| Total current assets | | 968.6 | 432.4 | | 1,401.0 |
| Property, plant and equipment, net | | 319.2 | 53.3 | | 372.5 |
| Goodwill | | 305.2 | 63.7 | | 368.9 |
| Intangible assets, net | | 294.8 | 52.3 | | 347.1 |
| Other assets | 15.4 | 19.7 | 42.3 | (43.7) | 33.7 |
| Equity investment in subsidiaries | 861.0 | | | (861.0) | |
| Intercompany assets | 517.1 | | | (517.1) | |
| Total assets | $ 1,393.5 | $ 1,907.5 | $ 644.0 | $ (1,421.8) | $ 2,523.2 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Current portion of debt | $ 180.6 | $ 16.9 | $ 2.5 | $ | $ 200.0 |
| Accounts payable | | 153.0 | 76.5 | | 229.5 |
| Other current liabilities | 7.2 | 398.0 | 148.8 | | 554.0 |
| Total current liabilities | 187.8 | 567.9 | 227.8 | | 983.5 |
| Long-term debt | 367.0 | 20.8 | 105.6 | (3.2) | 490.2 |
| Other liabilities | 3.9 | 191.1 | 63.4 | (43.7) | 214.7 |
| Equity investment in subsidiaries | | 43.7 | | (43.7) | |
| Intercompany liabilities | | 222.0 | 291.9 | (513.9) | |
| Total liabilities | 558.7 | 1,045.5 | 688.7 | (604.5) | 1,688.4 |
| Shareholders equity | 834.8 | 862.0 | (44.7) | (817.3) | 834.8 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total liabilities and shareholders equity | $ | 1,393.5 | $ | 1,907.5 | $ | 644.0 | $ | (1,421.8) | $ | 2,523.2 |

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**The Scotts Miracle-Gro Company**
**Condensed, Consolidating Statement of Operations**
**for the three months ended June 27, 2009**
(in millions)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ | $ 1,018.0 | $ 213.4 | $ | $ 1,231.4 |
| Cost of sales | | 604.9 | 147.5 | | 752.4 |
| Cost of sales product registration and recall matters | | 3.3 | | | 3.3 |
| Gross profit | | 409.8 | 65.9 | | 475.7 |
| Operating expenses: | | | | | |
| Selling, general and administrative | | 172.9 | 50.1 | | 223.0 |
| Product registration and recall matters | | 3.1 | | | 3.1 |
| Other (income) expense, net | | 1.6 | (2.0) | | (0.4) |
| Income from operations | | 232.2 | 17.8 | | 250.0 |
| Equity income in subsidiaries | (148.7) | (6.7) | | 155.4 | |
| Other non-operating income | (8.4) | | | 8.4 | |
| Interest expense | 9.1 | 10.5 | 2.5 | (8.4) | 13.7 |
| Income from continuing operations before income taxes | 148.0 | 228.4 | 15.3 | (155.4) | 236.3 |
| Income tax expense from continuing operations | 0.2 | 79.8 | 5.6 | | 85.6 |
| Income from continuing operations | 147.8 | 148.6 | 9.7 | (155.4) | 150.7 |
| Loss from discontinued operations, net of tax | | | (2.9) | | (2.9) |
| Net income | $ 147.8 | $ 148.6 | $ 6.8 | $ (155.4) | $ 147.8 |

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**The Scotts Miracle-Gro Company**
**Condensed, Consolidating Statement of Operations**
**for the nine months ended June 27, 2009**
(in millions)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ | $ 1,960.5 | $ 497.7 | $ | $ 2,458.2 |
| Cost of sales | | 1,211.2 | 330.6 | | 1,541.8 |
| Cost of sales product registration and recall matters | | 7.1 | | | 7.1 |
| Gross profit | | 742.2 | 167.1 | | 909.3 |
| Operating expenses: | | | | | |
| Selling, general and administrative | | 456.3 | 109.4 | | 565.7 |
| Product registration and recall matters | | 14.8 | | | 14.8 |
| Other income, net | | | (1.7) | | (1.7) |
| Income from operations | | 271.1 | 59.4 | | 330.5 |
| Equity income in subsidiaries | (169.5) | (8.9) | | 178.4 | |
| Other non-operating income | (27.3) | | | 27.3 | |
| Interest expense | 29.3 | 34.7 | 9.2 | (27.3) | 45.9 |
| Income from continuing operations before income taxes | 167.5 | 245.3 | 50.2 | (178.4) | 284.6 |
| Income tax (benefit) expense from continuing operations | (0.7) | 90.6 | 12.8 | | 102.7 |
| Income from continuing operations | 168.2 | 154.7 | 37.4 | (178.4) | 181.9 |
| Loss from discontinued operations, net of tax | | | (13.7) | | (13.7) |
| Net income | $ 168.2 | $ 154.7 | $ 23.7 | $ (178.4) | $ 168.2 |

**The Scotts Miracle-Gro Company**
**Condensed, Consolidating Statement of Cash Flows**
**for the nine months ended June 27, 2009**
(in millions)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | $ (2.0) | $ 86.2 | $ (80.7) | $ | $ 3.5 |
| INVESTING ACTIVITIES | | | | | |
| Proceeds from sale of long-lived assets | | 0.8 | | | 0.8 |
| Investments in property, plant and equipment | | (22.2) | (4.5) | | (26.7) |
| Investments in intellectual property | | (1.0) | | | (1.0) |
| Investments in acquired businesses, net of cash acquired | | (0.2) | (9.1) | | (9.3) |
| Net cash used in investing activities | | (22.6) | (13.6) | | (36.2) |
| FINANCING ACTIVITIES | | | | | |
| Borrowings under revolving and bank lines of credit and term loans | | 1,005.2 | 312.1 | | 1,317.3 |
| Repayments under revolving and bank lines of credit and term loans | | (999.0) | (198.9) | | (1,197.9) |
| Dividends paid | (25.2) | | | | (25.2) |
| Payments on seller notes | | (1.0) | | | (1.0) |
| Financing and issuance fees | | (0.1) | | | (0.1) |
| Excess tax benefits from share-based payment arrangements | | 1.1 | | | 1.1 |
| Cash received from the exercise of stock options | 4.8 | | | | 4.8 |
| Intercompany financing | 22.4 | 20.4 | (42.8) | | |
| Net cash provided by financing activities | 2.0 | 26.6 | 70.4 | | 99.0 |
| Effect of exchange rate changes on cash | | | (1.8) | | (1.8) |
| Net increase (decrease) in cash and cash equivalents | | 90.2 | (25.7) | | 64.5 |
| Cash and cash equivalents, beginning of period | | 4.5 | 80.2 | | 84.7 |
| Cash and cash equivalents, end of period | $ | $ 94.7 | $ 54.5 | $ | $ 149.2 |

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**The Scotts Miracle-Gro Company**
**Condensed, Consolidating Balance Sheet**
**As of June 27, 2009**
(in millions)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ | $ 94.7 | $ 54.5 | $ | $ 149.2 |
| Accounts receivable, net | | 514.3 | 241.2 | | 755.5 |
| Accounts receivable pledged | | 23.5 | | | 23.5 |
| Inventories, net | | 385.9 | 161.5 | | 547.4 |
| Prepaid and other assets | | 86.7 | 51.1 | | 137.8 |
| Total current assets | | 1,105.1 | 508.3 | | 1,613.4 |
| Property, plant and equipment, net | | 283.2 | 52.7 | | 335.9 |
| Goodwill | | 305.1 | 69.8 | | 374.9 |
| Intangible assets, net | | 301.0 | 63.7 | | 364.7 |
| Other assets | 8.1 | 13.9 | 44.2 | (45.9) | 20.3 |
| Equity investment in subsidiaries | 596.1 | | | (596.1) | |
| Intercompany assets | 703.8 | | | (703.8) | |
| Total assets | $ 1,308.0 | $ 2,008.3 | $ 738.7 | $ (1,345.8) | $ 2,709.2 |